

David Bolton, Farm Business Consultant, Bridgeham
DLG Unternehmertage

Tuesday 5th September 2006, Hanover

I am David Bolton; I have degrees in Agriculture and Business Administration both from London University. I have been a Farm Business Consultant now since 1974 – over 30 years. It seems a short time.

Cheffins bought my business on 1st July 2006 and now we are a specialist department in a major business working in the rural countryside of England, with offices in Cambridge and five other towns. We sell for export £35 million of second hand machinery to 44 countries – first Monday in every month – now in Bristol too. Cheffins have 120 staff and partners. We are most active supporting family owned and controlled businesses, estate owners, farmers, food ingredients providers and rural land owners with many income sources besides crop and animal husbandry. We also transact vintage vehicles and have an internationally respected team of Fine Art experts.

We sell strategic and tactical advice, we have negotiating skills, valuing skills. We feel like social engineers sometimes. A sense of humour is important.

I am passionate about helping clients to run successful businesses or getting them out of bad ones. Sometimes I wonder why, but my father was a school master and my mother a small farmer's daughter.

At the start of any successful meeting it is necessary to define its purpose. For this meeting Dr Andreas Quiring and Dieter Mirbach have invited me with a warm welcome to talk about experiences of farming in a low margin economy, how did English farmers get into this situation, what should businesses do. I am aware my fellow speakers will have very interesting first hand experiences too.

I am grateful to DLG for their invitation and thank them all for their efficiency and courtesy with all the arrangements made for me.

I presume that German farmers farm for a least one good reason. Not all English farmers can remember why, let alone how they got involved! Some seek to earn profits to get a return on their time, their efforts, their risk, their management and their capital. Others enjoy the lifestyle and freedom it provides. Many have inherited their farms and are determined to hand them on. This is less easy now as farming is not seen as fashionable or sexy by many. But without money, positive cashflow, and necessarily profits, the economic lights go out pretty quickly. Objectives may be to extend their business or their capital and either to consume it or pass it on to future “deserving” dependants.

People are bringing new money into the industry from outside for the tax breaks it can provide. I see a pattern of farm ownership starting where certain farms are in long term traditional family ownership where the business has evolved into rural property management alongside crop and animal husbandry. Other farms have been bought for the lifestyle and life quality capable of being offered to children. As these children grow up and their own career paths and capital requirements evolve, they become disinterested in the farm. This low yielding, inflexible, wet worry and these farms are sold again as the original parents advance towards the second half of their lives.

A feature of these families (and many successful businesses too) is that they are clear in their aims and intentions and realistic in their expectations. In low margin conditions you need this clear thinking.

SLIDE 2 - Total Income From Farming

At the industry level in the UK, farm incomes are dropping. At the farm level the bank balances will be confirming to farmers what is going on.

Total income earned from farming for 2005 has been confirmed at £2.52 billion. This is equivalent to 3.7 billion Euro and almost the same sum of money from all the Single Farm Payments paid to England, Wales, Scotland and Northern Ireland.

It is 11.2% down on the already disappointing figure for 2004.

Go back to 1990 – the start of the MacSharry reforms to CAP and before Agenda 2000. Not so bad then. It rose with grain prices and the set aside compensation arrangements we had. But our fuel, fertiliser and labour costs have shot up. Only 18 months ago – Spring 2005 tractor diesel was 20p per litre €13½/litre. Now 38p/litre, over 26 euro/litre. I will show you graphs in a minute. Already farmers numbers are declining. Fortunately, as the sum of money is shrinking. The axing of our Smithfield Show in London is one sign to the non farming world that all is not well in low margin agriculture. It had been in London since 1779.

The Royal Agricultural Society of England (our DLG) shows a membership drop of 8% since last year – when it started a big campaign to raise its membership by 5%! So you can see the picture of low margins developing.

SLIDE 3 - Wheat Prices

Wheat is not the only commodity grown in UK agriculture, but many product prices follow it. Rents are sometimes linked to it. You can see when the price collapsed. I was in Chicago when it occurred on Monday 3rd June 1996 and saw the market fall to its limits. That very day experts there told me it was temporary and would recover!!

