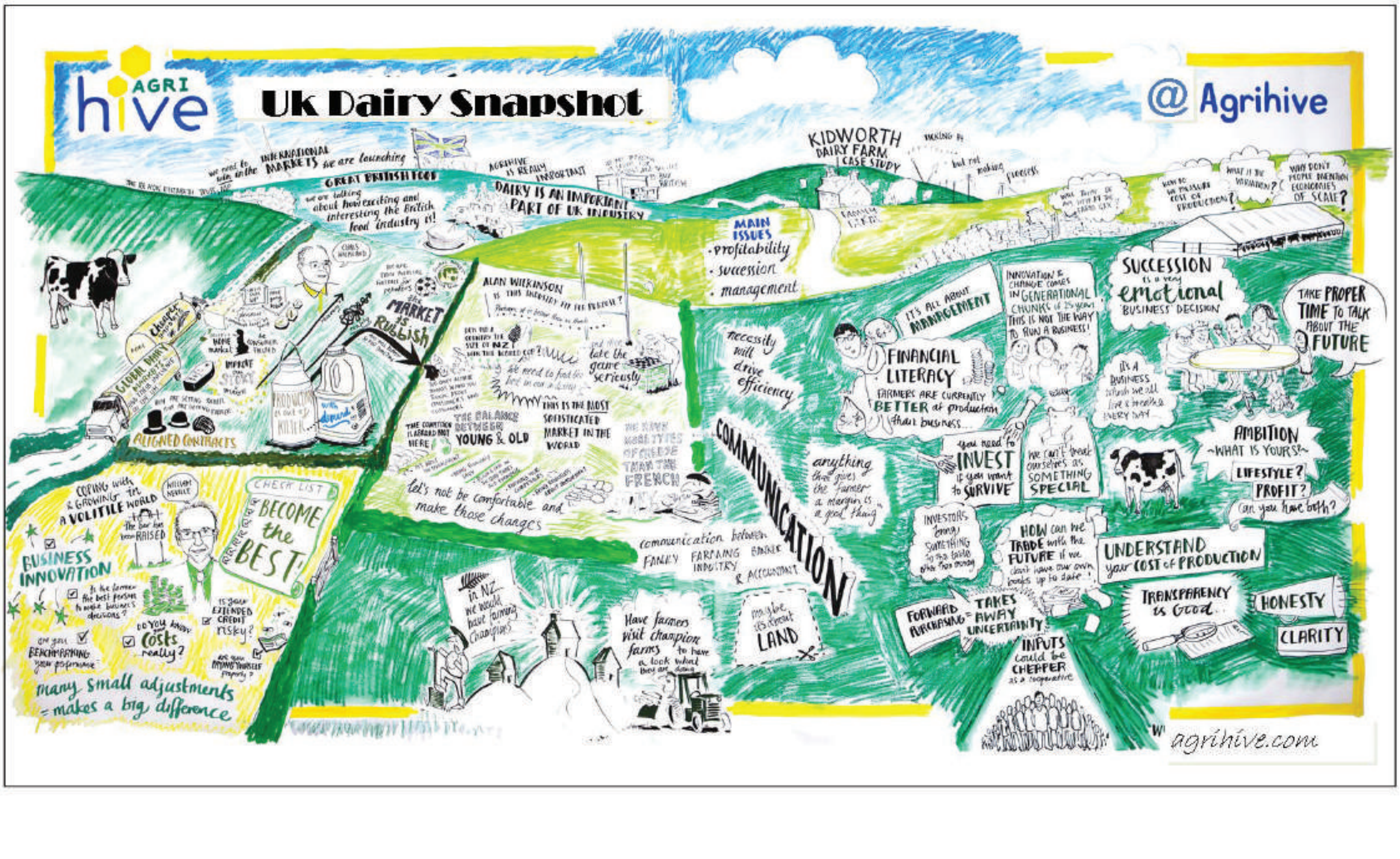
UK Dairy Summit Summary 2016

"How Cow Now"



Kidworth Dairy – Case Study

The Agrihive UK- Kidworth Dairy case study was created to accurately reflect the challenges and short term issues faced by the majority of UK dairy farming businesses brought about by the collapse in dairy commodities and farm gate prices from early 2015. Following on from the success of a similar initiative in Queensland Australia focusing on the challenges facing the beef cattle industry, Agrihive UK set out with a mission to provoke new thinking and provide tangible, practical ideas that we hoped could benefit the UK Dairy sector.

The Kidworth Dairy case study competition was launched at the Agrihive Dairy summit which was held in London in November 2015 where leading industry speakers came together to highlight the key challenges that UK dairy farming businesses would have to overcome if they were to survive the cyclical downturn. Some of the main challenges identified are briefly documented below:-

Financial Literacy - Knowing accurately the financial position of the business is vital to making high quality and timely decisions.

Cost of Production - A requirement at any time, but especially at the low point of a price cycle. It is essential to know production costs to make informed decisions, still only a few dairy farms know their own cost of production. How is it possible to operate without such essential information?

Communication - Many family dairy businesses fail to communicate effectively with family members, so rarely create the opportunity to plan for their own future.

Succession – Essential to the future prosperity of any business, yet all too often in a family farm situation succession is ignored, often being perceived as a problem rather than an opportunity. Effective, timely professional advice can prevent deep, destructive future business challenges.

Industry Leadership – In recent decades, and particularly since deregulation, the UK industry has lacked strong and effective leadership, leaving the industry fragmented and weak in today's competitive marketplace. Today we see gross inequality with around 20% of producers isolated from market reality.

Consumer Focused - Dairy farmers and processors have largely failed to recognise changing consumer behaviours, missing potential added value opportunities which other countries have picked up on, instead choosing to focus on a shrinking domestic liquid market

During the November Dairy Summit the Kidworth Case Study was launched as an industry wide competition where entries were invited from anyone with an opinion to share. In the following pages you can read through the short listed winning entries that were judged - followed by all the other entries that were submitted.

Agrihive has been a fascinating experience. The outcomes from the decisions we make, drive our opportunities and ultimately our business success and whole life fulfilment. The Kidworth case study, (now widely recognised as an accurate example of a vulnerable dairy business), finds itself at a junction with many conflicting opportunities appearing on the horizon. As is common in many family situations, the easy option is often to ignore the reality, blundering on as if somehow the future is mapped out, our fate already decided and largely beyond our control. To have any chance of succeeding in life or business it's essential we're empowered to make high quality, timely decisions.

