

iCASP



Farming the Uplands Profitably



What's been learnt?

1. Farming is a business
 - Control costs
 - Set a price
 - Sweat assets
 - Develop a marketing plan & budget
2. That business produces and sells energy in the form of food for human consumption
3. That energy comes, at least initially, as free-issue
4. You can't get more energy out than you put in





Nethergill Farm

Yorkshire Dales

Future of hill farming

Objectives of studies

1. Assess current business position
2. Encourage business planning
3. Outline implications of losing the Basic Payment Scheme
4. Secure farmer assurance to undertake proper planning, budgeting & analysis
5. Help move thinking from a production basis to a business model focused on margins;
6. Acquire a commitment to balance the imperatives of farming, food & nature



What has been exposed

1. Preparing cash flows wasn't enough
 - Not enough appreciation of business implications
 - Reluctance to plan & budget
2. Need to discuss entirely new concepts
 - Contributions (1st, 2nd & 3rd levels)
 - Break-even calculations
 - Concepts of leverage
 - Meaning of returns (ROTA)
 - Linear and non-linear variable costs



Our preliminary findings

Corrective VC's

Non-essential activities: measured per animal (e.g. livestock feed, fertiliser, vet & med)

Nethergill Associates:	Farm:	NA Averages	15 Farms
Total Output (sales)			51,648
Sub-Total Productive VCs			13,980
Sub-Total Corrective VCs			23,504
Total Variable Costs			37,484
1st-Level Contribution	(Gross Contribution)	Net Cash	14,164
Total Fixed Costs			45,769
2nd-Level Contribution		Gross Profit	-31,605
Total Drawings			10,463
Commercial Profit		Before Support	-42,068
Depreciation			0
4th-Level Contribution	(Net Contribution)		-42,068

