

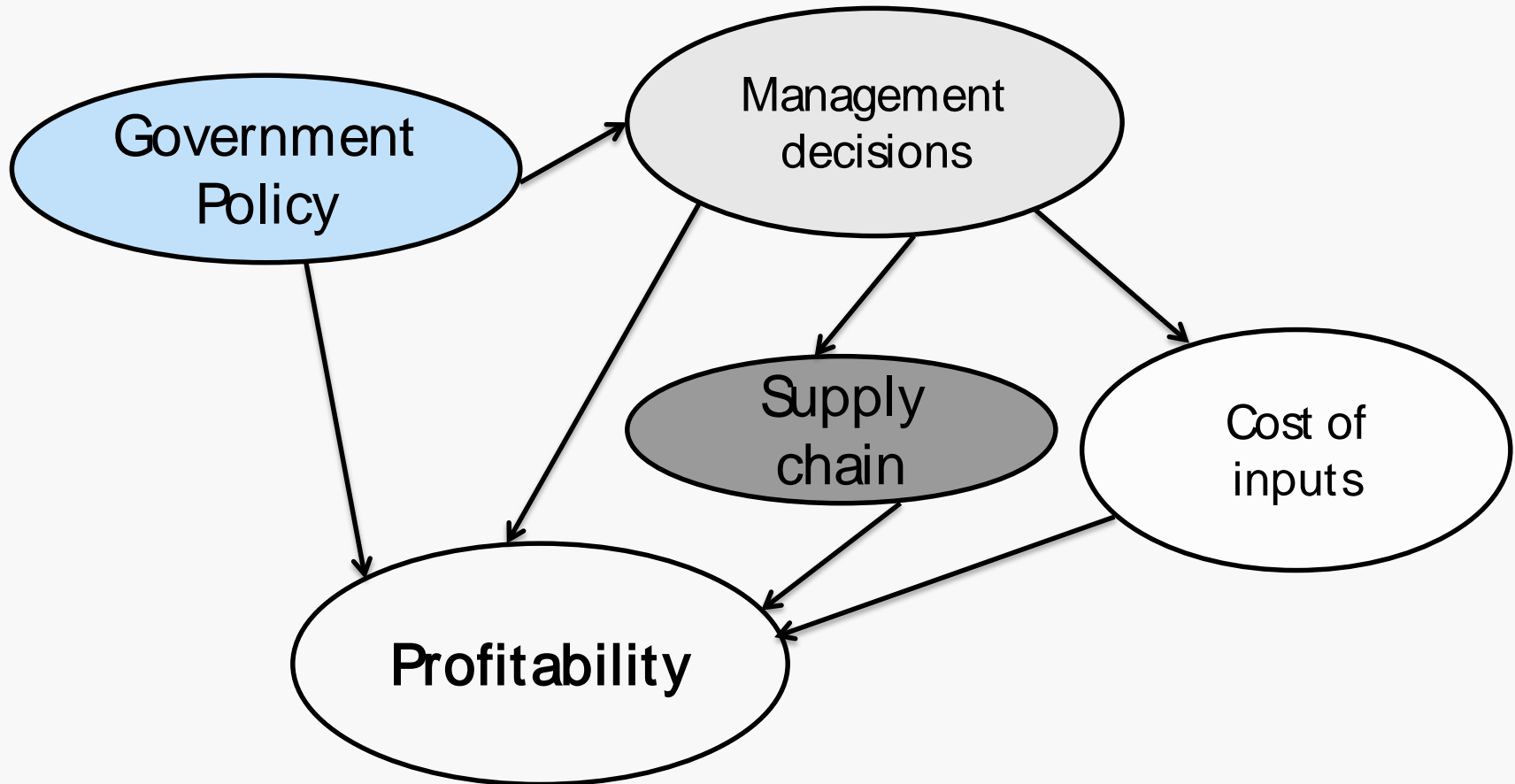
# Strategies for sustainable profit & profitability

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# Factors affecting profitability