Perhaps not surprisingly many of the competitions entries carried messages similar to those raised at the London summit. The adoption of lower cost production systems was a key favourite, with grass and block calving proving very popular in many submissions. Others favoured the Kidworth's moving towards a more diversified business model removing the reliance from dairy farming. Although many were advocating greater intensification through system change or herd expansion, making the assets work harder with more cows and a lift in output, few could see the opportunity to add value to the primary product, “Milk”. The winning entry advocated a switch to organic production. It is a well argued case backed up with robust figures, and while it appears to have the potential to be a good long-term solution, many would argue the Kidworth dairy needs more immediate strategic thinking to prevent the business from haemorrhaging cash during a prolonged period of low milk prices.

Throughout the entries there was a clear call for the Kidworth’s to plan more and improve communications with each other. To better utilise the relationships they already have with business professionals to help them evaluate the various opportunities and also to be realistic when setting financial and technical targets.

More fascinating was the diversity of solutions regarding succession. 'Plan-Plan-Plan' was a strong message from the majority of entries, but few, perhaps, grasped the enormity of the challenge to keep the business cash positive while paying out either the parents or any of the inactive family members. Being fair is one thing but being fair and business like at the same time is a huge challenge with a family dairy farming business.

One of the major challenges the industry faces is to change the mindset of spending on capital items when times are good only to regret the decisions once the profitability declines. Often the most critical decisions are those made about when not to spend rather than the opposite. Retaining cash and paying more tax could prove useful when the downturn returns and profits reduce.

I’ve been actively dairy farming for almost 30 years, during which time I’ve seen the endless pursuit of ever cheaper and increasingly valueless food drive decisions at the farm level. Overall I believe the farming industry has delivered above and beyond the challenges laid down by government policy and support mechanisms and in doing so we’ve seen the dairy industry restructure from over 54,000 dairy farms to below 10,000 and falling. Of the major consequences of this change has been the intensification of production systems - away from the conventional mixed forage and mixed livestock pasture based systems towards increasing intensification and confinement feeding. While this has been an essential route of any business serious about it future survival and growth, I wonder if we’ve actually really succeeded in delivering real value to our consumers. Modern farming has become increasingly reliant on input from outside our control – we’ve constructed a farming and food delivery system which fails to internalise its true cost and in doing so conveniently misleads consumers to the true value of what we produce. Our modern food system which takes little or no account of the natural capital employed, enhanced or consumed in its activity is in the view of the even the most optimistic, only short term sustainable.

Robert Craig

KIDWORTH DAIRY FARM

CASE STUDY

Thank you for helping generate new ideas,

We hope you enjoy the problem solving ………

AGRI hive

Would like to thank the following partners for making this initiative a reality for UK farmers

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KIDWORTH DAIRY FARM

Kidworth Dairy Farm is at a crossroads. Long term survival is in doubt. This family farming business has been ticking away for generations but the increasing trading volatility and uncertainty are rapidly putting the Kidworths farm viability in doubt. If we cannot help them create a new beginning, what does their long term future look like?

On top of the extremely tough trading environment there has been a recent change in the family dynamic with the next generation knocking on the door and now the family business needs to begin the process of overcoming the challenges of being a price taker in a global commodity market place. As an owner occupier, this business, like many, has actually seen its equity grow in recent years, but this has all been down to land price inflation rather than positive cash flow.

Robert and Heather Kidworth's year ahead and beyond will be an extreme challenge which will need some external thinking to navigate the way ahead. They will need new opportunities and thoughts put in front of them immediately as they attempt to navigate their family through the current crisis as well as setting the business on a stronger course to deal with the globalisation of their industry. They need help to identify what their current business is capable of and how they can 'future proof' their cashflows and balance sheet.

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THE FARM

- 220 acre ring fenced block of land.
- Ploughable pasture land predominantly grade 3. Excellent grass growing area of the country.
- Equipped with a range of buildings including parlour, cubicle sheds and loose housing. Limited slurry storage and adequate silage storage. The business has invested in modernising buildings over the years, so they are usable, however the layout is not ideal for the current setup and makes further expansion on site difficult (see plan).
- Farmhouse is within the farm steading. Habitable but in need of modernisation.
- The farm is well fenced, drained and maintained.
- The farm has recently been valued at £2.2m as a whole.
- Further 150 acres of similar land rented from neighbouring unit. Land lies into the home farm. This was a 5 year tenancy with 3 years remaining. Rent is £190/acre. No buildings but includes a small cottage. Land class similar to the owned unit.

THE SYSTEM

- 180 dairy cows in the herd.
- This has grown from 150 in the last 24 months and has grown from 130 over the last 5/6 years. Steady growth from retained heifers, and with a bigger increase in cow numbers in 2013/14 when eldest son returned home.
- Forecast 12 months milk production for the 2015/16 financial year is 1.314m litres with traditional Holstein Friesian cows averaging 7,300 litres of milk sold from an all year round calving composite system.
- Cows tend to be out at grass from late March for as long as possible. There is no 'system' around the pasture management.
- Breeding policy is top 50% of cows served by Holstein Friesian bull with bottom 50% to beef bull.
- Heifer calves retained for own replacements. All other calves retained and reared to heavy stores and sold at around 18 months of age.
- Stocking density is relatively low.
- The business can conserve plenty of forage and indeed may sell some at times.
- Historically milk was sold to Dairy Farmers of Britain and the business lost money on the demise of their milk buyer.
- They now sell to a regional buyer on a commodity type contract which has recently had A/B pricing introduced. There are no aligned contracts available in their area.

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THE FAMILY

- Robert (60) and Heather Kidworth (59) inherited the farm from Robert's family. They own all of the land, buildings and farmhouse.
- They have 3 children, John (28), Tom (25) and Alison (24).
- John is very well educated with a degree in Mathematics. Following graduation he worked his way to a senior position in the insurance industry. Despite being successful, John disliked his chosen career and returned home to farm with his family 2 years ago.
- Prior to this John took a passing interest in the farm but was not actively involved. It is clear that he thinks about money and farming differently to his mother and father.
- John is highly literate in financial affairs and is very focussed on targets and outcomes.
- John has around £100,000 of cash in the bank from the sale of his house.
- Tom left school at 16 to come home and milk cows. He is very keen on livestock. He still lives with mother and father, however he no longer works at home, instead he works at a dairy farm nearby to earn more money. This was also driven by John returning home. Robert and Heather also have concerns that Tom just isn't up to the job of running a farm business.
- Alison works in nursing in Manchester and is recently married. She is not interested in the farm but wants a family and home ownership in the near future. Parents would like to help with a house purchase in future.
- Robert and Heather have no formal succession plan in place with the family.
- Whilst they have tried to keep the unit relatively modern, Robert and Heather also have very traditional views on dairy farming. There is some conflict with John over the future direction of the business.

