Nuffield Farming Scholarships Trust ***Report***
a John Oldacre Award

Mixed farming - diversification or diversion in a global market?

by Paul Baker

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October 2010

Acknowledgments

Nuffield Farming Scholarships Trust
John Oldacre Foundation
John Stones
Nuffield Australia, especially Jim Geltch
Austrade
Matt Swain
Maureen Florido
Anne Beckett
My family and staff for holding the fort while I was away - and during the post-travel fallout.

Disclaimer

The contents of this report are my own personal views and not necessarily the views of the Nuffield Farming Scholarships Trust or of my sponsor, the John Oldacre Foundation.

Index

1. Background

My family has been farming in Suffolk for several generations and I always wished to follow the same path. First of all I obtained a BSc in Agriculture at Wye College and followed this up with a Ministry of Agriculture-funded MSc degree in Agricultural Economics. I was privileged to study alongside students from around the world and this stimulated my interest in the different attitudes taken to agriculture globally.

Before I could follow this up, however, illness in the family brought me back home. Here I stayed and am currently managing partner with overall responsibility for the 1800 acre family farming business. Cropping includes cereals, oilseed rape, sugar beet and vining peas. Maize and grass are grown for forage. A closed 190 head Holstein-Friesian dairy herd produces 1.7m litres of milk per annum. The milk is currently supplied to Arla. We have a contract farming operation as well.

I am also a director of Gipping Valley Growers Ltd, a vining pea co-operative. I represent Suffolk on the NFU Regional Milk Board and am an active member of AtlasFram Group Ltd, a farmer buying and marketing co-operative.

Our mixed farming system at home follows the old A. G. Street adage of "up horn, down corn" - meaning, of course, that if grain production was in the doldrums, one could rely on livestock farming to do well. Undoubtedly it was a very sound maxim for my grandparents' day but does it still hold good in the 21st century?

UK agriculture is going through a period of great change. The UK's whole economy is becoming ever more global - daily it becomes more influenced by factors outside the UK's control.

- So, is a diverse farming business with mixed enterprises a risk reduction strategy?
- Or is it a risk-creating strategy?

I applied for a Nuffield Farming Scholarship to raise this question with farmers around the world in an attempt to find the answer.

2. My Study Tour

I visited four very different countries on my study tour, which took place in 2006-7. (In this context I am counting Europe as if it were one country). Shown below are my general observations about each:

(a) China

China is currently the driving force behind the world economy; it is drawing in the manufacturing skills and resources of the world and making use of its current competitive advantage - cheap labour - to turn them into exportable goods. It is struggling to come to terms with the fruits of its success. Increasing internal demand for food and goods is driven by the population moving to the cities away from what was basically subsistence farming.

From what I saw of this farming, it may have been labour intensive, but appeared to be highly productive. The basic Chinese diet is very vegetable-orientated. Progress in a rural context was seen to be movement towards more focused, western-style broad acre agriculture with the local workforce given more secure land rights. These rights were tradable with the intention of freeing up labour to work in other industries while retaining them within the rural economy.

blind to the impact on the wider environment

Development rising alongside intensively grown horticultural crops

However this progress appears to be blind to its impact on the wider environment both physically and socially. For example rubbish was left piled on the roadsides. Health and Safety regulations as we know them in the UK were definitely not practised in China. The regional government put in roads and rail tracks wherever it wanted - progress was not hindered by being held to account by public opinion. China was rightly concerned about the ability of agriculture to maintain the country's food security. Government realises that, due to the vast size of the population, China must be largely self-sufficient so as to avoid being held to ransom by other nations.

It is sobering to realise how insignificant is our UK national production when compared in terms of volume to this leviathan. But, nevertheless, China viewed the UK as an important source of innovation.

(b) New Zealand

This afforded me the opportunity to view an agricultural industry that had already gone through major support reforms. It has been fully exposed to the global market without having support mechanisms to artificially influence business decisions.

It was refreshing to meet farmers who felt masters of their own destinies. However they felt restrictions on the free flow of cheaper labour were often a significant restraint. So was the ability to source lower levels of management. Major restructuring had occurred, and was ongoing. But farmers were enabled to move from one enterprise to another relatively painelssly because capital expenditure on any type of farming is famously low in New Zealand.

