

## The best of British farmers, what gives them the edge?

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### ABSTRACT

Every farming community has a large range of financial performances which cannot be categorised by farm size, activity, operation or anything else. Almost no farmers are financially good or poor because of one outstanding activity or decision process. Instead, a top farmer is simply better than an average producer by being slightly better at most things. This article explains that, once a farm structure is correct, the producer can improve by a process of marginal gain. The suggestion of finding one hundred activities and working to improve on them all by one per cent will revolutionise any business. The difference between an outstanding farmer and an average producer is only one per cent. The article identifies the only recognisable difference in activities between top and bottom quartile producers is at the farm business planning stage.

**KEYWORDS:** competitiveness; marginal gain; farming; total factor productivity

The UK has many world-class farmers, but the industry as a whole appears to be commercially lagging behind many other countries. According to Government data, the efficiency of UK farming has risen by 1.4% per year on average for a generation, considerably lower than other comparable countries. Total Factor Productivity is a measure of how an industry gets better at turning inputs into outputs. It is an index so the performance change is measured. Total Factor Productivity data globally is not good but that which is available suggests UK efficiency gain is slow compared with other countries as explained in Figure 1.

The return on some inputs, like labour, is good, but on others, like land, it is poorer. Cost saving is a major opportunity for farming businesses through reducing business expenditure per unit of output. Reducing costs is the right commercial thing to do when it saves more cost than income it foregoes. Compare top quartile farmers with bottom quartile performers, it shows higher output per hectare accounts for only about 20 to 30% of the greater profits. Lower costs per hectare contribute the majority of the additional profit achieved by the top performers. This is demonstrated in DEFRA's Farm Business Survey data and Levy Body information such as from DairyCo's MilkBench data and is illustrated in Figure 2. Fixed costs can be associated with farm structure, so to minimise the overheads, the farm needs to be structured correctly.

This analysis demonstrates the importance to farmers of focussing on the cost of production rather than just the amount of production.

All sectors and all countries have very high levels of performance variation from the top to the bottom

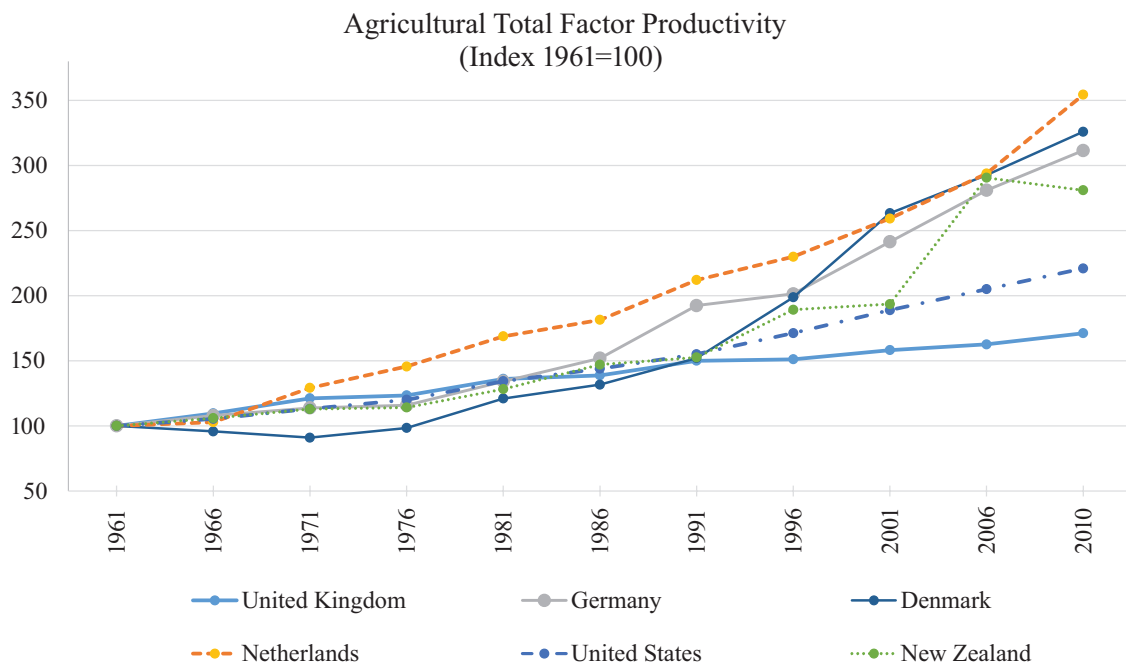
performers. This is true for each sector of agriculture regardless how it is divided. For example there is a considerable range of performance of large farms and small farms, arable and livestock alike. Top performers are almost always simply marginally better at everything rather than significantly better at anything. Marginal progress on all aspects of the business makes a considerable improvement to the overall figures. Minor improvements to many aspects of a business multiply rather than add up, meaning that small gains in performance in several areas of farming make a considerable difference to the overall farming profitability between top and bottom quartile performers.