# Policy

- EU legislation
  - Common Agricultural Policy
  - Pesticide bans (e.g. neonicotinoids)
  - GM ban
  - NVZ, Water Framework Directive
- UK Policy changes
  - EID
  - Bovine TB and Badger Cull
  - ‘Living Wage’
  - EU Referendum
- Wider Changes
  - Transatlantic Trade and Investment Partnership (TTIP)
  - Russian Import Ban



## Ban lifted on controversial 'neonic' pesticide

By Claire Marshall  
BBC Environment Correspondent

© 23 July 2015 | Science & Environment



## Russia adds countries to food import ban over sanctions

© 13 August 2015 | World



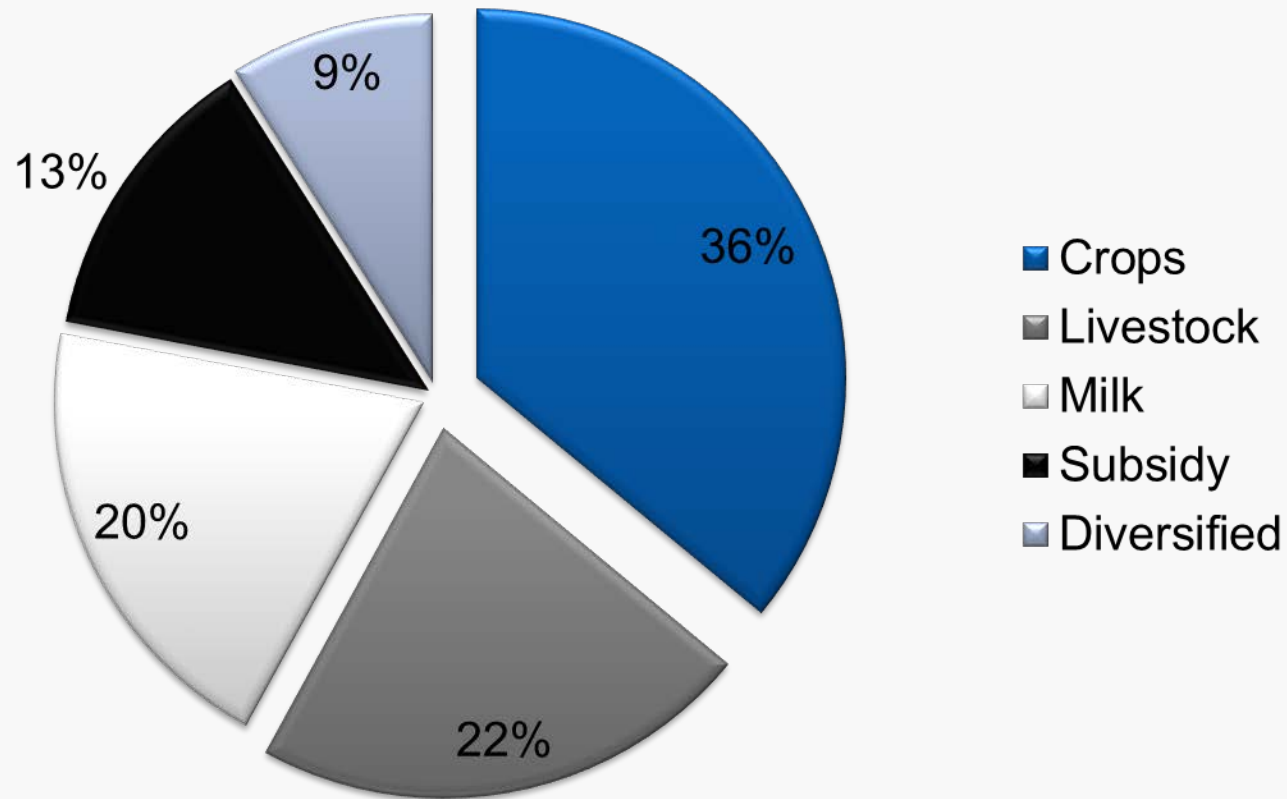
# Management decisions: challenges

- Production environment
  - Farming does not happen in a controlled environment. Weather, animal disease, topography
- Land availability
  - Value more than doubled since 1995, unlikely to find long term tenancies.
- Capital availability
  - Banking crisis, banks worried about lending. Farming requires large amount of capital.