FAMILY AND FARMING FINANCES

- The last 6 years annual accounts demonstrate that the business has stagnated during the period. The increase in net worth is noted at £79,061 over the actual 6 year period - an average of £13,176 per annum. The projections for the accounting year 2015/16 suggests a decrease in Net Worth of £65,186. This wipes out 82.5% of the previous 6 years gains in one financial period.
- In reality equity will have increased significantly, but only due to land value inflation.
- Net worth according to the projected 2016 annual accounts is £854,364. A Farmers Statement of Affairs notes that this figure is much closer to £2.2m due to undervaluation of land in the balance sheet.
- The business has net negative cashflow of £149,399 over the past 7 years. With £93,758 of that expected to be realised in 2015/16 alone.
- The business has a £188,961 bank loan with c.12 years remaining. It also operates a £100,000 overdraft facility with a balance very close to the limit – this will need to be extended to £150,000 to accommodate current losses projected by the financial year end.
- The bank holds security over the farm for the borrowings.
- Whilst the loan has been reducing, the overdraft has been rising at a faster rate to accommodate the ongoing cash losses.
- In terms of assets the business is not heavily geared, however with a record of cash shortfalls the ability to repay long term debt is in the balance.
- Trading conditions have been relatively benign up until recently.
- The business was most profitable in a topsy-turvy year of 2013/14 which started with a shortage of forage and high feed prices and progressed to a high milk price giving a respectable year-end profit.
- 2014/15 outturn was also very good with another profitable year noted. Milk income held up despite a drop in price as extra litres came through and significant price drops were towards the end of the financial year. Increased store cattle sales also increased output during the year.
- Projections for 2015/16 are looking very concerning at the moment as milk price continues to slide.
- Although this may be the low point of the current trading cycle, there is clearly a long run reduction in those terms of trade. With this in mind we have to ask ourselves, is this business in terminal decline without some action being taken?

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CHALLENGES

- ***What should this business look like to be competitive in a volatile global market?***

- ***How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?***

- ***How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?***

- ***If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?***

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FARM FINANCIAL DATA

CASHFLOW STATEMENT

Funds Flow	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11	Mar-
Net profit for the year	- 22,822	81,818	81,829	35,280	40,743	31,974	4,58
Depreciation	13,443	15,992	12,990	14,489	14,928	14,032	16,509
	- 9,37	97,810	94,819	49,769	55,671	46,006	21,092
(Increase) / decrease in stock	- 29,050	- 33,800	- 12,000	- 14,750	- 2,40	- 7,80	-
(Increase) / decrease in debtors	6,70	274	- 4,55	- 2,55	- 4,36	- 1,10	- 3,85
Increase / (decrease) in creditors	882	2,73	1,14	2,79	4,38	305	325
(Increase) / decrease in investments	-	-	-	-	-	-	-
Cash generated from trading	**- 30,843**	**67,015**	**79,409**	**35,257**	**53,289**	**37,404**	**17,561**
Fixed assets purchased	-	- 58,000	- 5,00	- 18,000	- 35,000	-	-
Receipts from sale of fixed assets	-	25,000	1,50	6,00	15,000	-	-
Net inflow/(outflow) from bank loans	- 13,952	- 13,207	- 12,501	- 11,835	- 11,202	- 10,604	- 10,038
Net inflow/(outflow) from other loans	-	-	-	-	-	-	-
Net inflow/(outflow) from HP	- 6,60	17,400	- 9,00	3,00	15,000	- 4,50	- 4,50
	- 20,552	**- 28,807**	**- 25,001**	**- 20,835**	**- 16,202**	**- 15,104**	**- 14,538**
Net drawings and tax	**- 42,363**	**- 55,311**	**- 37,342**	**- 35,054**	**- 38,377**	**- 26,500**	**- 32,506**
Net moment in funds	**- 93,758**	**- 17,102**	**17,066**	**- 20,632**	**- 1,29**	**- 4,20**	**- 29,483**

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PROFIT AND LOSS ACCOUNT

Accounting Year Ends	Mar-16		Mar-15		Mar-14		Mar-13		Mar-12		Mar-11		Mar-10	
Average Cow Numbers	180 cows		180 cows		170 cows		150 cows		140 Cows		130 cows		130 cows	
Production per cow	7300l/cow		7200l/cow		7100l/cow		7000/cow		6900l/cow		6800l/cow		6700l/cow	
Total litres sold	1,314,000		1,224,000		1,156,000		1,020,000		910,000		845,000		845,000	
Sales														
Milk	275,940		356,400		359,686		305,059		274,412		222,061		208,772	
SFP	28,600		28,600		30,800		18,325		19,000		21,000		23,000	
Other subsidies	2,400		2,400		2,400		2,400		2,400		2,400		2,400	
Cattle sales	71,700		65,850		19,000		18,500		17,500		16,500		16,000	
Cattle purchases	-		-		-		-		-		-		-	
Valuation change	7,000		29,050		33,800		12,000		14,750		2,400		7,800	
Other income	5,500		5,500		5,500		3,500		3,500		3,500		3,500	
Gross output		**391,140**		**487,800**		**451,186**		**359,784**		**331,562**		**267,861**		**261,472**
Variable costs														
Haulage	1,325		1,403		1,307		1,349		1,510		2,022		1,188	
Fertiliser, seed & sprays	30,000		29,808		27,761		21,000		19,320		15,770		14,575	
Feedstuffs	170,820		155,520		132,770		140,450		114,550		86,398		85,792	
Veterinary& AI	21,961		23,252		21,656		17,814		16,923		14,489		15,610	
Auction mart commision	1,452		1,538		1,432		1,672		1,484		1,283		1,306	
Dairy	13,304		14,087		13,120		10,731		9,949		7,871		7,225	
Total variable costs		**238,862**		**225,608**		**198,045**		**193,016**		**163,738**		**127,834**		**125,697**
Gross margin		**152,278**		**262,192**		**253,141**		**166,768**		**167,825**		**140,026**		**135,775**
Power & labour costs														
Wages	32,500		32,500		31,700		31,100		28,600		20,000		19,700	
Contracting & casual	29,388		31,116		28,980		23,316		21,879		18,829		18,556	
Machinery fuel & oil	11,636		12,320		11,474		10,220		9,545		6,633		5,748	
Motor expenses	3,400		3,352		3,122		3,102		4,938		3,507		3,691	
Machinery repairs	8,340		8,830		8,224		7,820		6,681		6,417		6,610	
Licences & insurance	390		413		385		451		486		561		493	
Hire of equipment	875		927		863		1,007		322		706		506	
Heat & Light	7,500		7,245		6,747		5,801		6,140		5,272		5,098	
Depreciation	13,443		15,992		12,990		14,489		14,928		14,032		16,509	
Total power & labour costs		**107,472**		**112,696**		**104,485**		**97,307**		**93,520**		**75,957**		**76,910**
Premises costs														
Repairs & renewals	13,902		14,720		13,709		9,694		9,030		8,634		9,428	
Rates & water	1,954		2,069		1,927		2,014		2,642		2,364		2,480	
Insurance	3,000		2,912		2,712		2,485		2,540		2,076		2,029	
Total premises costs		**18,856**		**19,701**		**18,348**		**14,193**		**14,212**		**13,075**		**13,937**
Sundry														
Telephone	800		778		724		735		725		707		697	
Office expenses/PPS	187		198		185		120		142		156		121	
Sundry	1,881		1,992		1,855		1,452		1,229		1,117		1,070	
Bad Debts	-		-		-		-		-		-		20,884	
Accountancy & Professional	2,400		2,400		2,400		2,250		2,100		1,900		1,800	
Total sundry		**5,268**		**5,367**		**5,164**		**4,557**		**4,196**		**3,881**		**24,572**
Total fixed costs		**131,596**		**137,765**		**127,997**		**116,057**		**111,928**		**92,913**		**115,419**
Profit pre rent & finance		**20,682**		**124,427**		**125,144**		**50,711**		**55,897**		**47,113**		**20,356**
Rent & finance costs														
Rent	28,500		28,500		28,500		-		-		-		-	
Bank interest	2,700		1,000		1,000		950		600		587		250	
Loan interest	10,804		11,549		12,255		12,921		13,554		14,152		14,718	
Hire purchase interest	-		960		960		960		600		-		405	
Bank charges	1,500		600		600		600		400		400		400	
Total rent & finance		**43,504**		**42,609**		**43,315**		**15,431**		**15,154**		**15,139**		**15,773**
Profit		**- 22,822**		**81,818**		**81,829**		**35,280**		**40,743**		**31,974**		**4,583**

