

## ST.2

# Interview the CEO

### *Complex activity*

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In this activity you will try to build an understanding of the current company strategy by reviewing any formal strategy documentation and through an interview with the CEO.



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### INPUT

- Key threats and opportunities for the value chain from the activity *PR.5 Identify the general opportunities and threats across the value chain.*
- Data gathering checklist from the activity *ST.1 Plan my data gathering strategy.*

### OUTPUTS

- Current business strategy used in the activity *ST.7 Do a SWOT analysis.*

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The *Business Strategy template* can be used to capture the current business strategy of the company. The main elements of the business strategy captured within the *template* are shown in Figure 6 and are explained further below.

The company vision gives a short statement about what the company is and what the company would like to become in the next 5-10 years.

The strategic goals are the 3-5 year objectives for the company that have been defined to address strategic threats or opportunities and ensure that progress is made towards the long term vision.

The business strategy must also define the markets that the company targets, the types of products and services that are offered to those markets, and how the company competes in those markets in terms of the selling points used. 'Selling points' are the features of the product and service offered by a company, or characteristics of the company itself, that would make potential customers want to buy the product from that company. The selling points describe the foundation of the competitive strategy of a company.

In Figure 6 the lines connecting the various elements of the business strategy are used to emphasise that each of the elements is connected to all of the other elements – they must be consistent and aligned with one another.

When initially capturing the business strategy of the company it may be that some elements of the business strategy have not yet been defined. Also, sustainability issues might not be part of the existing business strategy. This is not a problem as it is your job to ensure that by the end of the *SET STRATEGY* phase the company has a complete business strategy defined that does integrate sustainability considerations.

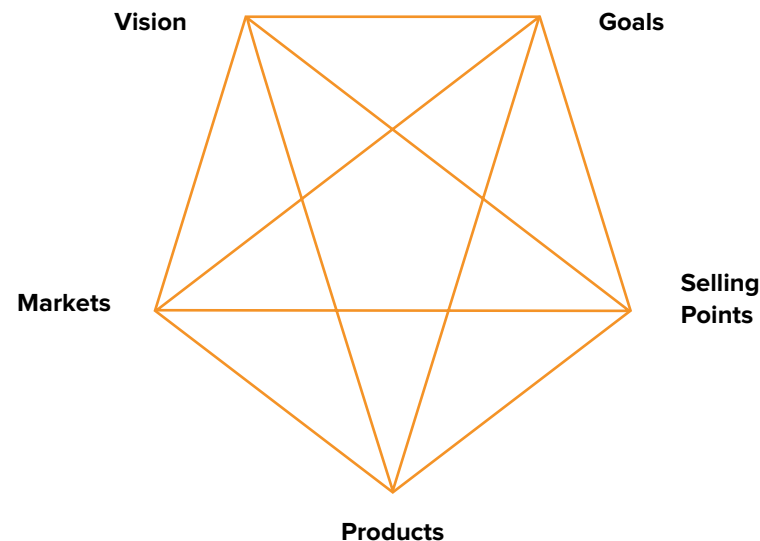


Figure 6: The main elements of a business strategy.