# Management decisions: challenges

- Labour availability
  - Lack of skilled labour
- Age of farmers
  - Average age of farmers is 57
- Price volatility
  - Commodity markets
  - Inputs (Fertiliser, Feed, Energy,)

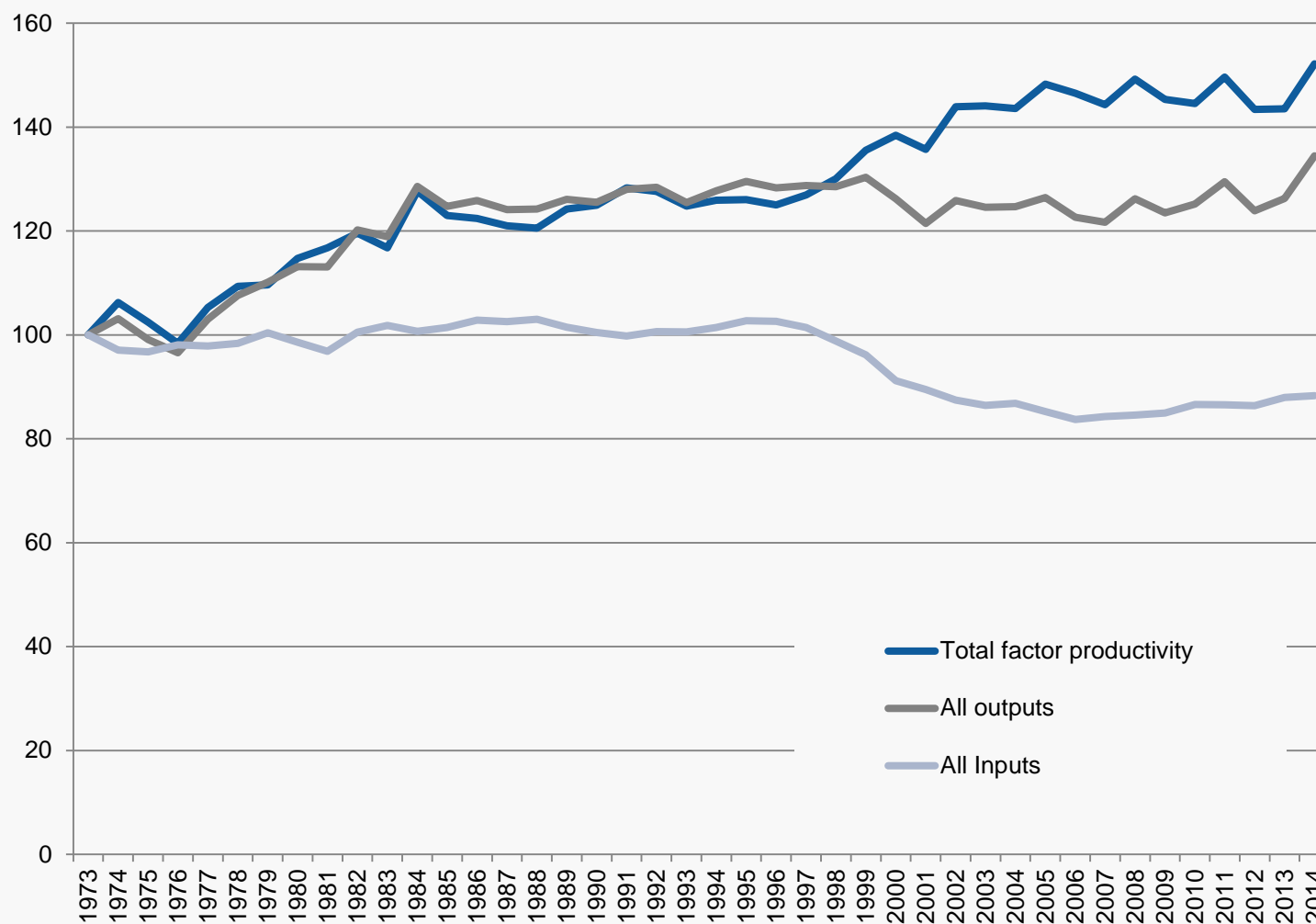
# Total farm output by enterprise



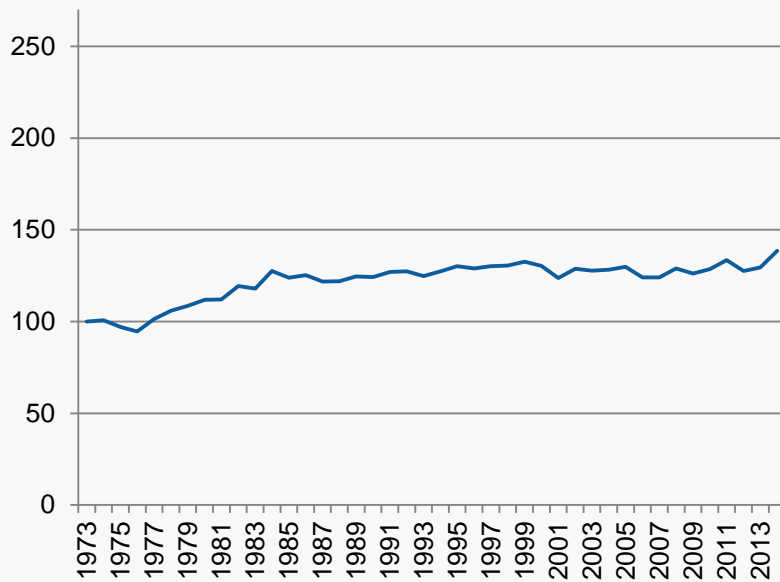
Output is vanity, profit is sanity

Source: Reading Farm Business Data 2013-14

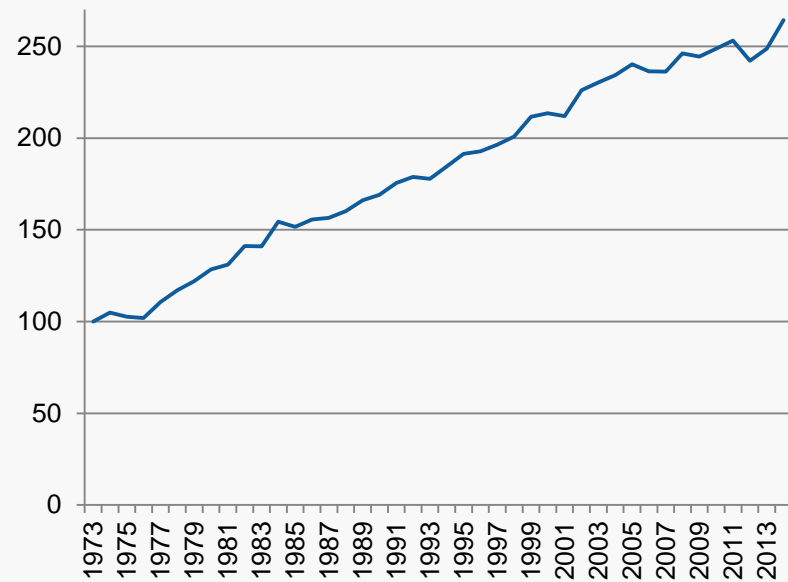