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BALANCE SHEET

Balance sheet	Mar-16		Mar-15		Mar-14		Mar-13		Mar-12		Mar-11		Mar-10	
Tangible fixed assets														
Land & buildings	850,00		850,00		850,00		850,00		850,00		850,00		850,00	
Plant & Machinery	76,177	926,17	89,620	939,62	72,612	922,61	82,102	932,10	84,591	934,59	79,520	929,52	93,552	943,552
Current assets														
Stocks	280,75		251,70		217,90		205,90		191,15		188,75		180,95	
Trade debtors	22,995		29,700		29,974		25,422		22,868		18,505		17,398	
Bank current account		303,74		281,40		247,87		231,32		214,01	-	207,25		198,348
Current liabilities														
Trade creditors	27,741		26,859		24,128		22,986		20,194		15,813		15,508	
Hire purchase	19,800		26,400		9,000		18,000		15,000		-		4,500	
Bank current account	139,05		45,298		28,196		45,261		24,630		23,340		19,140	
Bank loan	188,96	375,55	202,91	301,47	216,12	277,44	228,62	314,86	240,45	300,28	251,65	290,81	262,26	301,410
		854,36		**919,55**		**893,04**		**848,55**		**848,32**		**845,96**		**840,489**
Financed by:														
Capital account b/f		**919,55**		**893,04**		**848,55**		**848,32**		**845,96**		**840,48**		**868,412**
Profit / loss		22,822		81,818		81,829		35,280		40,743		31,974		4,58
Drawings		29,000		34,000		31,000		29,000		29,000		26,500		26,500
Tax & NI		13,363		21,311		6,342		6,054		9,377		0		6,00
Capital account c/f		**854,36**		**919,55**		**893,04**		**848,55**		**848,32**		**845,96**		**840,489**

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FINANCIAL SUMMARY NOTES

2009/10

- Moved milk buyer as Dairy Farmers of Britain went out of business, causing significant business interruption and loss.
- Low labour costs as only one employee plus family including one son.
- Milking 130 cows with 6700 litres per head sold.

2010/11

- Static year with little to talk about.
- Cow numbers static at 130, but genetic improvements giving 100 litres sold per cow increase in yield to 6,800 litres per cow.

2011/12

- Milk price improvement to 28ppl.
- Genetic gains and feed improvements again made, with yields up a further 100 litres per cow to 6,900 litres.
- Cow numbers up by 10 in response to better milk price. Extra cash being generated so a telehandler was changed for £35,000 with a £15,000 trade in with balance financed over 3 years via HP.

2012/13

- Further increase in cow numbers to 150 (+10) with yields now up to 7,000 litres per cow.
- Difficult climatic year so a poor grazing season ensued with higher relative feed costs incurred to compensate.

2013/14

- Opportunity to rent 150 acres of neighbouring land taken.
- Cow numbers increased to 170 (+20) with yields at 7,100 litres per cow.
- Beef X calves retained to make us of extra land.
- John returns home to work.
- Tom leaves farm to work for neighbour for more money.

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2014/15

Cow numbers now up to 180 (+10) with yields at 7,200 litres per cow.

- Store cattle sales are significantly higher (+£45k).
- Milk price at 30ppl so generating significant cash.
- Tractor changed at £58,000 less £25,000 trade in and financed over 5 years. Helped to keep tax down.

2015/16 (Projected)

- Numbers static but yields up to 7,300 litres per cow.
- Milk price down 30% to 21 ppl.
- Profits down by £100,000 in the year resulting in cash shortfall of £93k.
- Erosion of equity to live and keep business operating.

THE PROBLEM

SIX YEARS OF STEADY PROFITABILITY SEEN, ALTHOUGH ONLY CASH POSITIVE IN ONE OF THOSE YEARS. 2015/16 WILL WIPE OUT 82% OF THE GAINS MADE IN PREVIOUS 6 YEARS.

