

PROFITABILITY OF DIRECT MARKETING FARMS IN LESS FAVOURED AREAS (LFAS): CASE STUDIES FROM NORTHUMBERLAND, ENGLAND

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Abstract

Direct marketing by farmers is considered to be one of the most promising new areas of activity within a diversified rural economy and has received significant support in recent EU CAP reforms. It has yet to be revealed whether such activities can be profitable and sustainable over the long term, particularly in Less Favoured Areas (LFAs) where disadvantageous production conditions and a reduction in headage payments mean that livestock farmers face particularly stern challenges. In this paper, a farm-based analysis is conducted in the county of Northumberland in North East England. Semi-structured interviews were conducted with two LFA livestock farmers who have diversified into direct marketing activities. Our findings suggest that in these cases direct marketing activities have become more lucrative than the conventional sources of income available to their neighbours through wholesale markets.

Keywords: direct marketing, farmers' markets, Less Favoured Areas (LFAs), farm management

Introduction

Direct marketing activities by farmers, such as farmers' markets, pick-your own operations and cooperative arrangements in community supported agriculture, are likely to benefit farmers, consumers and the rural economy. By selling directly to consumers, farmers can gain better prices while consumers can achieve improved access to fresh produce (Gale, 1997, Simon, 2000) and experience face-to-face contact with those responsible for providing their food (Kirwan, 2006; Hinrichs, 2000). Direct marketing also attracts consumers who concern for conserving 'local' landscape and environment or reducing food miles (Pretty et al., 2005). Such on-farm diversification is an example of the 'trading enterprises' promoted in the decoupled policy schemes of EU Common Agricultural Policy (University of Exeter and University of Plymouth, 2003).

In the U.K., the development of direct marketing by farmers is a relatively recent phenomenon compared to other developed countries such as the United States or Japan. This may reflect the contemporary availability of agricultural subsidies that encouraged farmers to aim for quantity rather than quality. According to FAMRA (2006), the first successful farmers markets took place in Bath, England in 1997. Since then, these grass-roots activities have grown steadily, in spite of the overwhelming market power of supermarkets (FAMRA, 2004). FAMRA's latest report revealed that farmers' markets were held on a regular basis at some 550 locations around the U.K., creating about 9,500 market days each year, 230,000 stallholder opportunities and involving some 10,000 farmers and food producers (FAMRA, 2006).

Despite increased labour inputs and their unfavourable urban-fringe locations, some vegetable or fruit farms located close to large centres of population, have been shown to enhance their incomes by selling fresh produce directly to local residents, (Gale, 1997; Fujishima et al., 1995). Farms within LFAs have the same need to diversify but their efforts are often hampered by their poor quality soils, relatively

remote locations and associated socio-economic disadvantages. With these issues in mind, the objective of our research is to use farm-based approaches to examine the economic viability of direct marketing farms in LFAs.

Study Area

Northumberland in the North East Region of England was chosen as a case study area where extensive cattle and sheep farming dominate its agriculture and land use. In the North East of England, about half of the land is designated as LFAs (MAFF 2000). The share of LFA grazing livestock farms in Northumberland is 28.4% compared with 5.9% in England as a whole (DEFRA June Agricultural Census, 2004). The area was affected by the Foot and Mouth Disease (FMD) epidemic of 2001 (Franks, 2002; Franks et al., 2003).

According to the Northumberland Farmers' Markets Association (NFMA, 2006) around 20 farmers' markets are held in North East England every month. In November 2006, for example, 18 farmers' markets were held, mainly at weekends (seven on Saturdays and six on Sundays). In addition, some local authorities (e.g. Alnwick District Council, Blyth Valley Borough Council) regularly organize other traditional markets where local farmers can participate. Generally, each farmer's market includes somewhere between three to five stalls run by livestock farmers. Such stalls are less common in traditional markets.

Brief characteristics of interviewed farms

Semi-structured interviews were conducted at two direct marketing farms in September and October 2006. Farm A is located in a Disadvantaged Area (DA) about 50km away from the city of Newcastle-upon-Tyne, while Farm B is in a Severely Disadvantaged Area (SDA) on the border of the moorland line about 60km away from the city.

The characteristics of the two farms are summarized in Table 1. Farm A relies only on family members for production, processing and retailing; while Farm B has expanded its business by hiring butchers, a driver and retail staff who provide up to 2,000 days of additional annual labour input. Though both farms are considered to be LFA grazing livestock farms they host very different enterprises. Farm A is a specialist sheep enterprise, while Farm B supplements its home-reared cattle and sheep production by buying in finished beef and store cattle from other LFA farms in order to satisfy demand from the retail section in its business.