Farmers felt masters of their own destinies

But in their efforts to gain entry into higher value or more developed markets, New Zealand farmers were exposing themselves to the need to invest in arbitrary environmental controls. For example dairy farmers in South Island were being required to invest in capital intensive dirty water storage systems across the board even though, in certain geographical areas, these were not strictly appropriate. It was horribly familiar. Capital expenditure was becoming mandatory, even though not always necessary in individual circumstances. The result would be that farmers were locked into their current sector of the agricultural market.

It meant that New Zealand could be on the verge of squandering what had become their competitive advantage, namely running efficient streamlined businesses in the global economy.

(c) Australia

The majority of my time was spent in the southern States, primarily Victoria and Tasmania, with a fleeting visit to South Australia and the Northern Territories. The physical environment of the places I went to in the southern half of this vast country was in general very similar to the one I was used to at home, but was currently suffering considerably from a drought. I saw various systems and business structures along with the strategies currently being adopted to cope with the difficulties raised by this drought.

City money supported by tax breaks

A short trip to the Northern Territories enabled me to view businesses operating in a totally different environment - both physically and financially - than anything I was used to. For example private equity firms were getting involved in agriculture and this was having a major impact. Large businesses, supported by tax breaks, were being started up on virgin land, thus resulting in subsidised production. Existing businesses in these markets were having to react to compete with this situation. Short term it has driven down prices to the consumer. The question arises: *who will pay to rebuild the market from these low levels when the corporate investors move on to something else?* It will be interesting to see what effect the recession of 2008-9 will have on this corporate fiscal strategy - if profits are not there, will the City investors still have tax breaks to "lose". Ultimately will this impact on agricultural development in the Northern Territories?

City money developed large intensive enterprises

Again labour was an issue with the intensive agricultural sectors surprisingly dependent on a supply from other countries. Backpackers supplied a large proportion of the cheaper sector of the market.

(d) Europe

I had a few whistle stops round France and the UK. Attendance at the European Dairy Farmers Conference in Slovakia gave me an insight into the new accession states. Scale was on show. Yet I felt that there were parallels with China. There were extremes in both business size and in the distribution of wealth among the population. A lot of EU-funded restructuring support has gone into agriculture, with capital grants in the region of 60-70%. This has activated dramatic increases in productivity.

In the older Member States livestock enterprises have been under pressure with falling output prices. Very few farmers have achieved viable returns in the commodity end of the livestock market. Generally there has been a movement towards specialisation and intensification of livestock production due to the high price of land.

However, environmental restrictions are beginning to bite and the cost of raw material is increasing. This has seen a resurgence in trade and interdependence between livestock and arable businesses.

> Environmental restrictions beginning to bite

Investment in Europe had been geared towards regulatory management which had not helped the costs of production.

I did not visit many businesses where some short cut with the legislative requirements had not been taken at some point in its development. The UK farmer takes a more compliant view of legislation. Farmers in other countries I visited were less inhibited.

In all the countries I visited I observed that, when the owner-manager was the driving force behind the success of an enterprise, this clearly was not transferable on the sale of the business. The value of the business in that case was the manager.

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The really "fun" bit of a Nuffield Study Tour is visiting leading farmers in various parts of the world. These visits provide the mental pictures that stay in one's mind long after the travelling is finished.

So I will now detail some of the more instructive visits I made to individual host farmers whilst on my study tour.

3. The Case for Diversification

3a. Ian and Diana Mackenzie plus son William, Akanui

The Mackenzie enterprise, situated in the legendary Canterbury Plains, consisted of grain, horticultural crops, vegetable seed production, sheep and a contract combining operation. This was surely husbandry at its very best.

The primary income stream was wheat, roughly 1,000 acres. Ian was achieving a staggering 11 tonnes per ha. Most of this was exported via a contract with a New Zealand mill and went into the milling market. A smaller proportion of the grain produced went for seed. He also produced grass seed.