PLEASE SEND YOUR COMPLETED COMMENTS BY EITHER EMAIL TO rcraig@agrihive.co.uk OR BY POST TO ROBERT CRAIG, CAIRNHEAD FARM, AINSTABLE, CARLISLE, CA4 9RP

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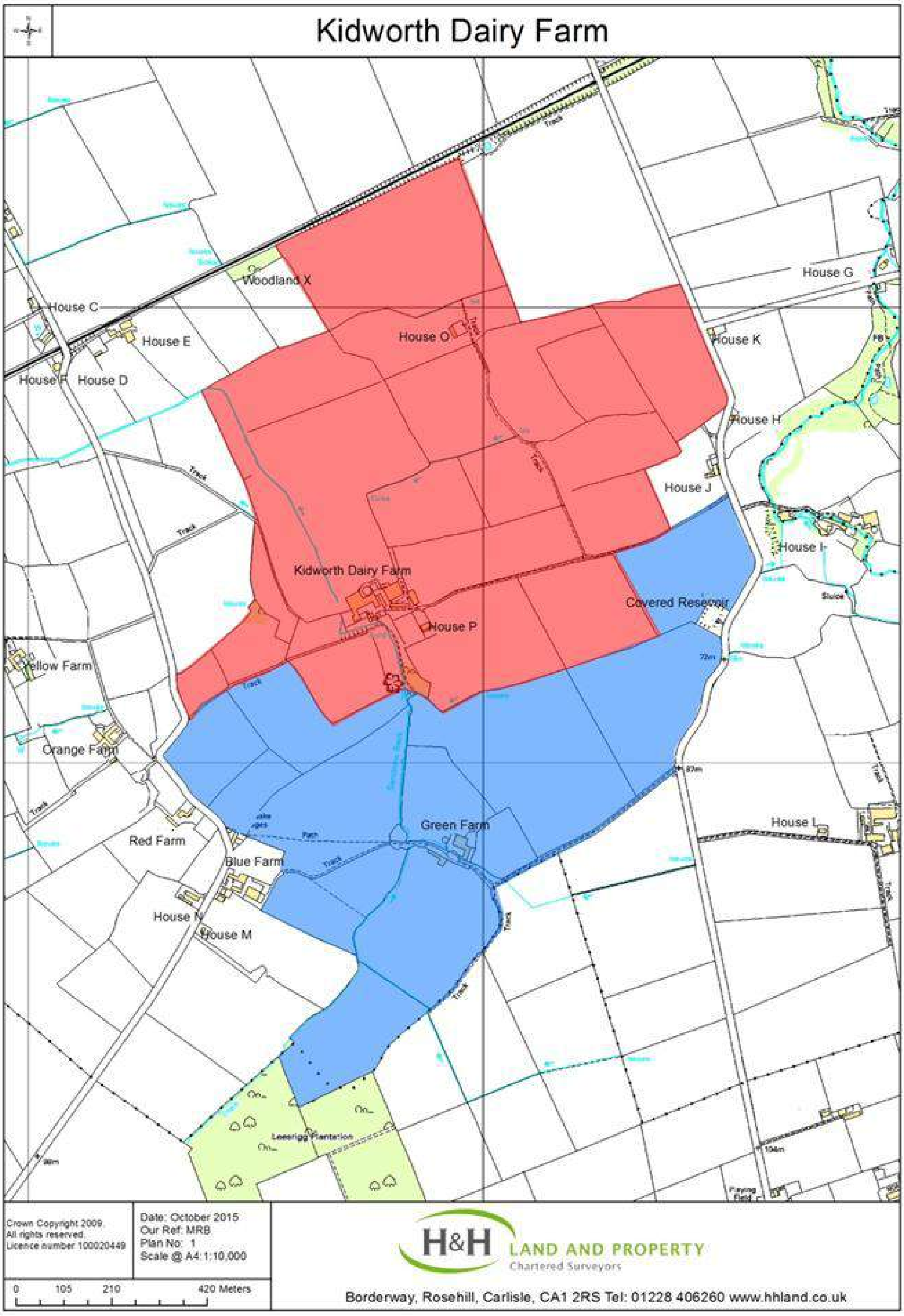

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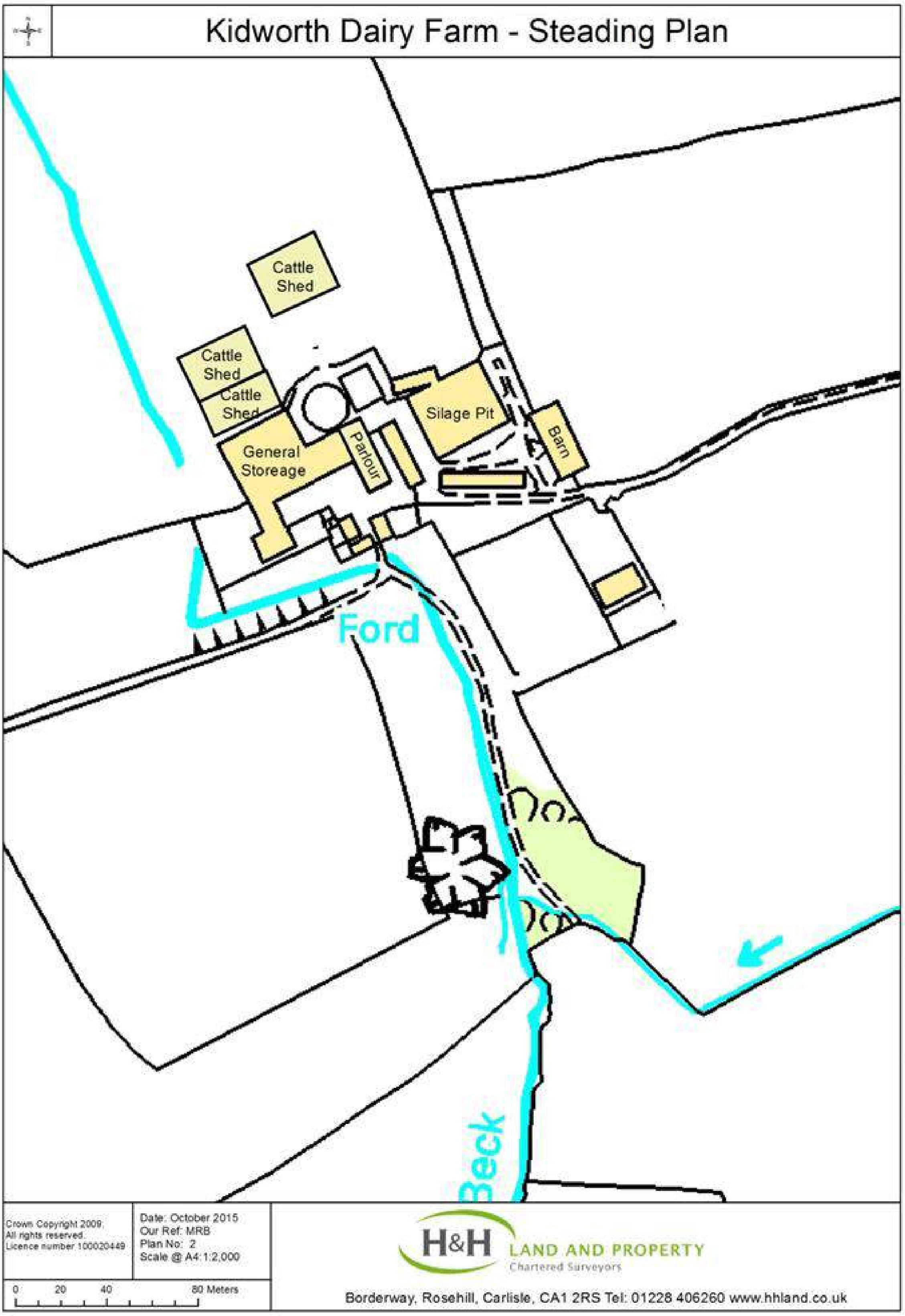