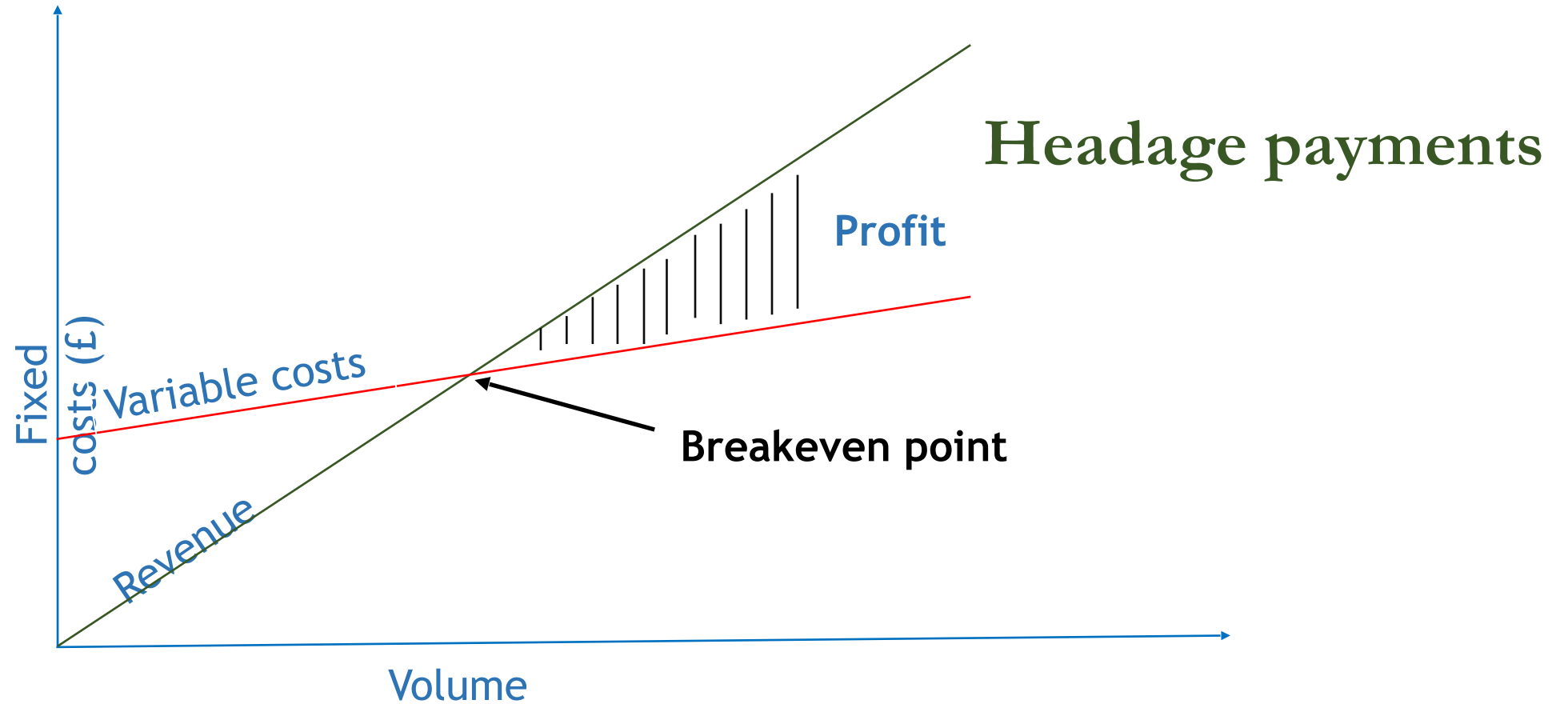
Our preliminary findings

Total Misc Income	<i>Spouses' income, contract work</i>			27,155
Enhanced Income				-14,913
Total Support				51,171
Net Income after Support				36,258
Total CAP-EX				10,373
Total CAP-INC				1,219
Total Net-Exp				9,154
Net Cash Flow				27,104

