

**Nuffield Farming Scholarships Trust *Report***  
**an Alan and Anne Beckett Award**

# **DIVERSIFICATION :**

**failure to prepare ....  
is preparation for failure**

*by Andrew Gage*

**Andrew Gage N.Sch**  
Board Barn  
Helions Bumpstead  
Haverhill  
Suffolk CB9 7AT

tel : 01440 731760  
mob.: 09799 222884  
email : [andyg125@hotmail.co.uk](mailto:andyg125@hotmail.co.uk)



# CONTENTS

	page
Introduction	1
Outline of my Nuffield Study Tour	2
<b>STEP ONE : Analyse your situation and circumstances</b>	
a. Personal Motivation for diversification	3
b. Why diversify?	4
c. Failure is not a dirty word?	5
d. Recognising symptoms of trouble in your business	6-7
- Your Staff	
- Financially	
- Yourself	
e. Securing your core business	8
f. Establishing your personal aims	9
<b>STEP TWO : Developing your business</b>	
a. Selecting an Enterprise	10
b. Case studies of High and Low Cost enterprises:	11
- Pea and Poop	11
- Truffle Farming	12-13
c. Buying into developing industries	14
d. Assessment of developing industries	15
e. Keeping your head in the sand! – lessons from Ostrich Farming	16
f. Pioneering a new concept	17
g. Developing your product	18
h. Locating alternative opportunities	19-20
i. Business Planning	21
Conclusions	22
A personal bit ...	23

## Disclaimer

The views expressed in this report are entirely my own and do not necessarily represent the views of the Nuffield Farming Scholarships Trust, or of my sponsors, or of any other sponsoring body.

This Nuffield report has been prepared in good faith on the basis of information available at the date of publication. The Nuffield Farming Scholarships Trust will

not be liable for any loss, damage, cost or expense occurred or arising by reason of any person using or relying on any information in this publication.

Where products are named by proprietary or trade names no endorsement or recommendation is implied. Other products may do as well or better than those specifically referred to.

# INTRODUCTION

I was not born into farming but came into it after growing up in the commuter towns round London, eventually to take over my grandparents' farm at the tender age of 21.

At 16 I had left home and moved in with my grandparents on their farm in Helions Bumpstead, Haverhill. As a young farmer on a 130-sow Pig farm with 300 acres of arable land, I learnt mainly how to operate a power washer, and all about the various types of manure that pigs can produce. Thirteen years later I am still on the farm, but the farm has changed out of all recognition. I still operate a power washer and I have learnt there are many more types of manure than seven!

I have diversified the farm – a fifty box livery yard, a duck farm producing 60,000 meat ducks a year, private storage, commercial and residential property, equine fencing and contracting and a double glazing business. I also spent two years trying to develop (rather disastrously) an indoor Tilapia fish farm.

I have an unusual (but thoroughly rational) attitude towards farming. IT HAS TO PAY! I cannot live on fresh air and lifestyle. It's funny how often I hear farmers say "I cannot take the risk on that investment, it's not secure". But they will spend the next year planting and nurturing a crop, for which they have no control over the costs of production, the weather, or the final sale price! So farmers do take risks all the time.

With this report I will (hopefully) point out ways to reduce the risks of your investments, both present and future, by learning from the lessons of others. Hopefully I will also inspire you to look for what else is out there!

This report is for myself as much as for you; it is a self-help 'book' in the purest sense. I have written it not just to help



myself (thank you Nuffield!) but also to help *you* to help *yourself* run your business better and stronger whatever the future may hold.

I have experienced success in some diversifications and also failure in others. I know that I am a stronger businessman and farmer as a result of these experiences. I don't know if I could have learnt these lessons without experiencing some failures, and - it may sound strange - but I don't know if I would have wanted not to have experienced these failures! My accountant told me, after we had calculated my £150,000 losses on the tilapia fish project, that it was a lesson that would be worth every penny to me!

Through my Nuffield Farming Scholarship I have travelled across various countries and met many farmers and entrepreneurs, each of whom has experienced different problems within their own businesses and has dealt with them in varied and different ways. These lessons I have tried to collate in this report. It is down to you to apply them to your own position.

I have taken the pain. I hope you get the gain!!

# OUTLINE OF MY NUFFIELD STUDY TOUR

During my Nuffield study tour I visited two countries: South Africa and Australia.

I started my tour in January 2009 by visiting South Africa. My thinking behind this destination was that, if I wanted to visit farmers who had been forced to overcome obstacles, who better to talk to than farmers who had to cope with a difficult climate both political and environmental, and a limited export market? This forces farmers and entrepreneurs to closely identify the needs and demands of their local markets, something we are really only just starting to learn in the UK. It was a very interesting country to visit with its diverse cultures and environment.

I chose Australia as a second study country as it has a very similar market to that in the UK. The population has a similar lifestyle and aspirations to people in the UK. Also, I had seen a concept in South Africa that was being heavily developed in Australia, so a trip there allowed me to investigate this opportunity further.

I was not disappointed in my choice of venues. They provided me with far more potential interviewees than I could possibly get around to seeing in the time I had available.

During my Nuffield travels I saw approximately 50 different businesses, ranging in scale from a £5 start-up to £50 million. Interestingly profit margin does not always correlate with the level of capital expenditure employed (Cap-Ex) at

the start, though the scale of the profit normally does!