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Meeting the Agrihive Case Study Winner

The Inaugural winner of the prestigious Kidworth Dairy UK Case Study Competition is 27 year old Paul Barrow (pictured above), a dairy farmer from Cumbria.

Paul captured the imagination of the astute judging panel for the Agrihive Dairy Case Study Competition because of his practical solutions and long-term suggestions.

On receiving the prize Paul said: “I’m speechless. I’ve only been overseas once and I haven’t even got a passport"
Paul added “The way I attacked the case study was to read it and think about it while I was working – as soon as I got an idea I would write it down; test it to see if it worked”.
Paul has recently returned from his trip to the Australian Outback. Also flying with him were runners-up Tom Atkins and Stuart Nicholls from Savills.

Their entry was judged to be a compelling attack on costs - comparing the case study with the top and bottom 25% of British dairy farmers.

Stuart Nicholls told the Agrihive team: “That’s amazing. I didn’t expect that phone call, what an honour!".

“The case study was very well constructed and we really enjoyed looking through it and trying to solve the issues and look forward to reading the other entries”.

Food and farming journalist Philippa Hall, formerly a presenter at Sky News and our host at the Agrihive UK Dairy Summit, accompanied all three on the trip. She interviewed them all and her interviews are contained later in this publication.

Following his trip, Paul Barrow spoke to Agrihive UK about his experience:

The trip was great. It was funny as when I got there I didn't feel the jet lag at all but when I got back it took about a week to get over it. The heat was rather more pleasant than we've had in the UK recently as it wasn't as close and muggy a heat.

With regard to the trip there were a couple of stand-out points. The first being the scale of the operations, we were looking at 50,000 + acre properties. There was also a common feel of resilience amongst all of the stockmen we met. They were all struggling with the drought but they all were looking forward and for positives. Another interesting thing I noticed was that China was hailed as having an unlimited demand for beef. This was particularly noteworthy as we all know the impact that the Chinese buying policy has had on the dairy industry. I also noticed that all the units we looked at had alternative forms of income away from farming such as tourism or buying/ letting houses. The other key point I saw in Australia was that stockmen weren't afraid to completely de-stock their unit. I have doubts whether this would work for the UK Dairy Industry with regards to milk contracts and the emotional tie many farmers have but it was interesting all the same.

Paul, Tom, Stuart and Philippa travelled to Australia between the 13th and 24th May 2016, looking at and reviewing different farming businesses and practices in the Outback to take back and share with the dairy industry in the UK. Their journey was profiled on social media, with a joint @AgriChatUK and @Agrhive discussion as well as a short film being made that is available on the Agrihive You Tube channel.

There were a great number of entries, and outside of the winner and runners-up the Agrihive team would also like to make a special mention of the 7 other finalists who are noted below.

Thank you to all of the participants for taking the time to examine the case study and put together an entry. Every entry is included in this publication and we hope that you will read them and take the contents in the spirit they are intended.

Finalists

Paul Barrow
Tom Atkins
Stuart Nicholls
Isaac Carswell
Sarah Allison
Claire Dyason
Wendy Hounsell
David Sandeman

WINNING SUBMISSION

What should this business look like to be competitive in a volatile global market?

Kidworth Dairy Farm has a number of options open to it. However, it is obvious to carry on as things are would lead to greater problems down the line. Options that could be looked at include:

- Expand the dairy herd and produce more litres, breeding everything to beef bulls and purchasing replacement (Flying Herd) The ***benefits*** of this system would be that in general larger herds have a lower cost of production and the debt levels could be shared out over more litres. There would also be no young stock costs and all the store cattle would be of suitable high quality. The ***negatives*** to this system include the increased disease risk. The current milk pricing A and B system will penalise the extra litres heavily. There would also need to be significant investment in housing and slurry storage. Replacements are currently cheap but this will not always be the case.

- Sell the dairy herd and focus on a youngstock rearing system, selling all animals new calved. ***Benefits*** would include using the sale of the herd to reduce the net debt massively. The family wouldn't be tied to milking the animals also they could look at other income forms off the farm whilst still having dairy cattle at Kidworth, therefore in the future if the volatility is improved/ reduced John and Tom may decide to restart production. ***Negatives*** would include the price received for animals would still be variable (The recent Border and Lakeland club sale averaged £1379 compared to £1734 in January 2015 and £2176 in January 2014, a drop of 36% over two years) thus demonstrating the family would still be exposed to milk price volatility.

- On farm diversification e.g Milk bottling plant, ice-cream parlour etc. ***Benefits*** would include the ability to be a price maker not taker and being able to develop relationships with customers. Also if the farm set up an ice cream parlour they could look at other options on farm, tea room, shop etc, to supplement income. ***Negatives*** include the lack of guaranteed income alongside the high investment costs needed to get Kidworth into a position to start.

- Exit the industry either by selling the farm or renting Kidworth out. ***Benefits*** would include Robert and Heather could retire using either the rent and BPS or funds from the sale. In the long term the funds from the farm could be evenly split between all three children. ***Negatives*** would obviously include the lose of the business which has been in the family for generations and it would be highly unlikely that John or Robert would recommence milk production at Kidworth.

- Make the farm organic. ***Benefits*** would include a less volatile milk price as demand is currently high and forecast to continue to outstrip supply alongside the premium price per litre. The farm would also be less exposed to high costs such as fertiliser etc. ***Negatives*** of going organic would obviously include the two year period needed for conversion and the higher feed costs etc associated with this system.

In my opinion the best option for the Kidworths to maintain their position in the industry for the foreseeable future would be to begin looking at the process of becoming organic. This should provide a good form of income whilst removing them from the volatility of the global market.