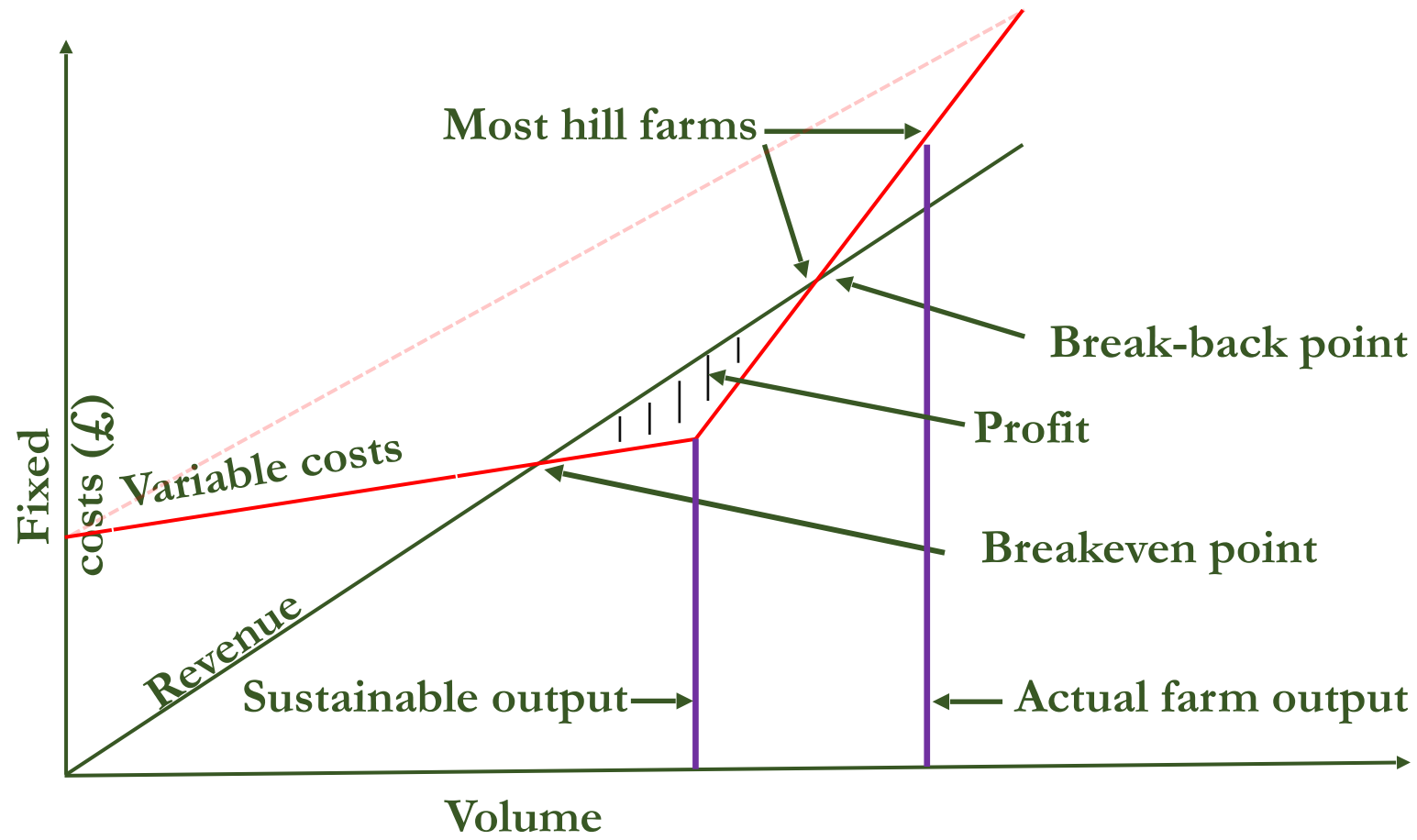
Key Performance Indicators

Break-Even Leverage (before support)			
	B/E Price Leverage	x Price/output	1.61
	B/E Volume Leverage	x Price/output	3.23
	Onset of Corrective VC		36,022