# Total factor productivity



# Productivity indicators



Land



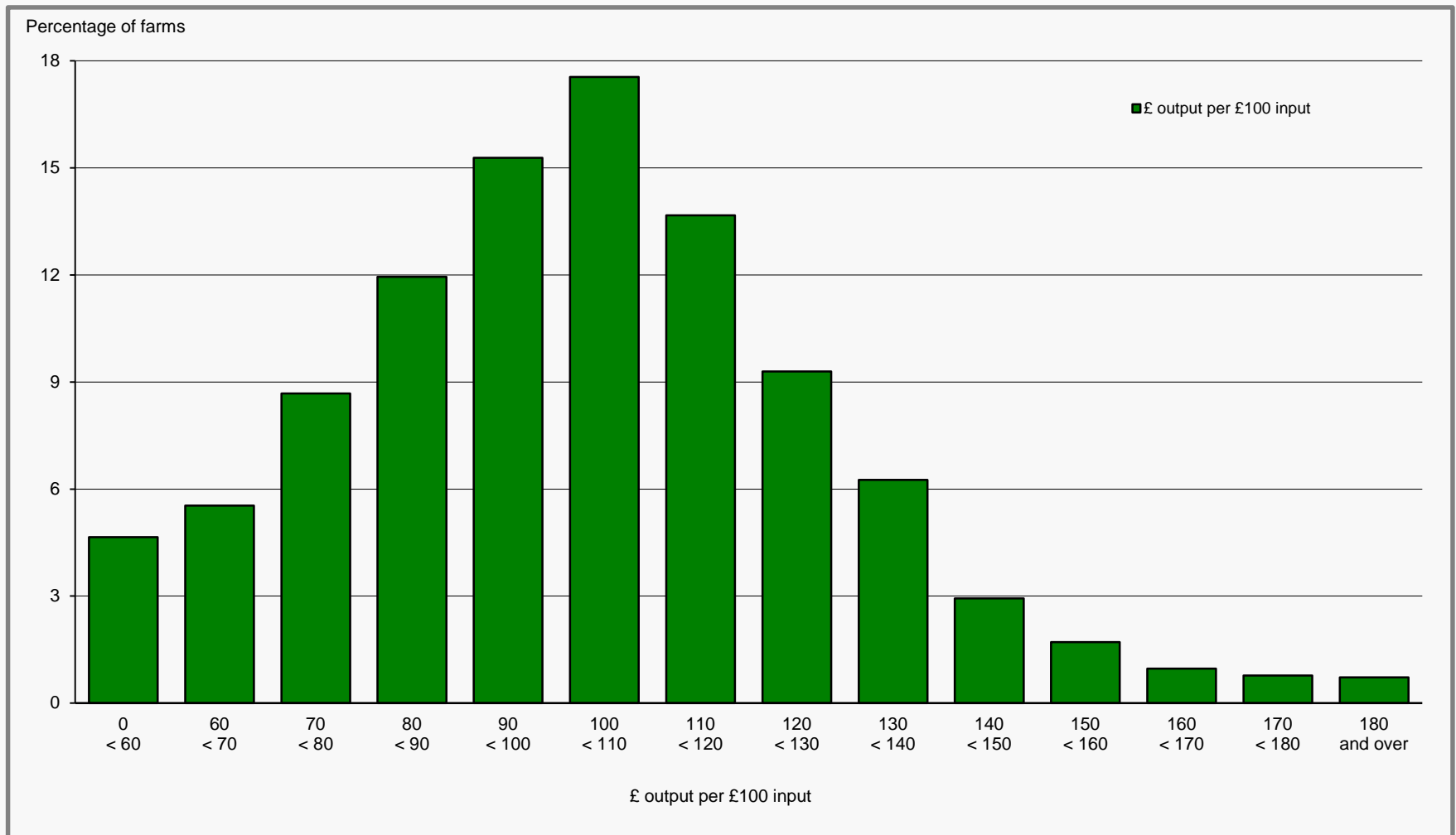
Labour

# The new living wage

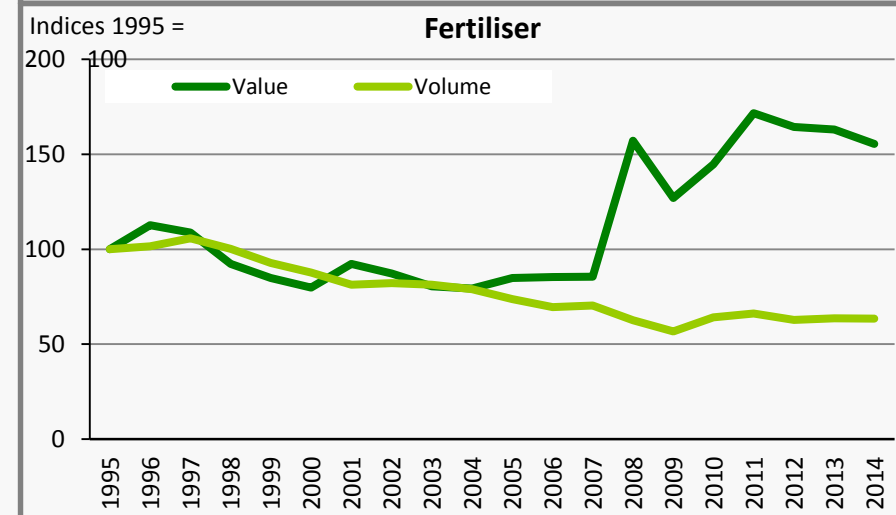
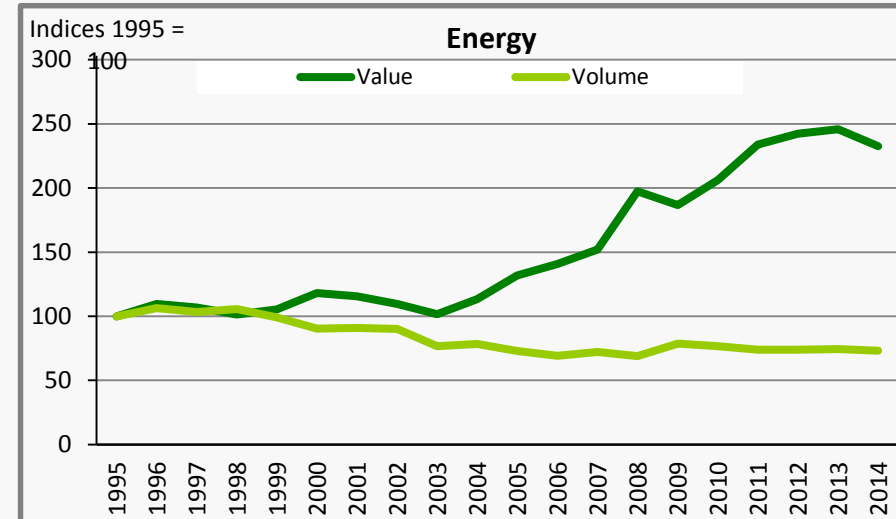