Table 1. Overview of the interviewed farms

	Farm A (DA, Sheep specialist)	Farm B (SDA Moorland, Cattle & Sheep)
Labour	Manager and spouse (600days) and part time by son (15days). 615 days in total.	Manager and spouse (420 days), accountant, farm worker, butchers and retail staff (2,000 days). 2,420 days in total
Land	Permanent grassland 100ha (owned).	Permanent grassland 130ha (owned)
Livestock	450 breeding ewes.	Rough grazing 150ha (owned) 520 breeding ewes +250 store lambs 40 suckler cows +20 store cattle every year
Capital for marketing	Van, butchery, stall, freezer	Van, butchery, stall, freezer

Source: interviews by authors in September and October 2006.

Table 2 summarizes the business development history of the farms. Both farms diversified into direct marketing in the late 1990s, moving away from the traditional cattle and sheep enterprises that characterize many of their neighbours. Both have participated in the Countryside Stewardship Scheme (CSS) which has provided them with marketing advantages that they have used on their web sites, leaflets and billboards at farmers' markets. Public financial support for capital investment seems to play a significant role, as both farms have exploited government funding opportunities to equip themselves with most of the facilities required for their direct marketing enterprises.

Table 2. Business Development of Interviewed Farms

year	Farm A (Manager: 44 yrs old)	Farm B (Manager: 50 yrs old)
2005	Capital Investment (£50,000 including half from own funds) for re-roofing, stall, van, incinerator and web development.	Capital investments (£240,000 including £90,000 subsidy). Hire additional workers. Start store animals.
2000	Start direct marketing. Stop beef production and decrease ewes to 450. Capital Investments (£40,000 including half from own funds) for rebuilding, butchery, chiller and advertisements.	Join CSS and Organic Farming Scheme (OFS). Buy 80ha. of additional land. Labour force consists of 3 family members, 1 farm worker, 1 driver, and 2 butchers. Start direct marketing. Capital investments (£18, 000 including half from own funds) for a chiller and cutting room. Staffed by the manager, 1 farm worker and 1 butcher. Buy 200ha of additional land. Raise 320 ewes& 30 cows, no fattening beef.
1995	Join CSS. Reduce the number of sheep and cattle. Ewes from 630 into 550, Cows from 35 to 25. Increase the area of rented grassland by 50 ha until 1999.	
1990		Start part time farming on 35ha grassland

Source: interviews by authors in September and October 2006.

Marketing Channels

Table 3 provides details of the proportion of sales for each marketing channel at the two farms. Interestingly, farmers' markets appear to be one of the most important means of distribution in spite of the relatively small volume of sales to individual consumers. Furthermore, both farms allocate their family members to retail activities at these markets. Farm A spends 18 person-days per month family labour and Farm B 10 person-days per month. Meanwhile, Farm A depends on contractors and Farm B hires a full-time farm worker for their grassland and livestock management. This is indicative of the level of importance that farm managers place on participating in farmer's markets where they can meet their customers face-to-face and convey information directly about their farming practices and products.

Table 3. Proportion of Sales for Marketing Channels

Channels	Farm A		Farm B	
	Number of market days/shops and proportions of sales	Retail staff	Number of markets/shops and proportions of sales	Retail staff
Farmers' market	From late August to March. 9 times/mth. 48%	Manager & spouse. son(occasionally)	All year around 5 times/mth. 25%	Manager, spouse. 1 employee (1day/mth)
Retailers	3 shops 48%	-	13 shops 50%	2 employees (from 2006)
Internet	4%	-	5%	-
Catering	-	-	5 Restaurants 20%	-

Source: interviews by authors in September and October 2006.

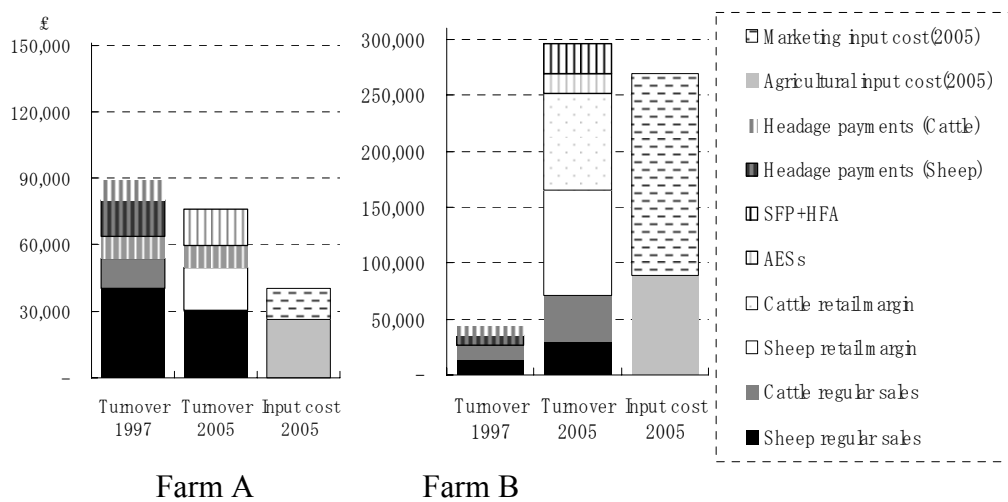
Profitability

Fig.1 illustrates financial breakdowns for the interviewed farms in 1997 and 2005, corresponding to the periods before and after the establishment of their direct marketing enterprises. Turnover generated from agricultural products may be broken down into 'regular' sales and retail margins. The former is based on the wholesale prices which conventional producers would face and the latter is calculated from the surplus generated by direct marketing prices. On top of this, headage payments (e.g. Suckler Cow Premium Scheme (SCPS), Beef Special Premium Schemes (BSPS), Sheep Annual Premium Schemes (SAPS) and Hill Livestock Compensatory Allowance (HLCA)) were available to the farmers in 1997 but have since been replaced by the area-based Single Farm Payment (SFP) and Hill Farm Allowance (HFA).