The value of the organic sector is projected to grow by about 6% per annum (Dairy Farmer Magazine January 2016).This demonstrates that there is set to be a long term requirement for organic milk for bottling, cheese etc.

There is competition with the UK by various processors, both nationally and locally to source enough organic milk to meet requirements. However, before the Kidworths begin the long process of conversion they need to be 100% certain that a buyer operates in their area. With the current requirement for organic milk there are no A and B contracts at present.

One of the obvious drawbacks of switching to organic is the reduced stocking rates with a recommended level of 1.7 units per hectare compared to 3 for non organic systems. The family will need to consider this carefully as the owner of the land they rent may not want the land placed in an organic system which would need them to dramatically reduce stocking rates. This will obviously have a serious effect on margins etc

The SAC Farm Management Handbook 2015/ 16 gives a gross margin per cow of £1733 for a 7000 litres organic cow compared to a margin of £768 in a standard system. These figures use a milk price of 38ppl for organic and 21ppl standard, with concentrate costs of £380 per tonne and £190 per tonne respectively.

The two years of going organic are usually the most difficult for the farm as they aren't receiving the premium prices. However, through schemes such as the Agri-Environment Climate Scheme in Scotland, the Government offers financial incentives per hectare for the two conversion years as well as maintenance payments for the following three years.

The excellent grass growth in the area and the ability of Kidworth to conserve plenty of forage is also suited to an organic system.

Obviously the decision to become organic is a huge one for any dairy farm and shouldn't be taken lightly. The margins between the two systems should narrow when the global milk market begins to turnaround. However, becoming organic is a long term decision and not something that the family can jump in and out of year to year. The Kidworths will go through a learning curve seeing how their farm land/ livestock responds to the challenges of becoming organic and also what changes they need to make in their management style. In my opinion this would be the best option for Kidworth Dairy Farm to remain a sustainable operation given the volatility which is causing havoc on farms such as theirs around the world.

The Judges

The three judges for the competition were Jonathan Robinson of United Farmers Ltd, John Allen of Kite Consulting and Professor Bryan Watters of Cranfield University. All of the team at Agrihive would like to offer our sincere thanks to the judging panel for committing their time and expertise to the competition.

They praised the winners for demonstrating alternative strategies, clear planning and commercially viable goals to drive the future of the Kidworth Dairy Farm forward.

Judges Comments

Jonathan Robinson - Chief Executive Officer – United Farmers Ltd

Firstly, can I praise the Agrihive team for bringing to the forefront leading industry people for open discussions on how we can approach and help sustaining our dairy industry within the UK, in such a difficult commercial environment.

Once upon a time when we milked the cows we knew the price we would be paid for milk. The world has become a smaller place and the movement of products globally has now brought commercial reality and volatility to the farmer's front door. We have two broadly farming models operating within the UK, commercial large scale dairy units 300 cows + and smaller family run farming units. It is important that each equips itself and makes the right changes to their business model to insure long term viability. Different approaches are required with each and the correct advice is need in helping each.

My approach is, how do we do we help UK farmers produce milk at 18p per litre to help kerb milk pay-out volatility – which is not going to go away! We have some extremely good farmers throughout the UK already doing this and we need these farmers to step up and demonstrate practically to others who can take on board suitable practices and apply these to their own business. We need UK regional ``Farming Champions`` and we need to help each other and be more open instead of our individualistic farming approach.

I was my privilege to view and help mark the selected finalists in this competition on the Kidworth Dairy Farm. Some very good ideas and comments given which have some real gems in each. The family will need to decipher what is practical and relevant from these. It shows there are so many different approaches but the family needs to decide what is best for them. The one practical point missed and is so vital is many have referred to the best use of grass and silage. What crop of grass are you growing? Grass seed varieties have improved dramatically and by seeding the very best varieties available could yield a further 25% grass production! Just a thought! Reducing costs of production has also been highlighted by many but few go into greater detail with how the family learn the skills and begin this process. Which costs to cut first without having a greater negative impact on the business further down the line! Have a plan and include the whole family. Planning is key and you then need to have the correct structure to follow.

John Allen – Kite Consultants

As we work our way through the current dairy crisis we need to remember the 3 Rs'. A "rational" response to the current crisis at farm level, avoiding actions that can come back to haunt a business.
Anticipate a "re-setting" of the economics going forward in a new world where there can be good profits to be made at 25ppl if feed costs less than £180 per tonne. Finally let's remember "resilience" which is what Paul Barrow the winner was showing in how he was being positive in finding farm solutions and looking outside the box to create a competitive family operation going forward. Resilient operators will grow in our industry. They will be the positive people who seek innovative solutions, taking control of their lives and learning from others and driving out costs, whatever their farming system.

"rational" Avoid drastically changing diets and systems. We have seen some businesses slash feed rates, turn the cows out and not manage it properly. Yields drop 5-10l per cow, fertility goes to pot and 12 months later they are haunted with less milk and chasing litres. If you were going to radically change your system you should have done it in the good times?

Anticipate a "re-setting" of the economics going forward in a new world where there can be good profits to be made at 25ppl if feed costs less than £180 per tonne – is cop 25ppl realistic – how can this be done?
£180 per tonne reduction represents a 2.2ppl cost reduction at 0.45Kg per litre (if followers are included and we assume previous price of £230 per tonne so a £50 reduction). Our clients could break even and the best make a profit at 27-28ppl in previous years so taking 2.2ppl out with a further 0.8ppl by challenging other costs will get them into a safe place with 25ppl.

"resilience" which is what Paul Barrow the winner was showing in how he was being positive in finding farm solutions and looking outside the box to create a competitive family operation going forward. Resilient operators will grow in our industry. They will be the positive people who seek innovative solutions, taking control of their lives and learning from others and driving out costs, whatever their farming system. Start to mix with a positive group/consultant. Don't accept what you have always been told. You can graze successfully with 9000litre cows IF you do it properly, you could get to 1.5Kg of solids per 1 Kg live weight if you start to look at new ideas, e.g. genomic testing, Get into a mini benchmarking group with similar minded individuals and learn from the best in the group.

Bryan Watters

It has been a great pleasure being a part of the Uk Agrihive Dairy Summit and to then have the opportunity to see and judge the entries which made it through to the final.

The entries were varied covering Grow the Dairy (unleash the inner accountant). Detailed cases supported by compelling figures.

Sell the farm - A radical or possibly a pragmatic plan: sell the farm and use the equity to provide for the family or rent it having nearly cleared the debt by selling stock and secure the mother and fathers future.

