

# CLA Rural Business Conference: Redefining Farming

28<sup>th</sup> November 2017



## Introduction

Business management guru Jim Collins identified a number of traits common to great businesses. At the top of the list is people, leadership and “having the right people on the bus”. This is closely followed by a willingness to confront the brutal facts.

Farm businesses are not only facing a dramatic shake-up in agricultural subsidies, access to labour and the trading arrangements under which they operate, but with investment in technology increasing we are also on the cusp of the next agricultural revolution. Add into this changing public expectations about how land should be used and managed and you have some real challenges, but these are the brutal facts that farming must confront if it is to be a sustainable and profitable sector in the years ahead. This is a most exciting time and a future that is ours to make but this requires change.

Change can be daunting and there will always be a temptation to resist it, particularly in a sector like agriculture which can be as much a way of life as a business. The devaluation in sterling adds a distracting veneer to things at the moment but this Brexit “honeymoon period” will change and for those businesses that fail to recognise this profitability and lifestyle will be under threat.

Now is the time to be getting “the right people on the bus”, and facing up to the “brutal fact” that agriculture is entering the perfect storm. We are already seeing that for those businesses with an ambition for the future, energised by a clarity of purpose and with a mindset that is open to change, new opportunity and a bright future lies ahead. Understanding business strategy, finding collaborative ways of working, new markets, new enterprises, new business structures and proactive succession planning are all part of this, as well as having a real understanding what is genuinely happening in the business today. A “brutal fact” that many don’t want to face up to.

Given this challenging backdrop, Strutt & Parker was delighted to be one of the main supporters of the CLA’s Rural Business Conference, “Redefining Farming”.

This followed a series of seminars held over the summer of 2017 which were also delighted to support. We hope this summary stimulates change. Further detail and the full report can be found at [struttandparker.com/cla](http://struttandparker.com/cla)



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## At a glance

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- Brexit is not the only factor driving change for farmers and estate owners – even if Brexit was not a reality, change would be necessary anyway.
- Climate change, a global population explosion, radical advances in technology, market volatility and changing public expectations of what our land and landscapes might be used for are all critical long-term trends which will reshape landowners' roles and determine where future opportunities exist.
- Many farming businesses are heavily dependent on subsidies, leaving them vulnerable to changes in agricultural policy. However, profitable farming is possible, with the top 25% of farming businesses, across all sizes and sectors, consistently making a profit before subsidies.
- Farmers and landowners need to be open to change and look for ways to become more profitable and efficient through a combination of technical, environmental and professional business management. These are the characteristics of the most successful businesses we see.
- Choices will need to be made about whether land is delivering the best income opportunities or whether it would be more profitable to use it differently, change markets or work collaboratively.
- A lack of clarity about future policy is having a paralysing effect on planning for the future and curtailing necessary investment.
- Government must support the industry as it moves forward by providing direct investment, as well as giving the sector a reasonable transition period to allow businesses to adapt to new trading and policy arrangements.

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## The challenges for the farming sector

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If the vision of a profitable, sustainable farming sector is to be achieved, there are a number of challenges that will need to be tackled, including:

- Uncertainty around trade, labour and the future of agricultural policy as a result of Brexit.
- Reliance on support payments as a form of income - for the average cereal farm in 2016 the Basic Payment Scheme contributed 87% to Farm Business Income, while BPS accounted for 93% of Farm Business Income on an average Less Favoured Area livestock farm.
- Slow growth in UK agricultural productivity compared to similar nations – in the UK, growth is 1.6% per annum compared to over 6% in other countries.
- Some farming practices do have a negative environmental impact and there is currently little incentive to adopt practices that deliver positive environmental outcomes.