Being so far from home gave me a perspective which enabled me to see that certain principles are common to all potential diversifications and entrepreneurs. They can be applied whatever the subject of your new business.

They are even more useful when applied **before** you have an actual idea in mind.

They should **certainly** be applied before you commit hard cash.

In this report I will list these principles under two headings:

- **STEP 1** : Analyse your situation and circumstances.
- **STEP 2** : Develop your diversification (or new business)

The genuine entrepreneur is so anxious to get started with a new project that he/she often ignores the critical research phase prior to committing to a project. This inevitably leads to future problems.

Remember to exercise self discipline. I am learning to recognise the signs when my own enthusiasm starts running out of control - and know I must curb it forthwith!

# STEP 1: ANALYSE YOUR SITUATION and CIRCUMSTANCES

## (a) Personal Motives for Diversification

I asked every farmer I met what motivated him/her on a daily basis. I got various answers but there was a common theme:

- Return on investment.
- Passion for the outdoors
- Maintaining family land
- Job satisfaction
- Customer satisfaction
- Fear of failure
- Boredom
- Social improvement

I also saw many examples of farms which could develop more but, for one reason or another, did not or would not. For example:

- If over 50 they felt they were too late to change!
- Waiting for future development potential
- Dislike of general public on their farms
- Uncertain political climate (i.e. land reforms in South Africa)
- Skills shortages – or Attitude shortages
- Commitment Phobic
- Under-capitalized/overstretched financially

### Example

I visited a small dairy farm with a farm shop and deli in the eastern cape of South Africa which was struggling to remain viable. The husband and wife were very tied emotionally to dairy farming. However, the land was very marginal and the herd small.

The saving grace of the property was that it lay just 1km off the main tourist route and so attracted a lot of passing trade. The owners had been approached in the past by coach tour companies wanting to bring coach loads of tourists every day to see the milking and visit the farm shop. But they turned it down as they did not think that they wanted to be so busy, nor did they want to put in the additional infrastructure necessary to cope with the volume - they were not committed to the success of the project.

**The lesson from this is that you can't have a successful diversification without having to accept some change to your lifestyle. You need to be 100% committed to a project before you start.**

## STEP 1: ANALYSE YOUR SITUATION and CIRCUMSTANCES : contd.

### (b) Why Diversify?


Erich Jacobs, a South African Brassica grower, put it best to me when he said that:

*'Agricultural business is like a table. The more legs it has, the more stable it is.'*

The multi-layered business can survive many more hardships than an enterprise reliant on a single income stream.

For example:

'Puffer' Hartzenberg of Bushy Park Farm, Port Elizabeth, South Africa, runs a 600 cow dairy herd and has also developed a milk and yoghurt processing plant for his and all the surrounding dairy farms supplying the local supermarket chains. Having a foot in both production and processing allows him to have a certain amount of cross compensation. When the milk price is low he gains in the processing, and when the milk price is high his milking operation pays well.

Many farmers are stuck in a rut chasing large orders from supermarkets who prescribe stricter and stricter regulations. Erich Jacobs penned the following very true essay, which sums up the position of many farmers and agri-businesses. 

#### ***"The farmer and the retailer***

*"Once a farmer is held captive by a retailer, his or her attention moves away from being competitive in the marketplace and building the brand, to chasing the order. The farmer is locked into complying with the demands of the retailer – which normally costs money. Demands for additional capital expenditure are often not the most imperative investments that the farming operation should be making.*

*"These shifts in focus means scarce resources, or even reserves, are invested unwisely in an attempt to retain the order, and are not invested wisely in areas that will keep the business competitive in the market place. The end result is that the farmer makes irrational investments that set him on a gradual spiral into mediocrity and, in the long run, the farmer loses not only market identity, but also competitiveness. The farmer loses that independence so vital to the spirit of true entrepreneurs.*

*"Strong branding, continuity of supply, quality, attention to detail and a strong business acumen are some of the most important facets of being successful in the modern farming environment.*

*"Focus on your business in its entirety to ensure success and always maintain control of your destiny".*

## STEP 1: ANALYSE YOUR SITUATION and CIRCUMSTANCES : contd.

### (c) Failure is not a dirty word

Throughout our childhood we learn by a series of mistakes. A child will fall over many times before he/she can learn to walk; he will graze his knee many times before he successfully manages to balance on a bicycle for the first time. Why then do we, both personally and as a nation, react so negatively to failure in business? Credit reports downgrade people who have had a business failure and give a better rating to people with no experience!

A negative mindset after a downturn in your business can work in a vicious cycle. You feel a little down, and start thinking things are worse than they really are. This makes you distressed, and you picture your situation as even worse until, in your mind, your future looks bleak and hopeless. Before you get stuck into this rut it is vital that you get yourself out of this way of thinking. A business failure can make anyone's confidence falter, especially if you did not see it coming. But there is a lot you can do about it. Have a specific plan for getting out of this negative mood cycle. For example:

- Remember that your mood operates in a cycle in which memories of past failures can make your mood worse. That in turn can make you remember other past failures, which then makes your mindset worse. Break this cycle by taking positive steps to stop it.
- Positively intervene in your negative mood cycle. Make positive and optimistic statements to yourself. For example: "This is just a small setback. I can deal with this and be stronger; it is not a big deal."
- Remember past successes and dwell on those instead. Write your successes down and keep them on your desk or wall. Refer to these when you are in hard times. It will help to lighten your mood!