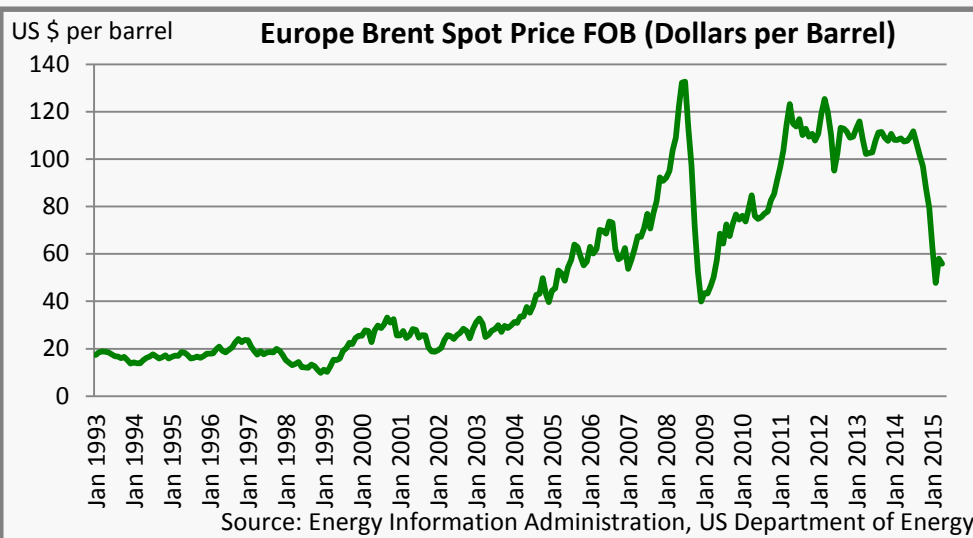
- New Government legislation announced this year
- Current minimum wage is £6.70 per hour
- From 1 April 2016 this will rise 7.5% to £7.20 per hour
- Planned to rise a further 25% to £9 per hour by 2020