Husbandry at its very best

The vegetable seeds operation was complex but Ian preferred growing for seed rather than commodity cropping. He was growing pak choi, red beet, borage and experimenting with other minority vegetables. At the moment only small acreages were involved and he admitted that these caused headaches. His primary aim at this moment is to grow these small plots as a "pump priming" exercise to see if worthwhile producer contracts follow.

The arable enterprise was complemented by a large sheep operation. But Ian emphasised that sheep had to fit the arable rotation, not the other way round. His normal route was to buy 1,000 broken-mouthed cull ewes from the foothills in the autumn, winter them on grass stubble and lamb them on new leys. The ewes would then be sold off at dates that depended on the feed supply available and - most importantly - the necessary timing to enable the grass stand to be closed off to promote optimum flowering for seed production. Ian suggested that the only extra cost of the sheep operation was buying in fertiliser to flush the autumn grass.

But Ian was always prepared to be flexible with his system, depending on the amount of grass he had available. For example he had just bought a whole load of store lambs at market and was going to carry some of the previous year's ewe lambs on to next year. This alternative needed more capital however. The cull ewe route was a lower return/less risk choice. Ian felt that sheep gave a good return on capital invested but his wife was not so sure.

The labour used on this absolutely top notch farm was 1 man full time, plus 1 part time in winter and 2 harvest students. Son William is now running a contract combining business. This covered all the home acreage plus another 2,000 acres on contract. Would-be customers for this business were taken on with forethought to enable the longest possible season for the combine machines. The topography of the Canterbury Plains is such that the progression of harvesting can be well spread out, albeit the distances involved were comparatively small.

3b. Greg and James Carr of the Carr Agricultural Group

Carr Agricultural Group laid its foundations in the late 1970s when Greg Carr and his wife Glenys began working as baling contractors and farmers at Tinwald on the Canterbury Plain. In 1991 they established Agrifarm Machinery Ltd, a service and repair company that filled a gap in the market. Five years later they took on the Landpower Ashburton franchise and these two companies together sell, service and provide parts for some of the top brands of farm machinery in the world, servicing clients throughout the greater Canterbury area and the West Coast of New Zealand.

In 2000 they bought Winslow Feeds and soon became a major supplier of stock feed and seeds to South Island. Meanwhile the original contracting business continued to grow and thrive.

Vision extended still further

Greg Carr's vision was to become one of the leading suppliers to the agricultural community. Having achieved that he has extended his vision still further and now additionally aims to nurture and therefore fortify the future of the agricultural industry in New Zealand. To him this means people training. The Carr Group Institute develops people already in the industry plus it aims to bring in the young and enthusiastic who wish to work within it. It is a very practical training programme, providing practical experience and guidance, specialised on-job training, and certified apprentice schemes. All this is done while the "student" is still working.

The Carr story is diversification on a mega scale, a business development that few baling contractors could ever even dream of. The Carrs have major concerns, however. They worry over the increasing average age of their key staff and find that youngsters lack staying power. They feel it will be difficult to run the business when the current key staff retire. Hitherto the Carrs have relied on family succession to direct the business but this will not be adequate as the business grows.

The probable exit strategy therefore would be to sell off the individual businesses separately as and when circumstances dictated.

As a side comment Mr Carr voiced his concern that dairy farmers as a group were over geared.

The Carr story is visionary and hitherto has been a live demonstration of extraordinary success. But the strength of the business is undoubtedly totally personal and lies within the directors and management.

3c. Eric Watson of Rangitata Holdings Ltd

Still in the Canterbury area I visited Eric Watson at his Rangitata Holdings Ltd. Eric farmed heavy clay land and he was experimenting with unusual crops.

Talking chicory with Eric Watson, a very switched-on farmer

He grew chicory (Whitlow blue) under nets because birds were a problem. He was progressing to field scale production. Chrysanthemum was grown for seed - not for growing new plants for the floristry market, but instead to be used to produce a very young crop to be eaten in salads.

He grew maize on contract for seed and hybrid radish also for the seeds market. His operation was diverse and he said his philosophy was to grow "whatever fitted in". This casual attitude belied a very switched-on farmer.

3d. Paul Balcock in Tasmania

Paul was the son of a dairy farmer but enjoyed face to face interaction with the customer. As a result he felt that commodity agriculture was not for him and was now specialising in fruit growing.