A business failure does not have to be a life destroying experience. It can lead you to change the direction of your business in ways you could not have even thought of before.

*For example, Chris Lovemore of Snowcap Mushrooms in Port Elizabeth, South Africa, had a very successful Ostrich farming business consisting of 2000 birds. He was exporting the leather and meat to Japan as well as buying in a large proportion of the ostrich produce of local farmers. However the onset of the avian influenza epidemic in 2006/7 resulted in a collapse of his market. This forced him to re-evaluate his business leading to the establishment of his extremely successful mushroom farming enterprise.*

Firstly we need to be as sure as possible of why we had the failure in the first place. What caused it? In Chris's case it was an obvious collapse in the market, however we need to be as honest as possible. We cannot solve our problems if we hide, in denial of the causes of those problems. This may be personally difficult for you but it is vital in moving forward. I know now that my fish farm idea was always going to be difficult because I was blinded at the planning stage by my passion for fish and fishing. This allowed me to gloss over the weaknesses in the original business model.



# STEP 1: ANALYSE YOUR SITUATION and CIRCUMSTANCES : contd.

## (d) Recognise signs of failure in your business:

### Staff

- Demotivated staff
- No longer appreciate the importance of customer satisfaction
- No forward momentum

### Financial

- Increasing overdraft
- No profits
- Negative future projections

### Yourself

- Unwillingness to open bills
- Lethargy and lack of motivation
- Loss of focus on the core business
- Depression
- Cutting yourself off from social interaction with your peer group.

## Analyse yourself and your business

### Personal -

- Write down your personal feelings about your business. Do you still have the passion that you started with? When did that change? What was happening at that time?
- Try to recapture some of your old enthusiasm, take a holiday or a break from the farm. Visit with other people within your industry, maybe they are doing things differently which you could apply to your own business.
- Join a farm discussion group. The members tend to be the more forward thinking within an industry and are likely to have a positive outlook.

### Staff -

- Have your staff lost their passion? Are they still customer focussed? Have their standards slipped?
- Try to meet with your staff regularly to discuss the state of the business.

- Discuss and draw up a company philosophy. For example Erich Jacob's philosophy was "Progress through Innovation". This was implemented by staff being rewarded for developing innovative ideas, especially in terms of working procedures. This led to staff who were progressive in their thinking and the whole company benefited from this.

Loss of motivation in the main business driver (the person controlling the business) is a serious problem on farms.

I visited one farmer in the eastern cape of South Africa who had a very large sweet pepper growing enterprise. He was producing approximately 200 tonnes of sweet peppers a year. He developed the business with a partner and they then fell out leaving him on his own. When asked what his future plans where he was very vague. I noted that all his achievements had taken place three to seven years ago. In my opinion he was burnt out. Third parties were taking some interest in developing his land as it was close to a suburban town and in an ideal location by the sea and a major roadway. In my opinion he was waiting for development. He was producing the same varieties as three years ago, and his business was doing nothing to adjust to the changing economic climate. Should there be a problem within the industry he would collapse as he has only one leg on his business 'table'. Many farm businesses are like this. He was a very capable farmer and had the asset base and youth to set up a new venture on cheaper farmland so that, once his current farm was developed, he would be able to continue his business should he wish to. But he had lost the desire and passion to do so.



## STEP 1: ANALYSE YOUR SITUATION and CIRCUMSTANCES : contd.

### (d) Recognise signs of failure in your business: contd.

It may be that your business has been extremely profitable in times past. In the ostrich example two pages back Chris's business made large profits for the first six years and then lost consistently for the next five so that when avian influenza came it was the straw that broke the camel's back.

**Remember** that the optimum position to be in when developing a new business on your farm is from one of strength within your existing operation. This will give you the firm financial foundation that you need. Many businesses fail because they are under-capitalized during the start-up period. Tough decisions should be taken at this stage. If your existing business is weak and you have poor financial backing that needs to be put right first.



Carl and Erich Jacobs - the most thoughtful employers I met on my study tour



Chris Lovemore with his mushrooms

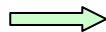
## STEP 1: ANALYSE YOUR SITUATION and CIRCUMSTANCES : contd.

### (e) Secure your core business

It is easier to sell new products to your existing customers than it is to sell new products to new customers.

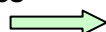
**Focus on your core business first**

**Remember : diversification is not the answer to a poorly performing business.**



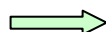
*A small broiler chick supplier I visited in South Africa brought a property with an existing weld mesh fencing factory on it and some disused horticultural tunnels. The farmer's main interest was in developing a new and highly risky Aquaponics venture (combining hydroponics and aquaculture in a symbiotic system) utilising the tunnels and existing gravel beds. However his broiler supply business had great potential to be developed at very little capital expenditure and would require only a time input from the farmer. Conversely the wire mesh factory on the new property was falling behind as the staff were unmotivated and the enterprise was also suffering from a lack of time input by the management. In this situation (especially with the limited capital available) the farmer would be strongly advised to focus on his existing businesses (or put managers in them, or sell) before trying to stretch his already limited time to another highly demanding operation.*

**Reduce existing liabilities**



*In Chris Lovemore's example it was necessary to completely remove the loss making Ostrich farming enterprise from his business portfolio. At the time this caused hardship both emotionally and financially (cash flow). However in the long term it allowed him to concentrate on developing his new and very successful mushroom enterprise.*

**Remember not to live on past successes**



*Draw a line under unviable enterprises, even if they have been successful in the past. I think this is why the generation coming into farming now has a clearer vision of the viability of an enterprise. It does not have the baggage of previous good times.*

**Reduce existing debt levels**



*Are debts pulling down the business? You may be able to survive with the current low interest rates but what would happen if rates were to increase to, say, 10-15%? Would you still be able to service your debt and maintain your current lifestyle? You may need to think very hard about reducing your debt prior to starting a new business.*

# STEP 1: ANALYSE YOUR SITUATION and CIRCUMSTANCES : contd.

## (f) Establishing your personal goals

Firstly consider why you are wanting to develop a new enterprise. What is your ultimate motivation? Most people would say money is their motivating factor. However if you analyse deeper you may be surprised!