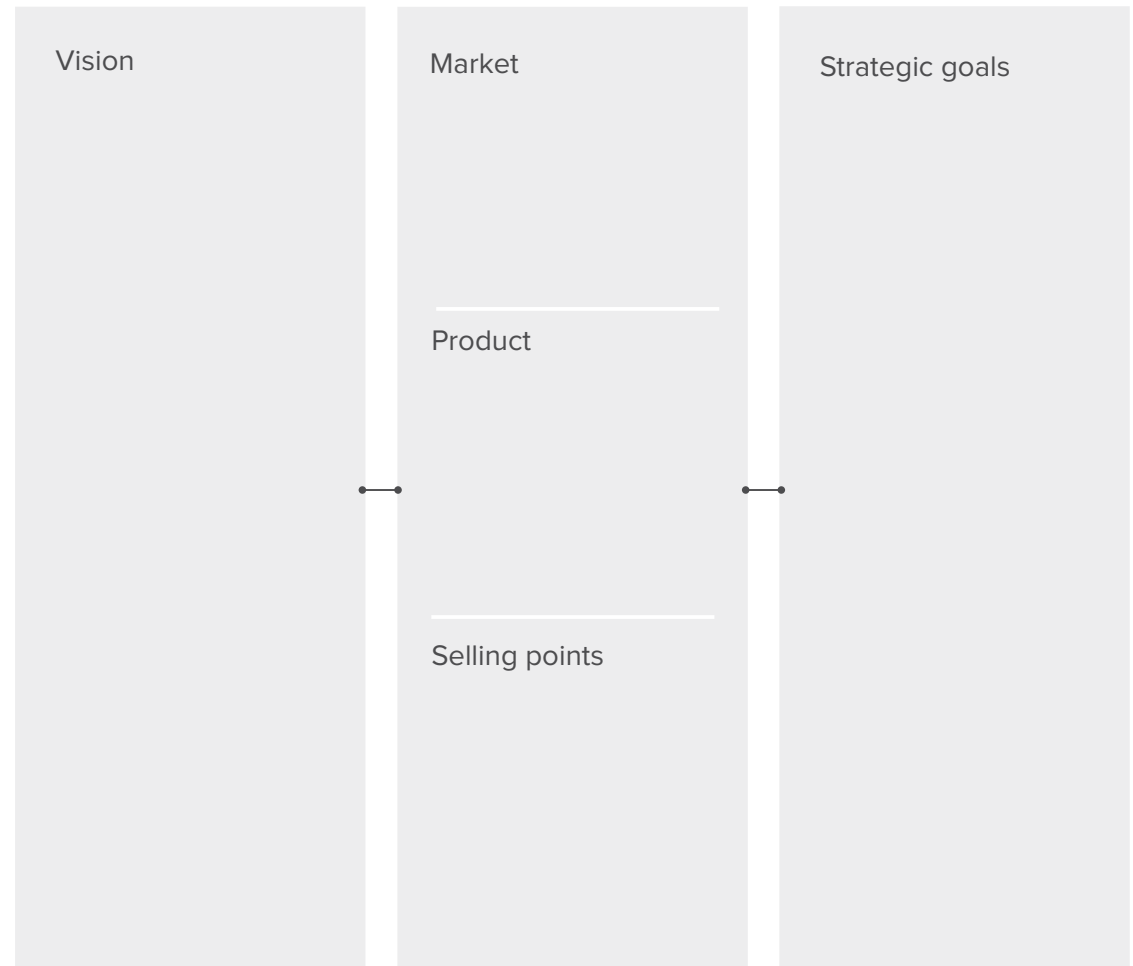
### HOW TO GO ABOUT IT

1. In some companies the business strategy will be formally captured in a presentation or some kind of document e.g. a 'five-year plan'. If such a presentation or document exists, this should provide you with the majority of information that you need.
2. However, in many companies the strategy will not have been captured formally and may simply reside in the mind of the CEO. If this is the case, you will need to interview the owner/CEO to discover more about the strategy. You can use the *Business Strategy template* to guide you discussion, and capture notes. The main elements of the template are:

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- Vision - defines what a company aspires to be in the future, providing inspiration for employees and direction to inform strategic decisions.
  - Strategic goals - provides specific and tangible short-medium term targets that will help the company make progress towards its company vision.
  - Markets - provides a broad description of where and to whom the company will try to sell its products and services.
  - Products - describes what it is that the company sells, whether this is a physical product or a service.
  - Selling points - describes the characteristics of the company's products and services that it thinks will be particularly appealing for potential customers compared to the offering available from competitors - see the Tips & Tricks section for examples.
3. The interview with the CEO can also be a good opportunity to validate the desk research that you completed during the *PREPARE* phase. This can be done by presenting the sustainability hotspots, threats and opportunities that you identified for the value chain. The CEO should be able to confirm if the hotspots, threats and opportunities that you have identified are relevant to the company. This may also lead to discussions about other threats and opportunities that are more specific to the company, which you should make a note of.
  4. After the interview, you may wish to send a copy of the completed *Business Strategy template* to the CEO to check that you have understood the business strategy correctly.