Cherries are his passion

Of Paul's 600 acre holding some 250 acres of grassland were now let off to a neighbouring farmer at $AD 170 per acre. Paul also runs 150 stores to graze off vegetable crop residues and he may expand this. He has 4 full time staff (1 in his farm shop, 1 on the vegetables and 2 devoted to the cherries) plus 60 casual pickers in season.

His passion is 25 acres of cherries, numerous varieties, marketed on taste to local customers from his Cherry Shed retail outlet. Cherries don't ripen after picking. Supermarkets demand picking at an early stage to help shelf life and reduce damage but this severely affects eating quality. Birds are now a minor problem to him as he employs a shooter 3 weeks before the crop is ripe. Two hours in the morning and three hours in the afternoon is enough to create a no-fly zone. Starlings learn to keep away but blackbirds are more cunning.

Paul raises his own cherry whips and it takes 5 years to get a decent crop from the young tree. Rain is the major hazard to cherries at the ripening stage, it makes them split. Fungicides are needed via airblast sprayer to correct the problem. His pickers go over the crop only once and the crop is then graded. Split cherries go into the retail outlet where his customers are not concerned about the problem provided there is no additional mould. Third parties process his cherries into pies, jams, ice cream, wine, port liqueur, dessert toppings and cherry apple juice. To Paul, juggling prices and making special offers all adds to the fun.

Juggling prices added to the fun

He also grows raspberries on contract. His part of the bargain is soil preparation, spraying, fertiliser and irrigation. Other crops include 40 acres of potatoes, 25 acres of dwarf beans, 100 acres of pyrethrum, 30 acres of alkaloid poppies, 25 acres of onions and some morphine. Winter wheat provides a break.

He is in fact starting to grow raspberries for himself, to sell in the farm shop to extend the (currently) limited season. The next plan is to introduce a coffee shop and extend the farm shop further.

As a general observation about Tasmania, businesses there appear to change rapidly and more regularly than do European businesses. There is simply less red tape in the country, and farmers can get on with land improvements without long waits for permission.

3e. Philip Gall, Elm Park, Nallinga

One of the happiest farmer I have ever met

Philip was one of the happiest farmers I have ever seen. Yet when we met up he was looking at failed wheat and canola crops - caused by late frosts and drought. Even so he had managed to obtain a return on his crops by turning them into forage. He had fed this not only to his own starving sheep, but also to those of his neighbours as well. By being able to sell his sheep well - the market for sheepmeat being good due to scarcity of quality product - he had actually managed to turn his failed wheat and canola into a profit.

But, being a canny operator, Philip was now looking further ahead. While his neighbours had decided that it was clearly time for them to move from sheep into cropping, he planned to keep many more sheep himself. There will be a big shortage of breeding hoggets in the next year or so, he predicted, and he would be ready to supply them.

4. The Case for Specialisation

4a. Five Star Beef Feedlot and Canterbury Meat Packers

Both these companies are owned by ANZCO, a Japanese company which has extensive investments in the New Zealand food production/processing industry. However I am concentrating on Five Star Beef Feedlot which has its own agenda and profit centre within the corporation. As such it is a single-enterprise venture with a vengeance.

benefit of an assured market

However it enjoys the invaluable asset of having an assured buyer: its sister company within the ANZCO Group, Canterbury Meat Packers.

I met on site with Alastair Thomson the feed procurement manager. The feedlot had been built to house 20,000 beasts but there were only 16,419 cattle at the time of my visit. In reality the facility is never completely full because of the nature of batching. The Feedlot consists of just the site of the buildings involved. It does not comprise any farm land at all.

So it buys in store cattle - mainly Angus - from farmer suppliers. The animals are weighed on arrival and the farmers are paid for that weight. All feed is also bought in and this consists of:

52,000 tonnes of cereals per year (wheat and barley)
Maize silage
Rye and barley straw
GMO-free soya beans

The maize and cereals were grown locally on contract. Farm yard manure was returned to the maize growers (and demand exceeded supply). A condition of supply stated that the fym had to be incorporated within 24 hours because of the smell issue. This issue could obviously backfire on the Feedlot. Liquid waste was pumped out to local farms at night and the smell issue here was not so noticeable. Five Star Beef appoints local resident representatives to report back to the management on any issues.