Linear variable costs (Industry) - Principles

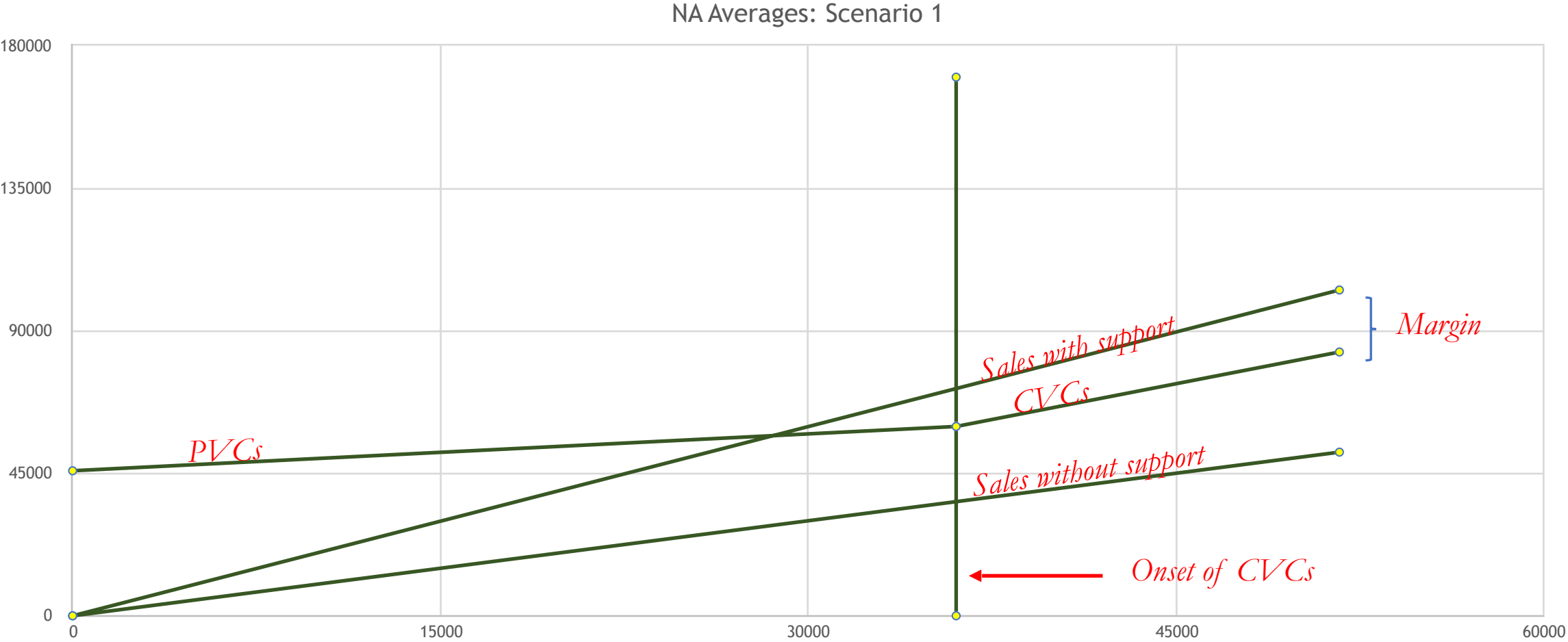


Non-linear variable costs - Principles



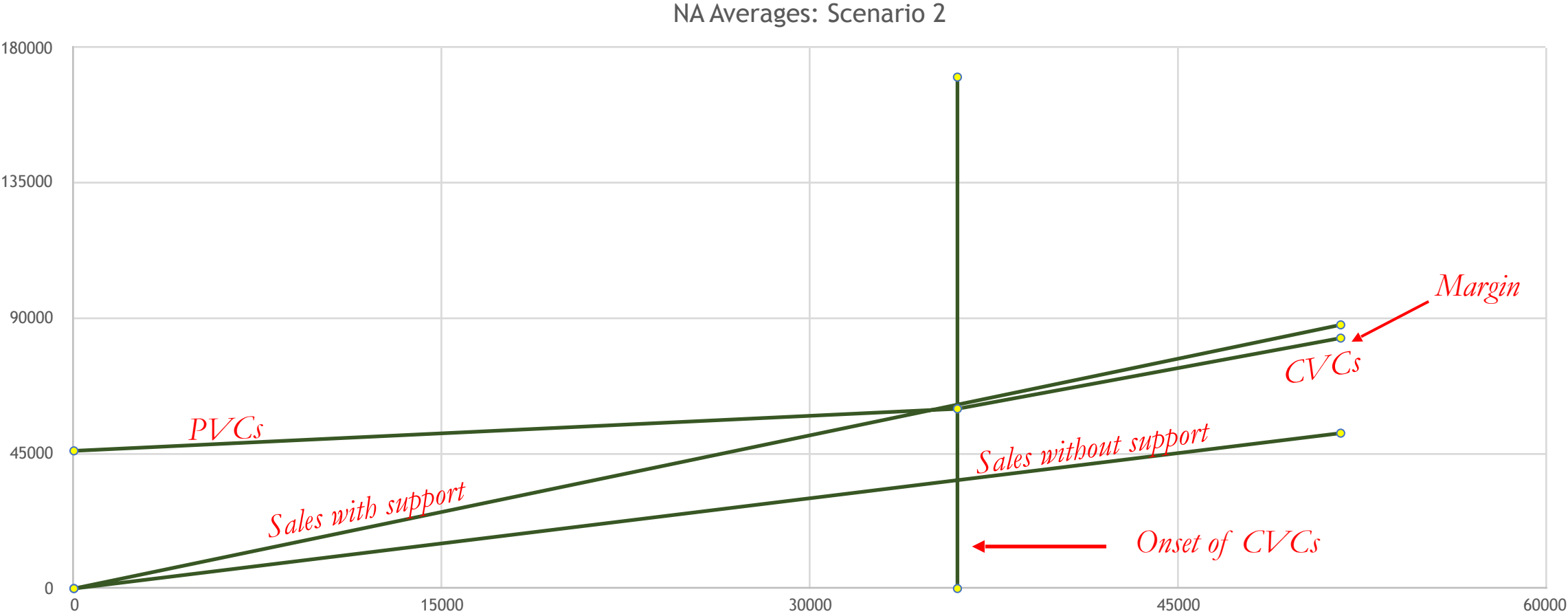
Business performance

NA Averages	Scenario 1
Corrective VCs	23,504
Fixed costs	45,769
Support	51,171



Business performance

NA Averages	Scenario 1	Scenario 2
Corrective VCs	23,504	23,504
Fixed costs	45,769	45,769
Support	51,171	36,000



Conclusions

1. Commercial food production on hill farms:
 - Requires a price rise of 60%
 - This is not realistic in a market
 - Driven by the least cost provider
 - Where supply is greater than demand (domestically)
 - Requires a volume rise of 323%
 - This is not realistic beyond the sustainable level of output
 - Extra costs are incurred which destroy ultimate profitability.



Observations

1. Hill farming is the endeavour by which natural resources can be used to:
 - Deliver high quality food produce
 - Satisfy market demand
 - Provide commercial gain for the farm
2. Its main obligation is to do so sustainably
 - Without de-capitalising the land asset to a point of infertility
 - Without de-capitalising the biodiversity to the point of red listing



Observations

3. Hill farming has three natural disadvantages:
 - Northerly latitude (which affects sunlight hours)
 - High elevation (which affects temperatures)
 - High precipitation (which affects the maximum water holding capacity)
 - Farms add cost to compensate for these disadvantages
4. Pollution run-off into streams and rivers present the water industry with costs of purification which are not loaded back onto farm businesses.



Strategic imperatives

1. There is a sweet spot: Maximum Sustainable Stocking Rate (MSSR)
 - Imposed by the availability of natural (free-issue) grass
2. Stocking rates beyond the MSSR level will draw in new and additional corrective variable costs (CVCs)