We still watch UK, European and world stock levels carefully. We remain optimistic that UK consumption from new customers for fuel and for starch will increase and set aside/environmental schemes and economics of poor soils will reduce volumes until demand exceeds supply. Then we shall see prices fly as merchants will pay the CIF price for you, not the FOB price to us – a difference of £4-6/tonne.

SLIDE 4 - Land Rental Patterns

This graph shows averages 1995 to 2005. They tell you that rents rise fast under the UK system. 3 yearly reviews using comparables and budgets. They can rise by 7½-20% but tend to fall very slowly – 1-2% per year on average only because of the expense and difficulty with negotiation and arbitration. They will continue to drop.

SLIDE 5 - Cost Increases

Energy, particularly gas, has become very expensive in England. Up to 40% increase because of supply volumes, problems with Russia and Ukraine. Our electricity is much increased too. Diesel for tractors has doubled. Wet harvest of 2004 and second half of 2006 has been expensive to dry. Fertiliser is directly linked to energy costs. We have worries that supplies will be tightening and there are levels at which product price versus input cost make it uneconomic to apply in certain low fertility situations. In some low margin farms with poor soils, buildings, costs and abilities they should not produce – they lose more money that way, than doing nothing.

SLIDE 6 - Land Prices

This is a strange graph in the circumstances I describe. 77% more land has been sold this year than last already. The volume was strangled, artificially low when the SPS was announced in summer 2003. Few people could understand how it worked. Those that could tried to continue, many stopped and waited. You can see we have

price waves. I expect more. Declining results will continue, leading to very poor returns on that investment indeed.

It is held up by successful Entrepreneurs money coming in from outside. If they should cease to make mega profits (and our interest rates are rising 4.75% soon 5.00% or even 5.25% base) then the land price can collapse. If the political climate and taxation two simple rules should change, it would collapse. It is highly vulnerable and not at these levels from low return agriculture.

I would need some very special reasons to be buying in UK now at these levels.

SLIDE 7 - The Political Climate

Many farmers are depressed. They feel rejected by UK society and Government. Our "New Labour" government is an urban one. Farmers represent just a few rural votes. The Rural Payments Agency has managed to almost bankrupt our industry – and its associated suppliers too with late payments of £1.5 billion sterling. Our shoppers have no fear for their food security. Our self sufficiency in food continues to drop. In the 1920's 25% - by 1980's over 80% - now dropping towards 60% and it will go lower. With a strong pound export is difficult and importing attractive. Cheap, safe food is all that the Government want us to have. Imported food means the blame for BSE or Foot and Mouth and the huge costs associated with them can be put on others. Sugar beet reform affects 6500 growers sharply. This industry will contract into East Anglia with the price dropping from £30/tonne to £19/tonne over the next 3 years

SLIDE 8 - The Economic Climate

The EU 25 countries are going to seek to compete energetically. Some of their costs are lower than ours. Land rent and labour being two. The EU budget is unlikely to be more generous to you or to us as it seeks to bring in Romania and Bulgaria. Turkey a huge rural country, will wish to follow and the bombs in Marmaris and Antalya show it is a volatile area. Financial discipline can easily tighten the support system. The EU official Peter Berkovitz has said that the next CAP reform will include still less money for market support, higher levels of compulsory modulation and the capping of direct payments (with a large average farm size we do not like that and one of our strategies for success involves “not getting too big” and trying to make arrangements to anticipate that problem). Cross compliance tests – without which penalties or even no SPS, are tough in UK. The Sterling/Euro relationship has a big influence as you saw. Only 100 businesses asked to be paid in Euro but one of my successful farmers sells hay and straw in Euro from Kent to the continent better than in Sterling to Wales and the South West of England! Currency does influence us a lot.

SLIDE 9 – Strengths

But even after this picture there is a way forward for some. I want to give you positive messages to take to your businesses. You should analyse the strengths you have under these headings and draw courage from them. The first strategy is to

lay out these assets and consider how they could be recombined or reduced or redirected to greater success.

At an early stage decide two things! What you want from your business and how much you need to make it earn to keep you in positive cashflow mode.

SLIDE 10 – Strategies

I have culled this list from 3 examples this summer where insufficient profits have been made.