This enterprise had the benefit of an assured market with its sister company within a large plc Group. The number of issues the management had to concentrate on was more limited than if it had been a multi-product company. However the issues that *were* involved were obviously magnified due to the colossal size of the operation.

P.T.O.

4b. A large New Zealand Dairy Farm with a syndicate of owners

This was a flying visit *en passant* with my host Greg. The dairy business had been developed from a greenfield site over the last 5 years. There was a most telling statistic: land value 5 years ago had been $NZ1,500 per acre. Now the farm had the benefit of a Fonterra assured contract, this had risen to $NZ30-35,000 per acre. That is not a misprint and I thought it worthy of record.

4c. A large South Australian Dairy Farm with multi-ownership

The working partner/manager and his wife moved onto this bare land site 9 years ago and now run 1800-2000 milking cows, maximising returns per litre and per hectare. Another couple have equity in the cows, although they are thinking of getting out which is creating uncertainty. There are 3 managers on the farm, one for the herd, another for cropping and the third is machinery manager.

2,000 cows
in milk

The cows are milked on a 116 stall rotary parlour, and there are 2 block calvings in the year. 500 cows calve February-March, and the other 1,500 in August-September. This means that there are a minimum of 800 in milk at any given time and up to 2,000 in the period end September-Christmas which, of course, is their spring. His farming is very dependent on water and, if drought conditions strike, he can dry off and destock if necessary, sending the animals to some land he owns further north.

The cows were Holstein and milked 3x a day with a herd average of 9000 litres and a replacement rate of 30%. The farmer buys in canola, brewer's grains and potato waste and grows a proportion of his own cereals. The majority of the rainfall is between April-November. His chalky land is naturally dry and he puts plenty of cocksfoot into his leys. He found there was a 30-50% difference in the grass produced if the cows were kept off a paddock for at least 14 days as opposed to their returning within 7-14 days. 450 of his acres were irrigated by 8 centre pivots, one of which was used for the maize crop.

I couldn't help wondering why this partnership had chosen to dairy-farm at this particular spot, when neither topography, environment or access to market gave them any competitive edge.

4d. Kane Younghusband, Melon growing at Mataranka

I was now in the northern part of the Northern Territories, an area that has seen a lot of agricultural development in the last two decades. In fact the land

I came to see on this visit had only been cleared 5 years ago. It was devoted to melon growing.

The property extended to 5,000 acres of which 500 acres were planted to melons of various varieties, producing up to 8,000 tonnes p.a. The crop has a 20-week planting cycle, with a pre-agreed plan of supply for supermarket customers set 6 months ahead with the melon producers in the area. The price, however, is not set until 2 weeks prior to sale. The supermarkets took half the crop and the rest went to wholesalers. There was little or no export market - the melons were all consumed in Australia.

Constant pressure to get bigger

There were several specialist melon growers in the area and the only way they could gain competitive advantage was by creating economies of scale. Hence there was constant pressure to get bigger. This however caused its own problems. "If you are too big you can swamp your own market. At the same time, getting too big causes loss of attention to detail as well," Kane told me.

For labour in this isolated and devastatingly hot region the growers had to rely on backpackers. The turnover of primary staff was bad and any younger people with an interest in machinery operation got sucked into the mining industry. "Don't care about skills, these can be taught. Character is the important thing," was Kane's philosophy.

He further advised that the employer should not move an inch on discipline. Staff sacking was a skill in itself, he said.

It was obvious that a great deal of attention was paid to sheer husbandry, and particularly to fertiliser techniques. No less than $AUD2,500/ha of fertiliser was applied to these melons.

Outside direct economics the major factors of success in this business were staff, marketing, and getting the trucking issues right.

But Kane advised "Make the most of the opportunity when markets are depressed as this gives an opportunity to supply when competitors have become despondent and taken their eye off the ball". Melon growing is such a precise and detailed art that, if the grower's attention is anything less than 100%, both production and quality quickly fall.