 - Fertilisers, sprays, purchased concentrates, vets bills, winter forage & over-wintering
3. CVC's invariably ensure that hill farming, with its tight margins, suffers a reversal in profitability



Tactical issues

Hill farmers as a group are poor in adopting the minimum of sound business practices

1. Few manage, or more importantly, are encouraged to manage, proper budgeting
2. Farms that make an “accounting profit” only do so after significant subsidies and/or the financial support of a spouse’s income or other non-farming related income



Tactical issues

3. Farmers encouraged by professional advisers to minimise their tax liabilities by acquiring new capital machinery
4. This advice is catastrophic
 - Expensive new machinery drags in additional expensive repair and maintenance costs
 - Low utilisation (inevitable) of the equipment ensures that it will invariably be left to rust and decay without having delivered any real utility



Future upland strategy

1. Deliver meat products as close as possible to the MSSR position
 - This will maximise margins (and margins are a superior business driver to volumes)
2. Enhance the landscape and protect its environmental capital
3. Explore new opportunities to added-value and increase the price that consumers are willing to pay
 - Branded meat products with full traceability
 - New markets for wool products
 - Regional tweeds (the high-end) or insulation (the low-end)
 - New markets for hides (footwear, clothing, and industrial goods)



Summary

1. If there isn't enough natural grass, no amount of corrective economic action can make the farming any more profitable
2. Beyond the maximum sustainable stocking rates on a farm, its intrinsic profitability reverses and so, as many farms attempt to produce additional revenue, so more money is lost
3. By default there are significant financial & environmental improvements