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## The opportunities for the farming sector

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On a more positive note, leaving the EU and the Common Agricultural Policy provide the opportunity for farming to be redefined as:

- **Self-reliant** and **profitable** across all farm types and sizes.
- **Environmentally sustainable**, with farming recognised for its contribution to environmental, landscape and social benefits.
- **Productive** and **innovative**.
- **Efficient** and integrated, **achieving a fair share of the value chain**.
- Highly **skilled** with **professional technical, environmental and business management**.
- **Confident, with profits to allow investment for the future**.

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## The business of farming – how it looks today

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The CLA carried out a survey of 1,092 CLA farming members to assess farmers' motivations and aspirations. A series of four workshops also took place between July and September 2017 in Cambridgeshire, North Yorkshire, Gloucestershire and Kent, which were supported by Strutt & Parker. The report's authors also drew on a range of secondary sources and past research.

**Taken collectively this work highlighted:**

- Economic viability must provide a foundation for business, but profit is not the primary reason many people farm – there are other social and environmental drivers.
- Most farm businesses have some diversified income streams not related to agricultural production such as property rentals, holiday lets, forestry, equestrian, and leisure and sport activities.
- One of the characteristics of profitable businesses is the willingness to invest in new infrastructure and technology and adopt new farm practices in order to improve efficiency.
- Innovation is not just about new technology. Adoption of new (or sometimes old) farming systems or practices can both bring equal economic and environmental benefits to the farms.
- The main barriers to change, and investment, are the planning system (cited by 31% of the respondents to the CLA's member survey), uncertainty around leaving the EU (27%), followed by laws and regulations (22%).

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## Investing in people

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The Redefining Farming seminars programme identified common characteristics of successful farming which included:

- Good management skills and recognising the importance of people to the business.
- Availability of a motivated and skilled labour force.
- Strong technical skills and an understanding of financial performance.
- Ability to make the best use of the infrastructure and natural assets.
- Willingness to confront challenges and having the confidence to change.

Without investment in skills and human resources, it is unlikely that other investments will realise their full potential. The agricultural sector's investment in skills, training and human resources compares poorly to other industries, affecting the ability to attract educated and enthusiastic staff at all levels while also hitting overall productivity. Crucially, investing in people should be as much about owners and managers as it is about employees.

- Only 12% of businesses had invested in formal business training in the past two years, and only 30% in informal business training.
- Only 28% of businesses had invested in formal technical training in the past two years, and only 45% in informal technical training.
- 27% of businesses have not invested in any training of any form in last two years.
- There is a dominance of informal training.

The low level of ongoing professional development through formal training is a concern in terms of employee retention and delivering profitable farming in the future. Farmers who have had training in the last two years are three times more likely to be benchmarking than those without training. Much of the focus of formal training tends to be on compulsory courses for employees or new entrants for regulatory purposes – not developing skills to grow profitable businesses.

The main barriers to training are time (54%) and cost (31%), which are surmountable if training starts to be seen as an equally important investment in the business as machinery, seeds and fertiliser.

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## Innovation through collaboration

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One solution for overcoming the challenges of scale is collaboration, which can take many forms – ranging from sharing knowledge, machinery or labour, to collective buying and joint research.

Most businesses collaborate in order to improve profitability and access skills/equipment that would otherwise be unavailable, but there is a perception that UK farmers collaborate less than their counterparts in Europe.

However, the survey results show that CLA members are collaborating both with other producers and throughout the supply chain.

Nine in ten respondents collaborate in some way (88% on farm production and 65% with the supply chain) and many collaborate in more than one way.

The main forms of collaboration are:

Collaboration on farm production	Collaboration with supply chains
Buying in a contractor 67%	Discussion groups 30%
Machinery sharing 34%	Demonstration visits 26%
Labour sharing 20%	Cooperative or producer group 23%
Land swapping 5%	Buying group 20%

However, much of the collaboration is on an informal basis and it is possible that formalising these relationships would increase the benefits and help farmers to unlock new opportunities.

Engaged farming businesses that value training and are willing to make significant changes to their businesses are also more likely to collaborate.