Most people assume they are motivated by increasing their income but, by asking a series of "why?" questions, you can establish your true motivation.

- Ask yourself why you want to earn more money?
- What will you do with it?
- Why do you want to do this?

Or, if you are ultimately motivated not by money but by reducing your stress levels and/or comfort, then maybe the answer is not diversification?

Be warned that diversification can be an all-time consuming activity which can be very stressful and could take away yet more of the time you have with your family.

**Ensure** you know what are your personal aims before starting to look for projects

If you find your aim is to increase your income so that you have more money to spend on holidays with your family then maybe your true aim is to have more quality free time (with the family).

Could you achieve the same outcomes (your aims) by changing your expectations in terms of what it would take to achieve these aims? Would an extra £10,000 per annum achieve your aims, or would the extra stress and trouble of diversifying to achieve this take you further away from what your ultimate aims are?

If debt is your problem and, for example, you are spending £40,000 per year servicing a debt of £500,000, maybe you could achieve your aims by sacrificing some of your under-utilised asset base now in order to achieve your ultimate ambition a bit sooner? For example if you farm five hundred acres and are spending £40,000 servicing your debt, how much better off would you be long term if you sacrificed 100 acres now and lost your debt? I would guess you would actually be able to raise your standard of living and reduce your stress levels! - without investing in a new enterprise.

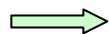
## STEP 2: DEVELOPING YOUR BUSINESS

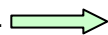
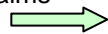
### (a) Selecting a new enterprise

Before starting or even considering a new enterprise complete some written exercises.

Writing down answers helps one to visualise the answers far better than if the exercise is completed mentally.

- Firstly write down your aim/goal in less than ten words.
- Write down a list of your fixed and liquid assets.
- Analyse your own skills and abilities. Think broadly! Make a list of your plus points on one side of the page, and of your negative traits on the other.



- Write down a list of your interests. 
- Write down a list of your personal boundaries (what are you prepared to sacrifice in order to achieve your aims 
- Ask neighbours what they think are your strong points, and what they would do in your location/situation. Take advice!

But remember that the decision is ultimately yours.

#### My own confessions!

Skills and Abilities	Negative Traits
<ul style="list-style-type: none"> <li>▪ Enthusiasm</li> <li>▪ Energy</li> <li>▪ Friendly - can build relationships</li> <li>▪ Good at recognising opportunities</li> <li>▪ Relish a challenge</li> <li>▪ Am not afraid of risk</li> <li>▪ Good planner</li> <li>▪ Fast thinker</li> <li>▪ Enjoy people</li> <li>▪ Do not take "no" for an answer</li> </ul>	<ul style="list-style-type: none"> <li>▪ Impulsive</li> <li>▪ Scruffy</li> <li>▪ Short attention span</li> <li>▪ Bad at dealing with confrontation</li> <li>▪ Opinionated</li> <li>▪ Obsessive with hobbies</li> <li>▪ Tendency to consider legislation "optional"</li> <li>▪ Bad at listening</li> <li>▪ Judgmental</li> <li>▪ Disorganised</li> <li>▪ Lack of secretarial skills</li> <li>▪ Too trusting</li> </ul>

- Business, Family, Fishing, Shooting, Travelling, Cinema and Fine Dining
- I will never risk the family home, my marriage, or my fishing time. I am willing to use everything else I own to achieve my aims.

## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (b) Case Studies of High and Low Cost Enterprises

#### **Tasmanian Mulch (Pea and Poop) - an example of a Low Cap-Ex Project**

Some of the best ideas I saw were very low Cap-Ex. For example I visited a business called "Pea & Poop". This farmer, in a very remote location in Tasmania, saw a demand for compost mulch. Realising he had waste products in pea straw (which decomposes very fast, making it an ideal mulch) and stock yard cattle manure, he decided to experiment. He mixed the two together, added a small amount of water, and this resulted in a very saleable product once bagged. His whole production equipment consisted of a broken down cement truck to mix the product, a trailed forage chopper to chop the pea straw and blow it into the mixer, and a loader to manoeuvre the straw bales. The mulch is hand bagged and then delivered to consumers and retailers all over Tasmania. It is a very simple business plan.

He produces over 40,000 x 5 kg bags of "Pea and Poop" annually at a retail value of \$7.50 per bag (approx. £3).

#### Costs

Manure (dry stock yard dung)	\$1,800
Pea straw	\$2,100
Fuel	\$1,000
Labour	\$30,000
Distribution	\$40,000

Total Costs	\$74,900
-------------	----------

#### Income:

40,000 bags @ \$7.50/bag	\$300,000
--------------------------	-----------

At a conservative estimate there is \$200,000 (£80,000) of profit in this very simple business concept.