P.T.O. for another farm visit in Northern Territories

4e. Peter Marks at Ballongilly, Northern Territories

I was still with fruit production but this time the crop was mangoes. Peter Marks was one of three brothers who were originally farming together. One had now left the industry and the second brother couldn't abide the continuing labour issues and so had converted the southern part of the holding into a sheep and low labour cropping system. This left Peter concentrating on the mango operation with his wife. He had needed to pacify her too - she complained of how long and physically hard he had worked in his 20s and 30s - so now at 50 he had concentrated on mangoes, with a few rock melons, to create a simpler system.

Labour the major issue

He had been at Ballongilly since 1983 and had 20,000 trees, with 4 permanent staff, 2 hired men, plus him and his wife, and all were kept busy. His unit was built to achieve economies of scale but he warned that these were not achievable with only one manager. Otherwise attention to detail and control was lost.

Labour, just as in the UK horticultural industry, was the major issue here. The Northern Territories have a 2.4% unemployment rate, almost exclusively from the aboriginal population, and pay out a lot of money in welfare. Yet labour has to be sourced from the backpacker market. If a backpacker works for 3 months in the rural Australian economy he can then get a visa for a further 12 months' travel in the country. Workers on the packing lines were generally worth their minimum wage because they could be more easily supervised. than those who were pickers. It was a bigger problem to get one's money's worth out of the latter. Peter was always loathe to sack, however, because of the difficulty of finding replacements. His untrained staff led to all sorts of minor disasters - unchecked oil levels, broken gateposts etc. Better staff were attracted to mining which pays $AUD50,000 p.a. as opposed to the $30k which is all the horticultural industry can support.

Peter discussed management investment schemes which in practice provided a tax break for external corporations. It worked out well for forestry, argued Peter, but was not good for agriculture. The net effect was to push labour costs and land prices up but, in the long term, will push product prices down. It was these management investment schemes that constituted the long term threat to the horticultural industry.

It was a story I was to hear time and time again in the Northern Territories.

4f. Graham Beech, Northern Territories

Graham was getting out of melons and concentrating on growing other cucurbits instead. The term "cucurbit" was a new one to me but apparently it covers cucumbers, squashes, pumpkins and melons. He was planting under plastic and also employed cover crops of millet and cow peas which promoted a massive organic matter buildup. Graham was not concerned with the effects of mono-cropping as yields were going from 30 - 40 - 50 - 60 tonnes per acre over the past 5 years. Disease control was greatly helped by improving the structure of the soil.

The risk came from Government fiscal measures

Despite superb husbandry his business was at risk from over supply of the market. This was not so much from fellow farmers in the same category as he was himself; he could compete with them on a level playing field. The risk came from Government fiscal measures which made it possible for private equity backed businesses, actively seeking to secure a tax break, to enter his market.

5. My observations on Mixed versus Specialism

In the preceding chapters I have given you a few examples from the many farms I have visited where either mixed and specialist practices were followed. I would now like to collate my observations, garnered during my study tour.

In terms of specialist operations I was privileged to see intensive dairy systems in all the continents I visited. Into this category too came mandarin orange orchards in China and mangoes and cucurbits in Australia.

On the other hand it was difficult to find many businesses that had achieved any scale with mixed cropping and livestock under the day to day direction of a single manager/owner. This highlighted to me the difficulties that come with trying to be a jack of all trades. Mixed operations have been made much more difficult to manage due to the increased legislation farmers have to deal with today.

All businesses are dependent on information. The interpretation of this information will form the basis of decisions that then direct the choices made for the business. These streams of information are generated from :

- the natural world (e.g. husbandry, botany etc)
- the resources available to the business
- and the restrictions these and legislation place on our businesses.

The limit of a manager's ability to cope with these streams of information will be reflected in his ability to manage complex business structures. With a diversified business you need to sift through so much more information. To be successful a diversified business needs:

- the right people (earning potential outside agriculture is driving people away).
- targets/mission plus vision
- business control
- constant revision and reassessment

On my travels I noted that the successful capital-growing businesses are specialising in only a few sectors, albeit with great risk, but they are big enough to deal with the supermarkets. Older businesses often diversify their risk by no longer focussing on a single goal. But there is often a problem when separating a business into different component parts, because of either economics or succession. The latter is often a problem because the success of the original business is down to the manager driving it. Subdivide the business, thereby requiring several extra managers, and the whole thing can collapse because it has not been possible to replicate the calibre of the original sole incumbent.