### Template of Business Strategy



# Business strategy

Project \_\_\_\_\_

Date \_\_\_\_\_

Version \_\_\_\_\_

**Vision**

**Market**

**Strategic goals**

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**Product**

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**Selling points**

Used during activities  
**ST.2 and ST.13**

## ST.2 Interview the CEO

### LEARNING CASE STUDY OF BUSINESS STRATEGY

#### Vision

- *No vision statement defined yet.*

#### Market

- *Domestic business-to-business food retail market segments worth at least US\$ 100,000*
- *Export business-to-business food wholesale market segments worth at least US\$ 200,000.*

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#### Product

- *Canned tuna, available in several can sizes depending on the type of market.*

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#### Selling points

- *Low cost – try to offer the cheapest cost per kg.*
- *Speed – For export markets, try to dispatch orders and deliver faster than competitors*

#### Strategic goals

- *To increase product sales to over \$1 million within 3 years (sales last year were \$680,000).*
- *To remain the number one canned tuna producer in the domestic market.*

# ST.2 Interview the CEO

## TIPS & TRICKS

### ATTITUDE OF CEO

During your interview you should also be trying to build an understanding of beliefs and attitude of the CEO e.g. Do they have a personal interest in sustainability issues? What is their attitude to innovation and risk? Are they looking for quick fixes or do they want to invest in long term, fundamental changes?

### TYPICAL SELLING POINTS

Here are some descriptions of commonly used selling points that might crop up in your interview with the CEO include:

LOW COST - Capability to sustain lowest overall cost or price

QUALITY - Capability to deliver highest quality products or service versus customer specifications

SPEED - Capability to provide products/services to the customer faster

SERVICE - Capability to assist consumer use of the product/service or provide direct follow-up services

INNOVATION - Capability to continually reinvent product/service and be first to market with new concepts

SUSTAINABILITY - Capability to provide products and services with enhanced life cycle sustainability properties

## BACKGROUND INFORMATION

### References and resources

Business strategy:

- Porter, M.E., 1980. Competitive Strategy: Techniques for analyzing industries and competitors. The Free Press, New York.
- Andrews, K.R. 1997. The Concept of Corporate Strategy. In: Foss, N.J., 1997. Resources, firms, and strategies: a reader in the resource-based perspective. Oxford University Press on Demand, p52.

→ Further information in the Agri-food, Chemicals and Metals Supplements

## ST.2 Interview the CEO

### TIPS & TRICKS

#### DETERMINE THE TYPE OF BUSINESS STRATEGY THE COMPANY IS RUNNING

The business strategy used by a food and drink processing company will likely depend on its size and position in the value chain. There are several different business strategies that food and drink processing companies generally apply (Perner, n.d.):

- **Horizontal integration** is commonly applied by multinational companies in order to reach many market segments with a variety of different brands. In this type of strategy growth is gained by acquisition of already established business in familiar industries. Large market share and economies of scales are some benefits of horizontal integration.

However there is an increasing concern from governments and the public about the markets for consumer goods are being controlled by few companies limiting the opportunities for smaller business to compete in the markets.

- **Vertical integration** is a strategy whereby a food and drink processing company buys another business that is up- or downstream in the value chain. Most commonly a company would acquire its suppliers in order to secure the supply of raw materials, or acquire a company downstream in the value chain in order to increase gains from the extra value adding step. For instance a slaughter house could acquire a farm to assure

supply or a meat processing plant to increase value addition. One of the drawbacks of vertical integration is the potential lack of managerial and operation knowledge to run a different business.

