What Scope for Improving Farm Business Performance?

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The title of this paper suggests not only that there *may* be scope for improved farm business performance but it also carries the implication that the *possibility* of better performance is an issue of interest, to some at least. Of course, it begs the question of *who* might be interested in this issue, and the nature of their interest, and the purpose of this paper does not extend to providing any reasoned account of the range of 'stakeholders' for whom this issue might have some relevance.

In the present context, it is taken for granted that the issue is of interest to a wide range of policy makers, because of its implications for agricultural support and for the farming industry's provision of externalities such as care for the environment. The issue is clearly relevant to all involved in the food chain, both upstream and downstream of the farm gate, since it will influence pricing policies, and hence impact on profitability, for suppliers, processors and retailers. The consumers of domestically-produced food presumably wish to purchase high quality products at the lowest possible prices, so they also should have concerns about the economic efficiency of the farming industry. And since it is not only food that agriculture produces, there will be a similar range of stakeholders for non-food products, farm diversification enterprises and so on. Finally, but clearly with a much more direct interest in farm business performance, of course, are farmers themselves who, together with their families, earn their livelihoods from the land. In summary, then, the topic is of widespread interest, and to a wide range of stakeholders.

Moreover, the issue is also of great topical interest. The farming industry currently faces considerable challenges in adapting to changing expectations from society (Turner, 2004) and, for a variety of reasons, experienced a severe economic depression from 1996 through 2001; the subsequent recovery has been far from universal or sustained, and there appear few prospects of any return to the financial buoyancy of the first half of the 1990s. We begin by looking at the most recent statistics of farm incomes, drawn from the regional results of the annual Farm Business Survey, a national study funded by Defra which provides a detailed economic insight of some 2,000 farm businesses across the country (Defra, 2004b). Table 1 summarises the results for 2002/03 and 2003/04, showing the levels of Net Farm Income (NFI) across each of the farming systems.

These survey results show that, in overall terms, the recovery in profitability which was recorded in 2002/03 continued in 2003/04, with the weighted average NFI for 'all farm types' rising 42 percent to £20,141 per farm, albeit from a very low base. This compares with the nadir of £7,000 in 2000/01. However, the findings also highlight a considerable variation across farm types, with 'cereals'

farms achieving a doubling of NFI (from *very* low levels two years earlier) while on 'cattle and sheep (LFA)' farms NFI fell by a third. 'Dairy' farms recorded a further successive increase in NFI, despite continuing problems in the dairy processing sector, both nationally and regionally

Table 1: Changes in net farm income in Southwest England (Exeter province), 2002/03 and 2003/04

Farm type	NFI 2002/03 £ per farm	NFI 2003/04 £ per farm	% change
Dairy	18,689	26,428	*41*
Cattle and sheep (LFA)	15,430	10,195	*-34*
Cattle and sheep (lowland)	5,753	8,373	*46*
Cereals	16,109	33,148	*106*
Mixed	10,515	11,180	*6*
All farm types (a)	**14,187**	**20,141**	***42***

(a) Excluding horticulture

While the continuation in the economic recovery in agriculture is clearly good news, in the light of the challenges faced by the industry over the coming years, the average NFI in several sectors leaves little room for comfort given the likelihood of, and recent experience of, greater fluctuation in incomes year on year. Particular challenges during the next couple of yeas, which impact directly on NFI, include the need to adjust to a new system of agricultural support under the CAP following the implementation of the Mid-Term Review (Lobley and Butler, 2004) and the introduction of a new agri-environment scheme. It can still be argued that this level of income falls short of the levels of return needed for long term economic sustainability. It is not always understood that NFI does *not* equate with a gross wage or salary: rather, it is the surplus generated by the farm's trading to pay for (a) the manual labour of the farmer and spouse (who, together, typically provide an input equivalent to nearly 1.3 'full-time equivalents'); (b) some sort of premium for their managerial skills; and (c) a return on their investment in livestock, machinery and working capital (typically averaging about £140 thousand per farm).

With increasing recognition over the past few years that the economic challenges to the UK's farming sector were going to grow, there has been considerable

attention given to the need to improve farm business performance. Various government initiatives have included the Farm Business Advice Scheme, designed to provide a range of business advice to farmers, a comprehensive assessment of the policy initiatives required to achieve a more sustainable future for the farming and food sectors (Cabinet Office, 2002) and the encouragement of farm benchmarking as a route to improving performance, to name but a few. The latter has extended to the launch of an internet service giving on-line access to data drawn from the Farm Business Survey, making available to farmers and consultants this national resource (Defra, 2004a).