Harvest Year	2010	2011	2012	2013	2014	£ Change	% Change
Number of farms	203	203	203	203	203		
Size (ha)	211.4	211.7	214.2	214.2	216.8	5.4	2.6%
Rent & rates (incl. Imputed)	196.8	210.0	222.7	235.5	241.5	44.7	22.7%
Casual labour	19.6	20.0	20.1	19.9	19.4	-0.2	-0.8%
<b><u>Paid</u></b>	<b><u>119.8</u></b>	<b><u>128.7</u></b>	<b><u>133.1</u></b>	<b><u>135.1</u></b>	<b><u>136.7</u></b>	<b><u>16.9</u></b>	<b><u>14.1%</u></b>
Unpaid	128.1	132.6	132.0	135.5	138.1	10.0	7.8%
Contract costs	72.9	83.5	86.0	84.9	93.8	20.9	28.6%
Fuel & electricity	73.8	88.3	90.7	92.4	88.1	14.3	19.3%
Repairs	62.0	59.7	61.0	63.9	70.1	8.2	13.2%
Depreciation	107.4	113.7	128.9	134.1	134.3	26.9	25.0%
Occupier's repairs	38.2	44.5	41.0	44.4	47.5	9.4	24.5%
Sundries	87.7	96.8	99.9	103.1	105.2	17.6	20.0%
<b>Total Fixed Costs</b>	<b>906.2</b>	<b>977.8</b>	<b>1015.3</b>	<b>1048.8</b>	<b>1074.8</b>	<b>168.6</b>	<b>18.6%</b>