- **Specialization** strategies are often used to gain a competitive advantage in one particular market segment. Companies that specialize in one type of product or service can often gain economies of scale and bargaining power with suppliers because of the large quantities purchased. They also focus on process and technology development which allows for product/service with superior quality and performance.

- **Diversification** is a strategy where a food and drink processing company would produce several different products for different market segments. This strategy is less efficient than specialization as overall equipment effectiveness is lower and there are usually less benefits from economies of scale. On the other hand, diversification can mitigate several risks including: fluctuation of agricultural material prices, total crop losses at farming stage and changes in consumer demand.
- **Cooperatives** are organisational forms where several businesses operate jointly to obtain mutual benefits. For instance a cooperative can have a higher bargaining power

than a single company and can acquire services too expensive for single members. Cooperatives might also be setup for marketing purposes allowing its members to sell under a common brand. There are several different types of cooperatives, for instance: farmer cooperative, manufacturer cooperative and consumer cooperative. Successful cooperative put extra focus on governance in order to prevent and resolve disputes between its members. More information on cooperatives can be found at <http://www.fao.org/partnerships/cooperatives/en/>

## ST.2 Interview the CEO

### LEARNING CASE STUDY OF CEO INTERVIEW

#### Business Strategy

An example from the Mango Pulp Co.'s current business strategy is provided below. The company's current KPIs are mainly focused on economic aspects and aim at increasing product sales, especially in the export market. The company is also interested in product innovation and want to diversify to reach new markets. Being a

relatively small company, Mango Pulp Co. does not have a well-documented business strategy. The current strategy was formulated as a result of interviews with the CEO and upper management. During the interview, it was apparent that the CEO is passionate about implementing eco-innovation, but there were also concerns about availability of finances.

#### Vision

*No vision statement defined yet.*

#### Markets

- *Currently the company produces two products; coarse and fine sweetened mango pulp, which are sold in tins cans, glass bottles or aseptically sealed in 200L bags. The main competitive advantage of Mango Pulp Company is the quality and taste of the pulp and the revenue for last year was US\$4.15M.*
- *Domestic market: The mango pulp for the domestic market is sold both in cans and bottles. The domestic market accounts for about 10% of the total sales with a profit margin of 5%.*
- *Exports: The company has two different export markets: 1. Market for canned ready-to-consume mango pulp sold through wholesalers and retailers. This market makes up 70% of total sales with a profit margin of 15%. 2. Business-to-business (food ingredient) market where mango pulp is sold in large quantities to mango jam manufacturers. 20% of total sales come from this market with a profit margin of 10%.\**

#### Product

#### Selling points

#### Strategic goals

- *Increase sales in the domestic market by 30% over the next 3 year.*  
*The competition in the domestic market is not strong, and the demand for processed mango is low, especially when fresh mango is available. Mango is an important source of nutrition for the local community.*
- *Diversify its business to at least two new fruit or vegetable products within the next 5 years.*  
*The seasonality of mango production is seriously affecting the cash flow of Mango Pulp Company. The goal is to diversify the business so that other fruits or vegetables are processed when fresh mango is not available. In turn the company plans to hire additional permanent production staff.*
- *Doubling the market share in the export canned mango pulp market over the next 5 years.*  
*Even though the competition is strong, Mango Pulp Company believes that they can use their competitive advantage to increase the sales in the export market. They certainly have more production capacity currently unused. They believe that they can increase their market share by offering premium products from sustainably grown mango.*



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### LEARNING CASE STUDY

Product	% of total sales	Market position	Selling point (sp)
<i>Canned fine mango pulp</i>	70%	<i>Less than 5% market share of the export market</i>	<i>High quality, good sensory properties, long shelf-life</i>
<i>Coarse mango pulp</i>	20%	<i>Less than 5% market share of the food ingredient market</i>	<i>High quality, good sensory properties, low cost</i>
<i>Bottled fine mango pulp</i>	6%	<i>Top 3 in domestic market</i>	<i>Nutritious, good tasting, appearance</i>
<i>Canned fine mango pulp</i>	4%	<i>Top 3 in domestic market</i>	<i>Nutritious, good tasting, low cost</i>