Estimated start-up costs for this business would be \$50,000. In fact the farmer had most of the equipment already and only needed to add in the cement truck mixer (bought from a scrap yard and repaired). Even the labels are printed on a home computer and an inkjet printer.

This business is giving a 400% annual return on capital invested and operates on a 300% profit margin.

It shows the true value of an idea; in this case it is £80,000 p.a.! How many people have access to similar facilities and raw materials? Most, I imagine. I found this business truly inspirational.

#### Why is this business so good?

- Low Cap-Ex/high profit margin
- If no production - no costs
- Targets a specific market demand which has been identified and developed over 5 years
- Loyal consumers
- Simple concept and production

#### Risks

- Vulnerable to competition
- Marketing skills required
- Needs distribution

## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (b) Case Studies of High and Low Cost Enterprises: contd.

#### **Tasmanian Truffle Enterprise - an example of a High Cap-Ex Project**

Tasmanian Truffle Enterprises is an example of a High Cap-Ex Project. The business is run by Tim Terry who is a seasoned entrepreneur from a farming (and Nuffield) family. The truffle farm consists of 180ha of truffle trees, a sterile tree inoculation factory and sterile tree nursery area.

Young oak, beech and poplar trees are "inoculated" - in a laboratory - with truffle spores and are then transplanted out onto carefully managed plantations. They will start to produce truffles after 3-4 years. After 10 years the yield will be around 20kg/ha giving a total value of \$1,500/kg.

The high costs of establishing a crop and the very precise soil types needed inhibits most people from attempting to replicate the business.

Approximately seven years ago Tim saw that Tasmanian conditions would be ideal for producing truffles. He educated himself by working on a truffle farm in France and paid to acquire "insider" knowledge. He did this after meeting with several truffle "expert consultants" and being rather disappointed with the services they offered. He realised the value of knowing the business himself and the importance of learning.

He is now about halfway through his development plan and is producing on average 6kg/ha and, during the next three years, this will rise to around 15kg/ha.

The costs of producing truffles are high. Land cost is around \$5,000/ha plus \$40,000/ha establishment costs. Total project cost up to point of production totalled \$8,000,000. However even halfway through his development programme Tim is harvesting \$1.6m. worth of truffles annually and shipping it all to Asia. During the next five years this should rise to \$4m. annually.

Annual maintenance and irrigation costs are covered by making hay from the space between the rows. The productive life expectancy of the plantation is unknown but is expected to be continuous. If the start-up costs plus interest are spread over 10 years this still gives an average profit of \$2-3m. per year. This is approximately 25% annual return on capital with a very high residual land value.

This is a high risk, high Cap-Ex venture and not for the faint-hearted. Tim brought in outside investors which meant sacrificing some of his own capital interests but which has allowed him to develop to the scale he wished to achieve.

#### Pros

- Perpetual income
- High demand product
- Low risk of competition

#### Cons

- Recession sensitive
- High and unknown growing risks
- Difficult to replicate and expand
- Closely guarded industry secrets are hard to acquire.
- No cash flow for first few years.

Main Lesson Learned. Before starting this business Tim invested heavily in himself by paying to learn how to produce truffles in France. His whole business success depended on this initial, critical investment.



## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (b) Case Studies of High and Low Cost Enterprises: contd.

Some pictures



Tasmanian Pea & Poop mulch -  
production facilities



Pea & Pulp - the finished product



Tasmanian truffle plantation



Tree quarantine nursery

Note : Jane Bennett, another Tasmanian farmer and Nuffield Scholar, had also gone abroad for a thorough training in cheese making before her family's business was established. She lived and worked in England for two years before returning home and setting up the award winning Ashgrove Cheese factory.



## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (c) Buying into developing industries

I am referring to industries established by an entrepreneur who then tries to "sell" the concept on to other producers and growers in the form of a "franchise" or "production contract". This usually involves a buyback contract for the end produce. These agreements usually allow the seller to cash in on the buyer three times:

- Once with the initial cash investment (be that machinery or breeding stock)
- Again with the seed stock or inputs
- Then by marketing the produce.

Remember when talking to such vendors that they **need** you to buy. Make sure you use this position of power to your advantage.

This type of investment is often called a "turnkey" project, meaning that you are buying a complete business which another company will install. All you need to do is turn the key and start!

As farmers we have all heard examples of our peers who have jumped on the bandwagon of some new food or industry craze which has never taken off, and who have lost everything they put in. Examples of such enterprises that in most cases never took off are legion, e.g.

- Ostriches
- Truffle farming
- Alpacas
- Llamas
- Emus
- Worms
- Concept fish farming.

Many new concepts are very successful for the initial few entrants who profit from the sale of the very high value breeding stock or specific mechanical equipment needed for production. Very ambitious profit margins and market potential are predicted by the sales agents.

Many farmers buy into these projects in good faith (and to be fair in most cases they are sold in good faith also) but, in the end, there are often massive production problems. Or the product does not or will not sell, leading to the farmer losing his money.

Why do these industries quite often fail?

- Over-estimated market demand
- "Experts" who lack expert knowledge
- Lack of understanding of production techniques
- Poorly made, inadequate and often inappropriate equipment or facilities
- The quoted figures for anticipated production are often inflated or "optimum".
- Lack of research into the conditions where the animals or industries are native
- Over optimistic/desperate farmers - remember you need to diversify from a stable platform!
- Contradictory opinions within and without the industry
- Naïve cost predictions and sales/production figures.

## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (d) Assessment of developing industries

If you are looking at purchasing a new "turnkey" enterprise you could do worse than assess the business using the following criteria:

#### **Does the end product have any real value?**

In the Alpaca wool industry breeding animals are changing hands for <£20,000 yet a single animal may only produce £50/year of saleable wool! Breeders are cashing in on the value of the parent stock while demand is high. But at some point the industry must balance, and the value of breeding stock must balance with the price and demand for the wool. People may well make money breeding and dealing with alpacas, but you must know when to get out!

#### **Will I be able to produce the product?**

Do your own research into production techniques in the place where the product is native. i.e. Africa for ostriches, Asia for tilapia. A trip to visit these areas may seem expensive but could save you in the long run.

#### **Who is making money in these industries, and how do I fit into the chain?**

Are you entering the industry in the right place in the value chain? Should I be a producer, processor or marketeer? Can I sell direct?

#### **Be cautious of paper profits with no way of cashing out**

Are the figures you are basing your budget predictions upon a realistic valuation for stock etc? Can you sell at that price in the future (remember the alpaca scenario).

#### **Prior to joining up, demand to see All producers who have signed on.**

Hunt for punters the sales agent will not introduce you to. You will only get an honest answer away from the presence of a sales agent. If you are not allowed to talk to punters alone draw your own conclusions!

#### **Talk to processors/retailers etc.**

This will involve some detective work to make contact. Think laterally and be creative - you will find them and learn a lot. For example I saw a delivery and there were other deliveries on the truck so I noted down delivery addresses and made my contacts that way.

#### **Be cautious if the vendor is not successfully producing any product himself.**

The vendor has had more experience of the industry than you. If he is not producing, why not?

#### **Carry out background searches on the directors of the companies involved.**

First ask them for any history. Then check yourself using Company House or a private research company. Be very cautious of any negative results, confront the directors. If you feel you cannot carry out in-depth research yourself into a company or industry that you wish to enter, then employ a consultant to do it for you.

#### **Does the project have an exit strategy?**

Can you get your money back. Can any equipment be used for other purposes?

## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (e) Keeping your head in the sand! - lessons from Ostrich farming

Back in the 80s and 90s ostriches were going to be the Next Big Thing. Their meat is low fat, low cholesterol and tastes great as well! The hide makes great leather goods and the feathers have value as well. Many farmers sunk money into fencing, housing and very expensive stock.

However a lot of stock failed to breed and, when they did, successful incubation rates were very low. Many chicks died young and people soon gave up farming them. In fact I do not know of any successful units still operating commercially in the UK.

I wonder how many of these ostrich farmers travelled to the countries where they are indigenous to see them in their native environment? Very few I imagine. During my time in South Africa I visited three ostrich farms to get my head round why they did not succeed in the UK.

Under permanently ideal conditions for the birds (hot and dry) the South African farmers suffered astounding mortality rates:

- 50% of eggs do not hatch (even using professional contract incubation specialists)
- 40% of chicks die before they reach three months
- 10% of adolescents die between 3 months and a year.

This gives a total industry average mortality of 73%!!

Even when raised naturally in nursery groups by their parent ostriches on farms there was a 50% mortality rate. It seems to me that ostriches do not take well to being commercially farmed. So if such poor results are obtained in South Africa, why did people think they could do better in England where the weather is anything but hot and dry? Would a visit to Africa have saved several people a lot of money?

Very similar results were achieved with Angora goats (for mohair production). The pioneering UK farmers encountered bad foot problems due to the goats being dry weather animals. Surprisingly, even in Australia the goats had not done well. I spoke to several farmers who had tried Angora farming and given up.



Ostrich eggs for incubation



Adolescent ostriches

## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (f) Pioneering a whole new concept

#### Pioneering a concept

*"What gets us into trouble is not what we don't know, it's what we know for sure that turns out to be just ain't so!". Mark Twain*

You may not wish to buy a turnkey business. You may have a great idea you want to develop yourself. This requires determination, stubbornness, drive and usually cash.

However, developing your own idea allows you the freedom to control the industry yourself. Later, once you have developed your concept, you can expand rapidly through selling your own turnkey projects, or franchising.

Remember, though, that being a great producer does not mean that you will be a great retailer. Marketing requires a very different set of skills.

I interviewed an Australian horticulturist who had invented a new hydroponic growing technique. He had suffered badly trying to develop the business. His ideas were ripped off when he tried to take his concept worldwide. This led him to hand over half his business to a very successful entrepreneur which allowed him to develop his technical concepts without having to worry about the business side of things.

Ultimately this enabled the business to develop much further than it would have done if he had carried on alone. The cost to him was half the business, but he would admit that half of something is better than all of nothing!

#### Developing a concept (agricultural products)

Before you do anything ensure that any intellectual property you may have developed is legally protected. Seek professional help to achieve this.

So - you have a great idea, you have learnt how to produce your product, you have protected your concepts. Where do you go from there? There are several options open to you.

#### Expand and produce everything yourself

Be aware that, as your business grows and so do your production requirements, you are liable to take your eye off the business ball. Do not try to do everything yourself. Remain focussed on your core strengths be it business or production. Look back at your written aims before starting the business and make sure you stay true to them.