Non-essential expenditure decreases and replacement policies are extended when profitability is low. This suggests that farmers are both a) sensitive to cash flow availability, and b) not totally commercial in decision-making when they have the resources not to be. We remember UK farmers generally combine their work with their lifestyle more than most other work sectors. Reinvestment is necessary to build the future business, whether through lime on fields, staff training, or buildings etc. Investing involves short term cost and long term ambition and farming is a very long term industry.

Young farmers are often more eager to build their businesses than older managers. They are generally more receptive to new ideas and are prepared to take greater risks (including accepting higher business gearing). A good education is almost always beneficial and time spent in a non-farming commercial environment can also be commercially valuable. This brings new commercial and operational ideas into the industry and onto the farm. Larger farms tend to achieve better results than

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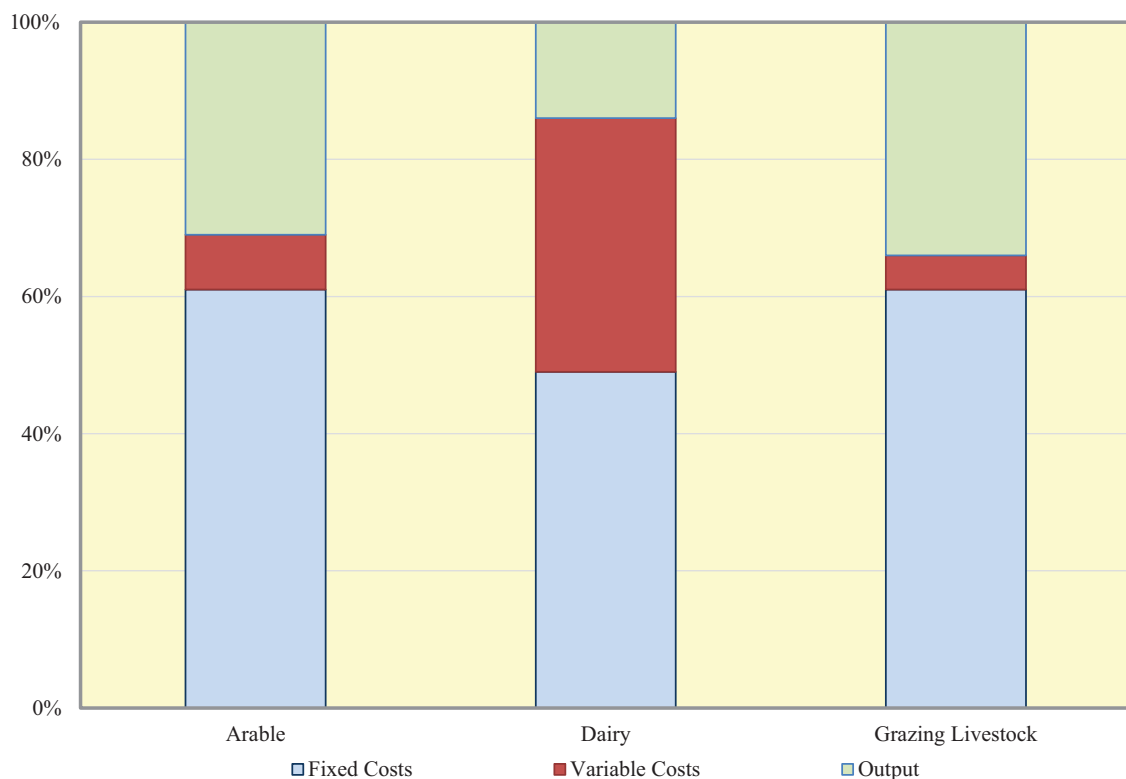


**Figure 1:** Agricultural Total Factor Productivity (index 1961=100). **Source:** USDA/FAO.

smaller ones as they can be more efficient with resources although this is not a priority for commercial success.