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## Innovation through new ways of working

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There are a range of business structures that can allow business expansion or new management while still retaining an interest/input from the landowner – such as joint ventures (only 5% of members have a JV) or contract farming (24%).

Joint ventures are also a good route for new entrants to start their first farming venture without the need for high capital outlay, and an acceptable change for those wishing to take a less active role in farming.

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## Innovation through new environmental markets

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The UK Government accepts that there is a strong case for financially rewarding farmers for producing public goods and has stated that future agricultural support will be based on 'public money for public goods'.

The CLA has been at the forefront of arguing for such a change and proposes that this should be achieved by Land Management Contracts between Government and land managers.

The LMC would involve a shift away from area-based entitlements to a contractual system that rewards farmers in line with the scale of environmental achievements they achieve.

Additionally, environmental markets are developing in the following areas:

- Private businesses – supplying environmental goods to private businesses.
- Visitors – often expect high quality environments as part of their visitor experience.
- Consumers - some farm products command an environmental premium.

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## So is the farming sector Brexit-ready?

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The report demonstrates that lack of clarity around future policy is having a paralysing effect on planning for the future.

- Most business (68%) are not planning any changes before EU exit in March 2019 – but they are trying to keep informed about developments.
- Although 24% are planning to increase their level of investment.
- Two in five (42%) respondents are diversifying into areas outside agriculture.
- Assessing farming performance: 26% of respondents are trying to farm without direct payments, 21% are benchmarking and 10% are taking advice.

## Unlocking potential – the action points

The report sets out a number of priority actions to deliver a profitable, self-reliant and sustainable industry, which will require partnership working between farms, government, consumers and the supply chain to achieve. These include

Priority actions:

### Skills and training

- Evaluation and monitoring of local needs to ensure that access to the right type of training is in the right place.
- Incentivise demand-led training and work with industry and stakeholders to create a culture of continual improvement in skills and knowledge.
- Targeted support for management skills, development in business, financial management, risk management, staff management, health and safety, facilitation, negotiating and sales and marketing to help drive professionalisation of the industry.

### Investment

- Provide clear signals and adequate period of transition to the future of agricultural support to provide greater certainty for investing in the future.
- Incentives for investment to modernise ageing infrastructure and to invest in applied R&D and new technologies to develop the successful businesses of tomorrow.
- Ensure universal rural broadband and mobile coverage.
- Government to develop a fast-track planning route for small-scale rural business development.

### Land use and markets

- Government should drive the development of a Land Management Contract for delivery of public benefits payments to farmers and land managers.
- Promote best practice in collaboration and create template agreements to drive awareness and the importance of setting out the terms of any relationship.
- Support the development of shorter and local supply chains, and local marketing collaboration, that provide added value and improved margins.
- Expand the principles of protected food names and clearer labelling for UK production and standards

### Technology

- Facilitate on-farm applied research and innovation alongside our world-leading basic R&D so that new ideas and solutions to industry problems drive productivity improvements.
- Government investment in co-ordinated research and knowledge exchange to speed up the adoption of new technology and practices that deliver sustainable productivity and resilience.
- Develop evidence-based regulatory regimes for new technology such as genetics, pesticides and medicines that will enhance resource efficiency while ensuring protection of human health and the environment.

*“It will soon be time for every landowning farmer to make choices about whether their land is delivering the best income opportunities, whether they need to farm differently, or use the land for other purposes.”*

**CLA President, Tim Breitmeyer**

At Strutt & Parker, we work with some of the most successful farming businesses in the UK. They have many of the characteristics identified by the CLA – well trained, motivated staff, using the best information to constantly improve what they do – so that they are profitable without subsidies.

Our team of over 40 specialist agricultural advisers are committed to understanding what matters most to our clients. All our people are from farming backgrounds and combine practical experience with technical expertise, giving us a real understanding of the issues faced by today's farming community. They have a proven track record of making a lasting positive impact on the businesses that they advise. Call them to help your business be ready for a profitable, successful future.

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