First lesson – no choices should be ignored. “No sacred cows” in English slang. One business said they could not compete with a neighbour over work from a third farm. Fine, I approve of good honest moral behaviour in business but fair and open competition for service and price I do consider legitimate.

Labour cost. Who, how much of it, where do they live, can they be part-timers, can they be from our new Eastern European members countries, how skilled, how well trained, using tables we can compute ideal, premium and average labour levels relative to production. One man to 400 hectares or less is increasingly common.

Displace the elderly! Ageist policy. I have a son in law aged 52 farming for his father in law aged 81. The results are now better income for both of them!

Co-ordination and co-operation with neighbours is a way to work more efficiently. But English farmers are stubborn proud individuals. I offered four of them more money and less work on their 4 farms which together only added up to 440 hectares but they refused 3 years ago. Now 2 of them farm 700 hectares!!

Optimise mechanisation by considering hours used per year and the least cost provision of that work. Horsepower per hectare and fuel consumption per hectare. different types of farming interest us. 80 litres/hectare for big scale combinable crops is a target. The source of machinery and its costs is vital. Its depreciation, its resale opportunity, its repair needs and the operators' training are all relevant. Matching of sizes to work scale is also important. Sharing joint ventures and contract work are all possible – though some loss of flexibility may have to be accepted. Better science and technology, better agronomy is necessary. Inputs are expensive – can you buy them more cheaply? GPS field mapping and the linkage of this to applications where it can be afforded is attractive. The new Lexion combines (600 series) have performed well in 2006 and their track systems are good on our heavier soils after rain.

No resources should be idle. Either the farmer himself, the uses of his buildings, the use of his land and imagination! Often his wife is an overlooked resource!

Management needs simple good figures. Do you collect all you are owed from deliveries? Have you grown a tier of cost in your office – middle management and administration will always look busy. Are they being cost effective?

Finally, act upon your decisions – do not hover. So many farms do not act following sensible analyses.

SLIDE 11 – FUTURE CONCEPTS FOR SUCCESSFUL BUSINESSES

The oldest concepts are still important for the future. These could be called rules.

Continue to keep things simple. Complexity brings cost and in low margin times that is unacceptable.

An accurate knowledge of costs and how they are incurred is necessary. I have just judged the UK Farms Manager of the Year competition. Each contestant has had to show me how he manages that part of their business.

Market information, short and medium term, is valuable information. But its value is only released when you use it for decisions.

Customers have both information and needs. Round the corner we hope are more bio-fuels for on-road and on-farm use.

Optimise production levels from your resources. I saw one business who travelled 96 kilometres around his farms and moved his machinery around this distance. By giving up land and finding equivalent hectares closer we ejected a man and cut machinery wear and tear and fuel consumption.

Constantly plan and review progress because of the personal nature of farms and the nature of farmers, each location will have different choice and opportunity.

Building up a brand depends on skill, inclination, determination and the devotion of much time. It can be a valuable asset to create and sell.

From my office at Manor Farm I can see farm buildings being used for machinery storage (1); a base for a Closed Circuit TV security business (2); a Finnish business importing estate maintenance equipment (3); a waste recycling group office (4); an insurance agency (5) and my own Cheffins office (6). I imagine that together we are contributing about £70,000 – €100,000 per year in gross rents and services charges to our landlord. Once upon a time these same buildings were plain machinery sheds and hay barns.

FINAL SLIDE – CONCLUSION

These strategies are rather like those used by a Formula 1 team planning their pit stops and race management plans. Clear, accurate and careful – short and longer-term. Ready to react to circumstances out on the track so remaining flexible.

The values may be higher than agriculture and the influences and timetables are different, but the stakes are no less important and the value for each individual family even higher.

Abraham Lincoln, 16th American President 1861 – 1865, said:

“When you do what you have always done, then you will get what you have always got”.

Farming in low margin conditions is - the shock - the necessary impulse necessary to change business direction and behaviour.

I have explained the need to have clear objectives and the starting position.

I have talked about the reasons for new concepts and what can be done.

Overwhelmingly you will see I expect people to work hard, but differently, and that under no circumstances can Sacred Cows be allowed to survive.

Thank you for inviting me and listening to me.

I will enjoy discussion and questions.