Specialism is one way for individual farming businesses to grow but, on an industry-wide scale, it is questionable if it is sustainable. Agricultural production is not a closed loop. Customers' needs have to be met. Of recent years supermarkets and large scale producers have simply got bigger and bigger. Business costs have decreased, but the downside is loss of the customer's support. But trying to revert to older methods of agricultural production is then difficult because often the traditional resources and skills have been lost and/or diverted, and it takes time to correct the situation. In the meantime increased legislation discourages re-entry : the more complex the legislation the more difficult the return.

For a market to work there will always be periods of surplus and deficit. If the market in question is food, a deficit means famine or malnutrition is some part of the world. If farmers are successful in feeding the world plus a wee degree over demand, commodity returns slide drastically. Agriculture will always cause problems while there are GATT inequalities in the treatment of farmers in different countries and while trading blocks are in operation.

During my travels I was able to observe at first hand examples of the risks that specialists take. For example implementing a crop rotation that was too short, or even no rotation at all. But a young growing business has to service its balance sheet requirements. I was fortunate to meet both those who had succeeded and those who had not. Those who succeeded grew, and had picked themselves up after setbacks. Those who had not succeeded had moved on and gone elsewhere. A longer established business can operate on a lower return for some time. But this builds up problems in the long run and the business is weakened because of the failure to take a short term gain when it was available. Opportunity seldom knocks twice.

I found Australian and Kiwi farmers very open to change both themselves and their modus operandi. In the UK farmers appear shell shocked by the imposition of continual changes and wide fluctuations in prices. Forward budgets can look perfectly promising but, even though predicted yields have been achieved, end results have been massively affected by commodity prices. The prices of *input* commodities traded on the world market react quickly.

However there is no standard reaction when it comes to the price of farm *outputs*. Wheat and oilseeds change quickly in line with world movements, but liquid milk does not appear to react to the same stimuli. Buyers well understand that dairy farmers are in a weak bargaining position because the major dairies have "divided and ruled". Also, the cycle of a cow from birth to parturition is a long one and builds inertia into the system. Some UK dairy farmers do not have the option to change their buyer because only one is available in that area. Transport costs impinge heavily on the dairy farmer.

The beef industry is calling for baby calves but it does not want the crossbreds born to the most prevalent dairy breeds. The reform of agricultural support has made many suckler units unviable, while at the same time environmental schemes are beginning to struggle to find the grazing animals necessary to maintain the landscape. Where in earlier times profitable production kept the British landscape looking good, the tail has now started to wag the dog.

Escalating feed prices, pushed higher by diversion to biofuels and power station usage, has made intensive finishing economically questionable. Certainly at today's beef prices it is a challenge to intensively finish a dairy/beef cross animal and show a profit.

There are pressures in the milk market for a level supply through the year. Yet increased reliance on chemical products and veterinary intervention to help achieve this would not be any more acceptable to the consumer than is the practice of disposal of newborn dairy bull calves.

My observation is that single interest businesses are more profitable. But offshoots utilising by-products and catch crops work well where they are simple and easy to manage. Longer established businesses are often observed to break right away from their simple model and speculate outside their specialism.

A secondary enterprise now requires to be proportionately bigger than was hitherto thought to be the case, because it needs to generate a larger income to pay for the management to run it.

Single Focus Businesses

- Businesses that are focussed single-enterprise operations are the ones that are growing rapidly. These are often operated by owners with a smaller proportion of equity, with higher borrowings, but often without the security of much collateral in land ownership.

- Single enterprise businesses are inherently more susceptible to market influences. The monitoring of such businesses should be simpler. However the investor has to be willing to react more quickly as the competitive advantage disappears.

- Entrepreneurs involved in single enterprises are much more likely to take risks. Large businesses flooding their market with high volumes of low margin goods can become victims of their own success.

Diversified Mixed Businesses

- Complex businesses are generally more stable. A change in management or ownership affects them less. They are more likely to have a degree of autonomy in each segment already. This means that each segment probably has the ability to manage itself at least in the short run.