# £ output per £100 input



# Input costs



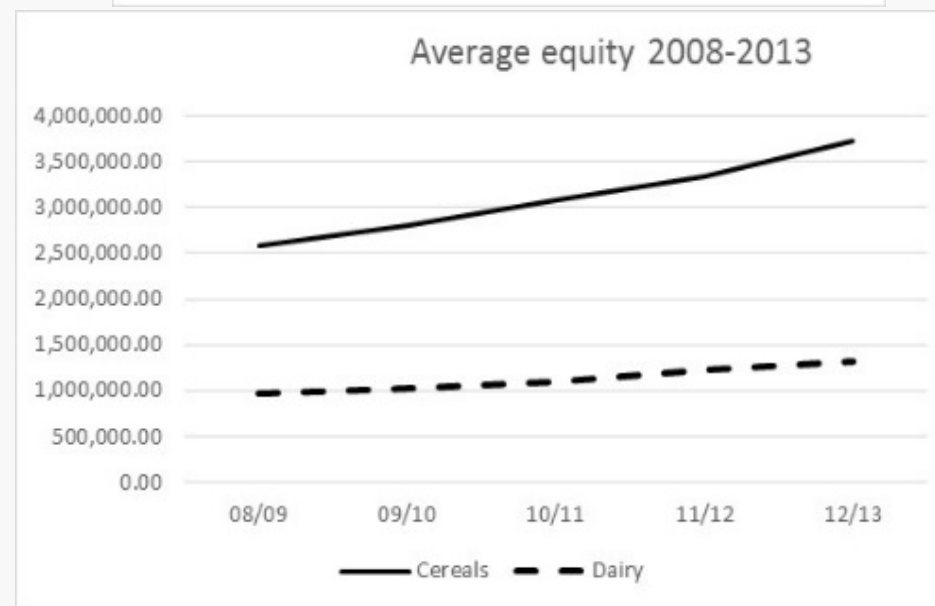
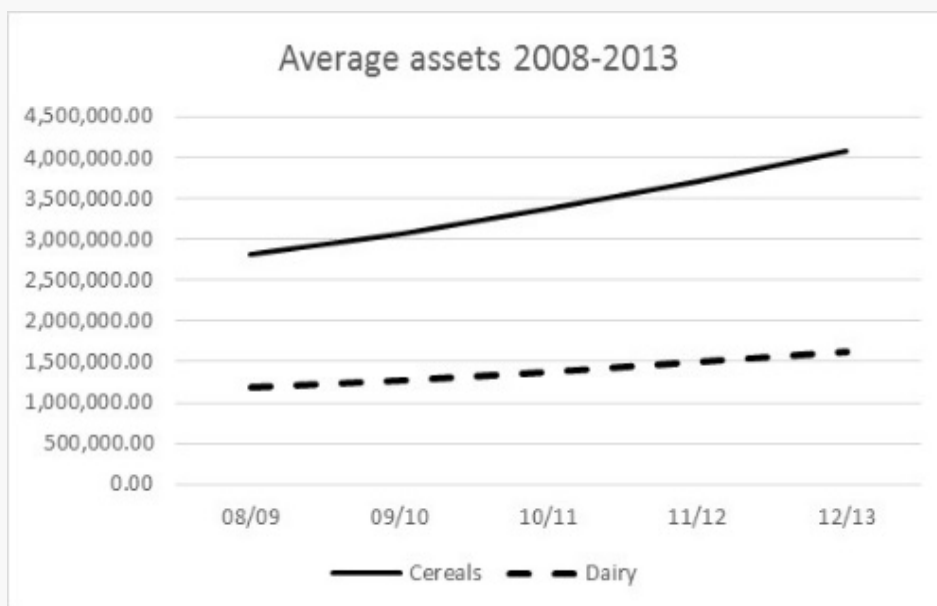
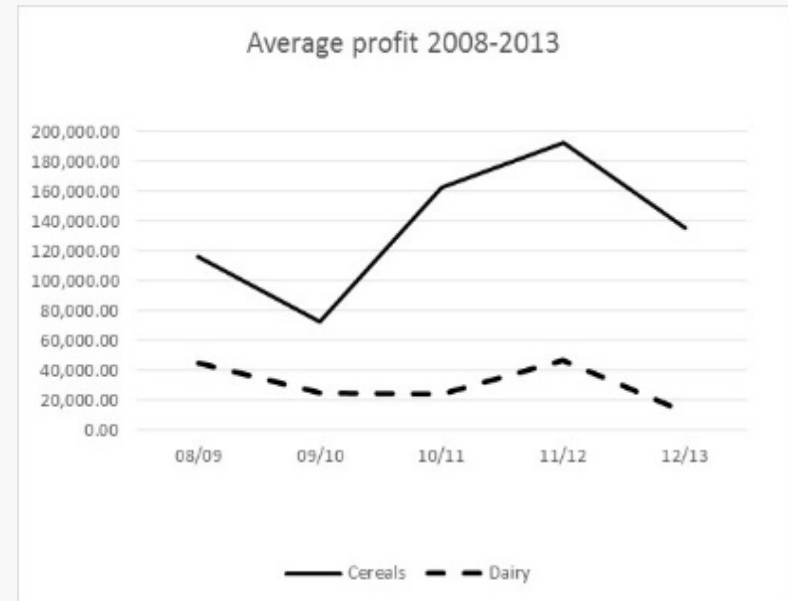
# Solutions

- Expand
  - Nocton Dairy 8,000 (too big?)
- Diversify
  - Non agricultural income
- Create a new/ niche product (value added)
  - Commodity (milk) into original product (cheese)
- Agri-environment schemes
  - Taking unproductive areas out of use
- Leave farming?
  - Dairy farmers leave the industry at the rate of one a day

# Impact of management practices on financial performance

- DuPont Expansion model FBS data 2008-2013
  - Return on sales
  - Return on assets
  - Return on equity
- Regression models FBS data 2011/12
  - Different farm characterises
  - Business management practices
  - knowledge acquisition indicators
  - Experience

# DuPont Expansion



# Business management practices

- Business planning and benchmarking have a positive, statistically significant effect on financial performance
- Size and knowledge acquisition also has a positive effect, but to a lesser extent
- The effect of ownership on some financial ratios is varied

# Acknowledgments

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# Thank You

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