Improving efficiency at national industry level is directly related to expenditure in research and development (R&D). In the UK this has fallen by about 6% per year in real terms over the last 20 years from a relatively high base. To raise the performance of UK farming, this decline

has to stop and so the Agri-tech channelled investment is welcomed. More of the R&D funds should be focussed towards near-market study, taking the strategic research and applying it to industry, or working with the farming industry, spotting problems and opportunities and collaborating to solve them. This method also tends to attract greater amounts of private funding too.



**Figure 2:** Chart Highlighting Where the Variation in Profit Occurs between Top and Bottom Quartile Farms. **Source:** Farm Business Survey and DairyCo.

Knowledge exchange is clearly the next relevant step. After research has been completed, those who can use the new knowledge should find out about it. Public and private sectors both have obligations and key roles to play here. In the UK, the closest professional relationship to an arable farmer is the agronomist, although other information routes are also important. This means that the information these operators impart is critical in the development of farm efficiency on a relatively large scale.

It is rarely disputed that direct subsidies compromise competitiveness, but farming without them in an otherwise supported industry would not be prudent. However, there is much to learn from unsupported countries and sectors. Profitability of unsupported sectors for example is considerably more volatile than supported sectors, although overall profitability averaged over several years is not so great. As direct subsidies in the UK and EU decline through to 2019, farmers should consider more long-term (5 year) budgeting to assess business performance.

Barriers to changes of land occupation slow the restructuring and therefore performance of agriculture. Wider use of joint venture arrangements should be promoted in the UK. Whilst lifestyle farmers are free to make a choice, policies should be put in place to ease the exit of those who only continue farming because they feel they have no alternatives. Parts of the red meat sector in particular are held back by lifestyle farmers more than most other sectors, having the lowest barriers to entry and indeed exit. Some operators who have, for example, left dairying, or have a few acres of land, keep a small herd of cattle or flock of sheep. In contrast for example, few lifestyle farmers enter intensive pig farming.

The limited resources that support organisations such as the UK's levy body (Agricultural and Horticultural Development Board), could be focussed either on the top farms where potential gain is small or the bottom quartile where each operator has greatest potential to improve. However, the lower performers often have a reduced ambition to change, making impact difficult. Rather, spend resources working with the middle and top quartiles and allow the new practices to filter to other farmers. Those eager to raise their games will actively

seek out support or new knowledge so the most receptive operators will be known.

In the UK few farms pass ownership with a sale, most are inherited. This is a real asset to the individual but a brake for the industry. In other countries such as Netherlands or New Zealand, land is sold, even between generations, helping the young farmer 'feel' the value of the asset. It also clarifies the currently murky relationship between unpaid labour from family members and farm inheritance.

The UK (and EU) farming industry, compared with other countries, is also hampered by having technologies held back or withdrawn from use. Genetically modified plant seeds are the obvious example, with more recently the loss of plant protection products. The UK (and EU) is increasingly operating with fewer tools than non-EU counterparts, putting farming under sustained pressure from ideological and political preferences. Furthermore, there is ample evidence that non sector specific commercial experience supports all business people from any industry. UK farmers are rehearsed at farm walks but might also learn business skills from other commercial environments.

As an industry, we can all look for opportunities to enhance the commerciality of the sector, either through tools like benchmarking and long term planning, or through culture change. Ultimately though, the success or failure of any business comes down to one variable, the entrepreneur at its helm. Regardless of the support, subsidy, information emails, loans, trade events or research, the talent and drive of the individual to be the 'best in class' is the key determinant that turns ordinary into extraordinary. The hungry entrepreneur knows that he or she will take the spoils of a successful business just as he or she will feel the pain of failure. Only one person can be responsible for that and the rewards only come from extreme effort.

### About the author

**Graham Redman** is Partner of The Andersons Centre, agribusiness consultancy in the UK, and Author of the John Nix Farm management Pocketbook, a UK agricultural costings book.