The question, then, is 'How much scope is there for improving farm business performance?' In Table 2 some comparisons between 'average' and 'top third' performance levels, for a range of whole farm and enterprise groups, chosen more or less at random from data published in the CRR's annual *Farm Management Handbook,* serve to highlight what are in some cases significant differences in performance. The point has to be acknowledged immediately that, of course, a very wide range of factors can influence a farm's results in any one year and the figures presented reflect not only differences in management (and other factors under the farmer's direct control) but also relative advantages or disadvantages in resources such as land quality, buildings, capital, and so on. Nevertheless, as anyone closely acquainted with the farming industry can testify, many farm businesses still have scope for improving their level of performance.

Identifying exactly *what* factors on any individual farm should be given attention if business performance is to be improved is clearly the role of the farm consultant. To take as an example of the possibilities for improvement, it is useful to turn to a detailed study of the business performance of smaller dairy farms carried by the authors which concluded that

> "…there is no single blueprint for high performance in dairying. Rather, different farmers with widely different backgrounds and facilities are able to develop dairy farm businesses which have first class levels of profitability" (Turner and Robbins, 2003).

Table 2: Comparisons between 'average' and 'top third' performance levels, at whole farm and enterprise levels, Southwest England, 2002/03

Category	Average Profit £ per ha	Top third Profit £ per ha	Ratio (average: top third)
Whole farm results			
Cereals & general cropping farms, over 140 ha	111	238	1: 2.1
Dairy farms, 60 – 100 ha	312	623	1: 2.0
Lowland cattle & sheep farms, under 100 ha	56	213	1: 3.8
SDA cattle & sheep farms, 120 ha and over	138	230	1: 1.7
Mixed cropping, cattle & sheep farms	137	284	1: 2.1
Category	Average GM £ per ha	Top third GM £ per ha	Ratio (average: top third)
Enterprise results			
Winter wheat	510	611	1: 1.2
Winter barley	422	519	1: 1.2
Dairy cows	1279	1617	1: 1.3
Beef cows (LFA) – selling stores	339	387	1: 1.1
Breeding ewes - lowland	284	479	1: 1.7

Source: Data from the *Farm Management Handbook 2003.* Centre for Rural Research, University of Exeter

Nevertheless the study found some common features associated with these high performing farms and these can be taken as an informal basis for benchmarking in the industry:

- Pay close attention to feed quality and ration formulation, and monitor milk production on a monthly basis;
- Adopt the selective use of external references in assessing performance, such as a (good) feed 'rep', comparative standards or a consultant;
- Monitor milk hygienic quality very closely and take corrective action if problems show up;

- Monitor compositional quality closely, and work with your feed adviser or other consultant to aim to gain price premia (subject to a simple cost: benefit assessment);
- Keep on top of the management of your business accounting to ensure invoice discounts are taken, invoicing errors are corrected promptly, VAT claims are accurate and timely and costs are closely controlled;
- Keep in touch with your milk buyer through reading all information provided, attending meetings, raising issues and taking an informed interest in market developments;
- From time to time, make the time for a strategic review of your business, thinking particularly of 'where are we going?' and 'are there a further improvements to be made?'

The study showed that most farms have considerable scope for improvements in technical efficiency, ranging from cattle breeding, feeding and rations, cow housing and management regimes, parlour design and efficiency to such pure management functions as adjusting production to gain price premia. It concluded that, in the current difficult market conditions, improvements in one or more of these areas may make the difference between mere survival (or worse) and relative prosperity.

It is beyond the scope of this paper to discuss the role of farm benchmarking in improving farm business performance. In popular usage benchmarking is the current term for farm business appraisal using comparative data from farms of a similar type, size and, possibly, tenure. However, farm benchmarking as practised in Australia and New Zealand, for example, encompasses not only information on the financial and technical performance of a business but, potentially, the review of a farm's environmental and social 'footprint'. The technique is in widespread use in both countries as a technique to improve the competitiveness of farm businesses, and is frequently driven from the bottom up as groups of farmers employ consultants to facilitate the identification of best practice. Perhaps the most important distinction between old-style comparative analysis, long established in agriculture, and modern benchmarking, though, is the latter's focus on *identifying and applying* best practice (Fogerty *et al*, 2003). One thing that is beyond dispute, however, is that many farms still have considerable scope for improvements in farm business performance.

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