#### Contract out production

Generally in agriculture the commodity production side of the business takes up a lot of time and can be contracted out. I have learnt through my Nuffield travels and my personal experiences that the key is to control the "seeding and the selling". You can package out the growing element. This allows you to reduce your liabilities while ensuring that focus is maintained on production by the contractors. An excellent example of this is Gressingham Foods in England who sell around 19m. ducks per year. Most of these are grown on contract rearing farms, sparing Gressingham Foods massive amounts of capital investment in growing sheds.

#### Sell your idea to a larger company

The African Aloe (Pty) Ltd Aloe Vera Company knew it did not have the expertise or capital to develop their aloe-based health drink range. So, instead of offering out a mediocre product, they decided instead to license out the production of their drink range. This allowed them to receive a royalty payment from the drinks manufacturer while ensuring that they still sold the volume of raw product necessary to grow their business.

## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (g) Developing your product

**You have produced your product and decided your strategy to grow the company - but how can you maximise your profits?**

#### Add value

41 Degrees South Aquaculture Ltd ([www.41southtasmania.com](http://www.41southtasmania.com)) is a small fish farm and ginseng grower in Tasmania which produces 10,000 small salmon a year and grow 10 acres of ginseng. By any standards it is a small producer and, at wholesale prices, would struggle to make a living from its business.

However by hot smoking all the fish and developing products using their ginseng crop it is able to support several families. The finished produce is sold direct to the consumer as opposed to it being an ingredient at wholesale prices.

What was clever about the owners of this business was they realised that, if they waited the 3 years it takes for the first ginseng crop to reach harvest, they would then have to wait a while longer while they developed the brand and sales. So, while waiting for their first ginseng harvest, they bought in product from other farms. They developed their own ginseng product range and brand while waiting for their first harvest. They were then in a position to maximise the return from their own first harvest when it eventually came, and ultimately of their investment.

#### Develop the brand

Wikipedia describes "brand" as a collection of symbols, experiences and associations connected with a product, a service, a person or any other artefact or entity. Brands have become increasingly important components of culture and the economy. They are now being described as *"cultural accessories and personal philosophies"*.

Jane Bennett, MD of Ashgrove Cheese in Tasmania, understands the power of developing her brand in order to increase sales. She has developed a warm and fuzzy family feel to her farm shop, giving away a lot of samples, and displaying all the many awards that she and her cheeses have been presented with.

A very successful campaign that has developed the brand enormously was giving away fibre glass cows to all the local primary schools. The children painted them and the results were judged in a competition. Local media, both print and television, were invited and gave lots of publicity. The positive "friendly and caring" image that this created for the company increased awareness of the product. This translated into increased sales in Ashgrove Cheese's retail outlets as well as increased visitors to their farm shop.



## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (h) Locating alternative opportunities

**So you are not buying a turnkey product and you do not have a great new product concept to develop. What else can you do?**

**Here are some suggestions to think about. Remember the only limiting factor is your own imagination!**

#### **Leisure/tourism/retail**

I visited the Maze Park in the crags regions of South Africa. Twelve months previously it had been a bare field - admittedly in a great tourist location. With a few hundred thousand dollars of investment the owners had built 30 acres of mazes and now attract 3-5,000 visitors per week! This gives multiple opportunity for adding value, e.g. restaurant, corporate entertainment etc.

Remember the old maxim - Location, Location, Location. A brilliant attraction in the wrong place will never succeed as well as an average attraction in a great location.

#### **Turning waste into cash**

Rob Henry grows medicinal poppies (opiates) in Tasmania. He saw that thousands of tonnes of poppy seeds were being land-filled because they were unsuitable for human or animal consumption due to drug residues. He saw this an opportunity and has installed a biodiesel plant which produces 8m. litres of bio-fuel annually. Rob's development of waste products did not finish there - the waste from his poppy oil extraction plant is pelleted and used as animal feed (now made safe) and garden mulch. Demand is so great that he is exporting his product to mainland Australia and has licensed another manufacturer to further process it.

#### **Distribute a product manufactured abroad**

Let someone else develop the product. You then take a 20% mark-up for selling it in your home area. Be very sure you have the right product and a good licence. You will need good marketing and sales experience plus, ideally, an interest in the business you are entering.

#### **Look at businesses around you and identify any needs and wants which you could meet**

Bernard Wooding (Elandsbury Farms) and Lindsay Hunt (Hunt Africa) saw the rise in game farming for eco tourism and big game shooting in Africa. This boom has led to massive rises in land values across Southern Africa. The couple realised that people travel to Africa to see the "Big Five" - elephant, giraffe, lion, leopard and cape buffalo. These species could all be bought and shipped onto new game parks apart from the buffalo. This is due to the prevalence of TB in the areas holding wild stocks of buffalo and the consequent wildlife movement laws which forbid the transportation of TB "at risk" buffalo into areas free of the disease.

Bernard and Lindsay learnt that, to get a buffalo out of a diseased area, they needed to get hold of the calf before its mother exchanged any body fluids with it. The calf could then be reared on a Jersey cow until it could be licensed as clean.

*contd overleaf*

## STEP 2: DEVELOPING YOUR BUSINESS : contd

### (h) Locating alternative opportunities : contd.

**Look at businesses around and identify any needs and wants which you could meet - (continued from previous page)**

This is not as easy as it sounds. But, after 10 years, they have successfully moved and/or bred a herd of over 75 TB-clean animals which are in massive demand all over Africa.