- It is often a disadvantage for the primary decision maker to be responsible for the management of all the enterprises. This situation often occurs where surplus resources have been used within a complementary enterprise to generate further income with little expenditure. When slight changes to a simple model have become a speculation in a new enterprise this can cause problems and/or create a diversion from the main income-generating part of the business.

- Internal transfers of goods and measuring the performance of the business is often its weak point. It is easy for one enterprise to be supporting another because the transfer values and allocation of costs were inaccurate. It may be possible to find a market that can be used to gauge such values. However, it is often left to the manager to set them. It is not only a problem in agriculture, other industries where individual businesses combine different facets such as transport, production and retail, are affected. Controlling this itself adds an extra layer of costs to a business.

- A mixed business has the ability, in the short term, to offset losses from an underperforming enterprise. Two single-enterprise businesses trading goods would not be able to offset losses from one business to the other.

Observations in common

- As land prices increased, so did intensity of production to try and reflect the changed value.

- Refinancing and investment opportunities based on tax favoured instruments can attract external corporate players. This can lead to a supply of goods which are below the production costs of other unsubsidised producers.

- Flexibility is strength whatever the business structure. Large returns can be made by innovators within a market. These returns are commensurate to the risk involved.

- The way that the UK is hemming in its operators with rules and regulations is of concern. Parallels can be drawn with world trade and protectionism. Once barriers to entry into an industry are put in place it is difficult to remove them. They can normally only be removed or rationalised as a result of shocks or crises.

- Where the owner manager is the driving force behind the success of the business, this is not transferable when the business is sold. The value of the business is the manager. It can happen, in such a situation, that a naïve investor comes along and buys the business at its full valuation. It is then sometimes possible to buy it back at a discount when the new management has failed!

- Most new businesses take a short cut with legislation at some point in their development.

6. CONCLUSIONS : Is Mixed Farming a Diversification or a Diversion in a global market?

1. Even when judged on financial grounds alone I cannot come up with a definitive recommendation.

2. Much depends on the personal goals of the decision maker and these must always be taken into consideration when making choices. Anything is possible, but at a cost. One need to be aware what that cost is, and it may not be a financial cost.

Anything is possible, but at a cost

3. Faced with falling returns, farmers are increasingly going to restructure their resources and move production into another area.

4. Where a business has assets that are not flexible over the short term (e.g. dairy farming with the long maturity cycle of the heifer calf) mixed farming offers potential benefits.

5. Diversified businesses cushion the market impact of financing a capital investment made into just one of the sectors. This gives the overall business more time to react to any consequences while the investment is being paid off.

6. Increased legislation coupled with the constant squeeze on margins mean that the size of enterprise needed to generate the income required to manage it, plus generate a profit, is increasing all the time.

7. Where mixed systems cannot be achieved, agreements between separate businesses to share market risk can offer some financial security. But they do require trust and confidence in your trading partner.

8. If you want to grow rapidly, specialise. Be willing to move on. The key is to know when to get out.

9. However if you are unwilling to move as rapidly as the market, then mixed businesses give a certain degree of stability. Be aware that this is only a strength if your markets are likely to rise again after any fall. If a market fall is going to be permanent then you are trapped in a position from which it is very difficult to exit.

10. I believe mixed farming still offers more security for established business where asset maintenance is the goal. This is true whether the business is within the control of one management structure or as a joint venture.

11. Less complex business structures offer more flexibility and can more easily achieve faster asset growth.

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7. After my Study Tour

- I have certainly learned that anything is possible - at a cost. Only you can decide what cost you are willing to bear or pay.

- On my own farm, since my study tour, vining peas have come out of the equation - we have decided to wind up our local cooperative as we can no longer produce profitably at current market levels. Fortunately the farmers involved were all able to get out and seamlessly divert the assets of labour and capitalisation to other enterprises, in my own case re-entering the sugarbeet market.

- The enforced change of buyer for our milk has had a less happy outcome, and not just for ourselves. But I shall be doing my utmost to retain my dairy herd for the time being at least, and build a relationship with the new buyer.

- But I know that nothing stands still.

Paul Baker
October 2009