In a similar fashion, total input costs exclusive of family wages are divided into 'agricultural' and 'marketing' input costs. The former are production-oriented costs, which most livestock farms spend and the latter are additional inputs stemming from direct marketing activities. The main marketing input costs for Farm A relate to slaughter (39%), electricity (18%) and advertising (17%); while for Farm B the major inputs are for wages (39%) and slaughter (11%).

Agricultural profits based on 'regular' activities, therefore, are defined as the residuals of regular sales minus agricultural costs, while retail profits are calculated from positive values of retail margins and negative marketing costs. Farm A generates £4,310 of agricultural profit and £5,220 of marketing profits while Farm B suffers negative profits of -£17,130 and -£202 respectively. In both cases, marketing profits are higher than agricultural ones.

Fig.1. Financial breakdowns of interviewed farms



Source: interviews by authors in September and October 2006.

SFP: Single Farm Payments (RPA and DEFRA, 2006), HFA: Hill Farm Allowance (RDPE et al., 2005), AESs: Agri-environmental Schemes

Table 4 provides efficiency measures for the interviewed farms compared with average figures for LFA livestock farms in Northern England derived from Farm Business Survey (FBS) data. Even though labour input quantities for the interviewed farms are based on stated annual person-day values, these values are considerably larger than the FBS average. For example, Farm A inputs 9.1 days/GLU while the average labour input is 3.6 days¹/GLU (or 7.2 four-hours/GLU). Farm incomes and labour efficiencies for the sample farms are not as high as the average; however, they achieve higher levels of value-added than conventional farms. Higher levels of value-added suggest that direct marketing activities have led to increasing income levels and economic flows into the rural area, (indirect economic impacts through intermediate inputs are not considered here).

¹ Where one person-day equates to 8 person-hours in the FBS data set.

Table 4. Efficiency measures of interviewed farms and FBS data

	Farm A (2005)	Farm B (2005)	Average for Northern England LFA livestock farms FBS(2004) ¹⁾
Grazing Livestock Units ²⁾ (GLU/farm)	67.5	175.5	139.2
Annual labour input (person- day/farm)	615	2,420	494 (988) ³⁾
per GLUs (person -day/GLU)	9.1	13.8	3.6 (7.2) ³⁾
Annual Farm income (pound/farm)	35,872	27,303	45,398
per family labour (pound/person- day)	58	65	161 (81) ³⁾
Labour efficiency ⁴⁾ (pound/person- day)	58	49	107 (54) ³⁾
Value-added ⁵⁾ per GLUs (pound/GLU)	141	414	88
inc. subsidies (pound/GLU)	531	668	380

Source: interviews by authors in September and October 2006 and FBS Northern England.

1) In consultation with the FBS Northern England office at Newcastle University, data for 111 LFA farms was extracted from the 2004 dataset.

2) GLUs (Grazing Livestock Units): breeding ewe = 0.15GLU, cattle over 1 year old =1.0GLU.

3) 8 hours labour in the FBS dataset is converted into 1 person day. The values in parentheses have been converted to 4 hours/day.

4) Labour efficiency = (farm income + paid wage)/(total labour input quantities). Farm income includes land rent and family labour wage.

5) Value-added = farm income + paid wage (- subsidies)

Discussion

Farm-based case studies have shown that direct marketing farms in LFAs can achieve higher value-added than conventional farms. In our cases this happened despite farm family incomes being lower than the local average for LFA livestock farms. Meanwhile, their retail activities contribute to higher incomes in spite of the associated processing and marketing inputs, such as slaughter cost or wages for processing and retailing staff. Our financial analysis of direct marketing farms suggests that they would gain less income if they sold their products to wholesale markets. Direct marketing farms, therefore, seem to have identified a promising solution to survival even in relatively unpromising agricultural conditions. Indeed, their higher value-added performance without subsidies suggests that direct marketing activities may be a useful route for many livestock farmers seeking a route towards economic viability. Considering the labour intensities of direct marketing, farmers with sufficient family labours can rely on them as Farm A does, while LFAs with surplus labours could promote direct marketing farms enlarging their business and hiring domestic workers. Since livestock numbers have been declining, partly due to CAP reforms preventing EU members from stimulating agricultural production, market conditions are likely to be more

stable for producers who are trying to produce meats of distinctive quality and thus gain higher prices through direct marketing.

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