The business is so successful that stock could be sold forward for the next five years! Twelve buffalo are now being sold each year at over R500,000 each, and the enterprise is in profit after the first 2! Not a bad earner!

**Look for ways of doing things better than other people.**

Mr Smith (name has been changed) worked for a leading opiate processor in Tasmania. He discovered a new technique of processing poppies which eliminated the need for the dangerous organophosphates normally used in the production of morphine. After having had his idea rejected by the major pharmaceutical companies he formed his own company.

He is now becoming a major player in the Tasmanian poppy industry. (Tasmania produces 40% of the world's morphine). His morphine processing costs are only 30% of the traditional techniques. He has recently been successful in legal action against a massive international chemical company in an anti-competition case - the conglomerate had tried to put him out of business.



## STEP 2: DEVELOPING YOUR BUSINESS : contd.

### (i) Business planning

**Whatever business you decide to enter you will need sound business and financial planning.**

Remember that a business plan is not the same as a financial budget or financial forecasting. These are important ingredients of the business planning process and cannot be ignored. However, equally important is sound marketing, production planning and business development planning. A business plan should be a pathway to grow and develop the business. It should include a combined marketing and investment strategy. Therefore remember that budgets and cash flow forecasts are only half of a good business plan.

- When you are compiling your financial forecasts create a spreadsheet that allows you to adjust variables. Ensure you are aware of what would happen in the following scenarios:
- Decreasing sales. Try your original figures with declines of 10% down to 50% of predicted sales.
- Material, labour and fixed costs. Try increasing by up to 100%.
- Variable sale price. Vary the sale price to see how you and your profit margin would cope in a price war.
- Variable ramping up times. Vary the times predicted to build up sales.

A common thread amongst the entrepreneurs I visited was an interest in, and a passion for, business planning. Very few successful businesses grew out of a whim and a gamble. Admittedly the more prolific entrepreneurs do have similar characteristics with gamblers though I think most would argue that they make their own luck.

### Partnerships

Very important to the success of many of the businesses I visited was the partnerships that existed within them. I saw countless examples of skilled individuals being enhanced by working with other skilled people. Some of the best partnerships were husband and wife teams (especially on the smaller farms). On larger units skills are bought in, but a key factor is to give your management staff responsibility and allow them to make the changes they feel are needed.

I also saw examples of poor partnerships which were costing the company concerned. One small farm shop in Africa was developed by two ladies. One was a farmer's wife, the other the wife of a successful local businessman.

However it was an unequal partnership as the farmer's wife was dependent on the business paying its way and the other partner was only in it for something to do. When she got bored she drifted away and ultimately the partnership had to be dissolved.

### Remember

A good partnership will enhance and motivate within a business.

Always have a written agreement - including exit options for partners and the day-to-day responsibilities of each partner.

## CONCLUSIONS

1. Decide what you want from your business
2. Analyse your strengths and interests
3. Develop from a position of strength
4. Ensure your core business is strong before developing onwards
5. Make difficult decisions early which will make life easier
6. Research your ideas well, think laterally
7. Investigate your business associates
8. Develop strong partnerships
9. Plan for positive and negative outcomes
10. Look for opportunities around you
11. Don't ignore problems
12. Always be looking for opportunities
13. Employ in the skills that you may lack
14. Have Fun!!

## A PERSONAL BIT ....

Since arriving home and writing this report I have taken my own advice and re-structured my businesses, losing time-consuming operations and concentrating on my core enterprises.

Several people, after having read an early draft of this report, have commented on the fact that in the past I have not always done what I am recommending now. They say that in writing this report I am bolting the stable door after the horse has gone.

Obviously it is easier to write about avoiding the pitfalls of diversification after having fallen into a lot of them in the past! Which was why, for me personally, doing my Nuffield study on this subject has been a healing experience as well as a learning one.

I have had to face the internal demons of my own pride during the course of this project. A few years ago I felt I was invincible and that everything I touched turned to gold. Then, after the fish project failed, followed by my window business collapsing due to the credit crunch, I found myself at a very low point. It was at this time that I started my Nuffield travels. Upon my return I have had to sort out my businesses. But I have done so based on a strategy and attitude that I gained from the people I met in South Africa and Australia. This strategy/attitude has lead me to the skill of realistic assessment, and I have acted with confidence based on knowledge and sound budgeting.

I now know that whatever may happen it does not need to be the end. What is important, and what I saw in every successful entrepreneur I met, is the open minded attitude that is always looking for opportunities, plus this acceptance: that whatever life brings, it can be survived and grown through. This applies to their personal as well as their professional lives.

There is a silver lining to every cloud.

### Acknowledgments and thanks

First I would like to thank my beautiful and long-suffering wife Vicky, and my children Eden, Reuben, Brooke and Honey for letting me go away for so long. Also for the way they have put up with my compulsive entrepreneuring over the last ten years. I can't promise that I will change, but I can say that the future will be exciting.

I would like to thank my sponsors Alan and Anne Beckett for their continued support and encouragement. Also I would like to thank the rest of the Nuffield team for putting up with my rather impulsive decision making.

My thanks as well to The Worshipful Company of Farmers for their Advanced Business Management course which I completed in 2008 and which gave me a great theoretical background and encouraged me to complete this study.

My deepest thanks go to the farmers of South Africa and Australia who agreed to be interviewed and share their experiences with me. If I have misquoted or misrepresented anybody I apologise. If I have left people out I apologise!

Andrew Gage  
July 2009