### BACKGROUND INFORMATION

#### Reference

Perner, L. (n.d.), Food Marketing, Consumption and Manufacturing  
Available at: [http://www.consumerpsychologist.com/food\\_marketing.html](http://www.consumerpsychologist.com/food_marketing.html)

## ST.2 Interview the CEO

### TIPS & TRICKS

#### **DETERMINE IF THE COMPANY'S MAIN STRATEGY IS COST LEADERSHIP OR DIFFERENTIATION**

There are two fundamental types of strategies that are commonly applied in the chemical industry: (1) Cost leadership strategy or (2) Differentiation strategy. The chosen strategy will affect the entire business operations including not only the composition of the product portfolio but also technology used, marketing strategies, and procurement activities.

The aim of cost leadership is to gain a cost advantage over the competition, especially in markets characterised by mass products and price competition, by establishing a competitive cost structure through low material and energy costs, efficient

production technologies and practices, as well as geographical advantages. The differentiation strategy involves placing emphasis on accessing and shaping new market segments and expanding the application and characteristics of products. The differentiation strategy focuses strongly on product innovation and success involves having a knowledge advantage over competitors. An important success factor is the ability of companies to lead or react flexibly to market demands.

Understanding whether the company follows a cost leadership, a differentiation strategy or a combination of both provides insights into possibilities for eco-innovation activities at the company and in their markets.

#### **ASK WHICH STRATEGIES THE COMPANY USES TO HANDLE VOLATILITY IN RAW MATERIALS**

Many companies, especially in the commodities sector, have strategies to buffer against volatility in their raw materials, which are typically caused by variation in the business cycle. These strategies could involve measures to reduce risk by engaging in long-term contracts or production flexibility. Other measures to reduce risk could include a shift towards services, moving downstream towards segments with closer end-customer proximity, value pricing, and broadening the customer base.

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### LEARNING CASE STUDY OF CEO INTERVIEW

#### Vision

*No vision statement defined yet.*

#### Market

- *Currently, the TipTop Textiles Company focuses primarily on the domestic market with their main products being corporate wear for hotels and school uniforms. The total sales for last year was US\$10.2 m.*
- *Domestic market: Corporate wear and school uniforms are the largest, but clothes for babies/toddlers, T-shirts for young adults, and apparel for the tourism industry are also supplied to this market. The domestic market accounts for 85% of the company's total sales with a profit margin of 10%.*
- *Exports: The only products exported are textiles for corporate wear and school uniforms and accounts for 15% of total sales with a profit margin of 15%.*

#### Product

- *Corporate wear suits and blouses for hotels, material: polycotton*
- *trousers, skirts, shirts, and blouses, material: polycotton*
- *Babies/toddlers clothes material: cotton*
- *Shirts for young adults material: cotton*

#### Selling points

- *Speed, low cost, customization*
- *Low cost, durability*
- *Comfort for baby, appearance*
- *Low cost, fashionable, unique*

#### Strategic goals

- *Increase export business by 25% within 5 years. The profit margins are higher in the export sector and marketing became easier during the last years due to the internet. Expanding this business requires a sales department and improved language skills of the sales manager.*
- *Triple sales of shirts for young adults within 3 years. A growing young middle class with disposable income in emerging economies demands fashionable shirts.*
- *Triple sales for babies and toddlers clothes within the next 5 years (domestic) Currently, the company holds a small market position. Recent problems with the quality of the competitor's products may soon lead to more orders. However, cheaper imported products present an increasing challenge. However, parents are becoming more concerned about chemicals in textiles.*
- *Hold position in top 3 for domestic providers of corporate wear and school uniforms. The growing eco-tourism industry in the country leads to more (upper-class) hotels that require corporate wear. The market for school uniforms is not expected to grow significantly and there is fierce competition from local rival textile mills.*