Defy the health obsessed and build a butter mountain. A diversification into butter, adding value, and the move from family farm to agri business

Reduce costs, diversify into a dairy support business, disregard the wishes of the sons and call in the lawyers/accountants.

But on some entries I was not sure if the environmental impacts of a 400 heard were recognised, slurry disposal?

Was the future financial security of current farming generation recognised in all of the figures?

Some proposals lost their way in giving detailed advice to the farmer and could be mis-understood and mis-followed by the farmer.

RUNNERS UP SUBMISSION

What should the business look like to be competitive in a global market?

The aim of any business is to be profitable. Furthermore, in a competitive global market place such as the dairy industry, it is critical to be in top 25% of producers to ensure long term sustainability in this ever evolving industry.

As such, to see what the business should look like, we have benchmarked Kidworth against the top and bottom 25% of UK dairy producers, based on the DairyCo Milkbench+ Report 2014. The results were analysed to pinpoint Kidworth's key areas for improvement (Kidworth Farm DairyCo Benchmarking Analysis). From these results we have made achievable adjustments to the business to place them largely in the top 25% of producers and make 'Kidworth 2020' not only sustainable but profitable, in what are extremely testing times for the dairy industry.

Kidworth's three main areas of weakness were:

1. Feed and Forage: Contributed 15.28p per litre to the cost of production, this was 78% worse than the top 25% of producers and 30% worse than the bottom 25% of producers. [1]
2. Overheads: Contributed 1.84p pence per litre to the cost of production. This is respectively 104% and 23% worse then the top 25% and bottom 25%
3. Property Costs and Finance: Contributed 3.31p per litre to the cost of the litre which was 14% worse than the top 25% but 3% better than the bottom 25%

1 We have assumed that all feed and forage costs are allocated to the dairy and that these costs would exist with or without the existing beef enterprise.

The restructuring of Kidworth to make it into a strong business could potentially go down two different avenues.

Firstly, a low input, milk from forage based system in which the herd would become a tight spring calving block. The main aim of the system would be to drastically reduce spending on feed and forage through utilizing the ample grazing area and minimise housing costs by out wintering dry cows on for example Kale. The silage requirement would be drastically reduced and primarily needed for buffer feeding cows at pasture. This system would suit Kidworth well as little investment would be require to get where they would need to be with the system. The main challenge would to be able to adapt to an approach which is not mainstream. This system has shown to be highly successful in New Zealand and some areas of the UK where the soil types are correct. Although the numbers worked well, there were too many 'unknowns' in the case study to make a compelling case for the system, most notably ground conditions.

Therefore, based on the information we had, we decided that the only realistic method for Kidworth moving forward would be to increase cow numbers to spread the fixed costs and therefore allow Kidworth to benefit from greater economies of scale. To realise this 'Kidworth 2020' will increase cow numbers from 180 to 400. This will increase the stocking rate from 1.2 cows per hectare to 2.68 cows per hectare, with a target of 3 cows per hectare moving forward. This increase in cow numbers would specifically act to improve the three main areas of weakness by better utilization of feed and forage and the higher stocking rate would reduce the ppl cost of overheads and property costs and finance. This would make 'Kidworth 2020' better than the top 25% of producers on feed and forage and property costs and finance. It would reduce their overheads to be in line with the top 25% of producers but significantly better than the bottom 25% (Kidworth Farm DairyCo Benchmarking Analysis).

The herd would have to change from 'year round' calving to a 'spring' based system allowing more efficient use of grazed grass with the intention of implementing a 21-25 day grazing rotation. This spring system would also look to benefit from greater organisation of the herd which would be necessary considering the increase in cow numbers.

Further to this additional housing and slurry storage would be required and as such a new loan has been introduced onto the profit and loss account (Kidworth 2020 Forecast Profit and Loss Account). This loan totals £300,000 with £100,000 allocated to new housing and another £100,000 for slurry storage so NVZ regulations are complied with. The last £100,000 has been allocated to help upscale the herd and provide the necessary additional infrastructure.

It is assumed that the FBT on the adjoining farm is extended by a willing and supportive landlord.

Due to the high stocking rate, all replacements would be contract reared off site resulting in a high livestock cost.

Turning Kidworth's weakness's into its strengths is important, however, a pointless exercise if a profit cannot be realised on the bottom line. After all costs have been adjusted to take into account the increase in cow numbers and the additional finance taken on by 'Kidworth 2020' they would record a pre-rent and finance profit of £206,279 and a net profit of £148,975 (Kidworth 2020 Forecast Profit and Loss Account).

Increasing cow numbers would therefore allow 'Kidworth 2020' to successfully realise greater economies of scale needed to give it a sound, profitable footing moving forward. 'Kidworth 2020' would also be able to weather further price reductions to a level of circa 16 ppl, although this would have cashflow implications. This shows that the 'Kidworth 2020' plan is not only profitable but sustainable and competitive in an increasing volatile global market.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

It seems Kidworth have nominated their successor already in the way of John to run the farm as they believe Tom 'isn't up to the job'. However there could be potential for a partnership between the two brothers, which could be used to the benefit of the farm. John is very adept in financial matters, focussed on targets and outcomes and therefore he seems well placed to run the financial 'indoor' side of the business. John however is lacking livestock experience, which younger brother Tom has, from his nine years of milking. Therefore it would make sense to give Tom control of the 'outside' operations. Their skills are very different but complimentary when it comes to running a modern dairy farm. It is important to stress to that the brothers will need to collaborate and work together if this arrangement will be successful. There needs to be a strong coherent link between inside and outside.

The other issue in this succession transition seems to be the aspect of housing for different parties. There are options as John has £100,000 which could facilitate a new build on farm as well as potentially providing funds for a mortgage deposit to compensate his sister. There is also a cottage on the leased land as well as the family house. The farm may have to find money to help Alison with a mortgage deposit. This shows there are a raft of options for the family. Negotiations and discussions need to happen with all family before any decisions are made, which will hopefully minimise conflict within the family.

The trick to a smooth succession is good planning, structuring the business in the most appropriate way and making the transition as long and smooth as possible, as opposed to a short and sharp change. Sudden quick actions are not helpful in a succession transition and can create division.

The great news for Kidworth is that they have time to plan and implement a strategy, no sudden decisions are needed as Robert and Heather are still of working age. Additionally, inheritance tax should largely be avoided as 100% relief is given on land, provided it is used for Agricultural purposes additionally farm building and farm houses can be included if they are of a character and size appropriate to the land, which they probably would be in this instance.
Succession and land ownership and are not a burden. No one is coerced to take on a business they don't want to. To inherit land or a farm via a succession can only be seen as an opportunity, whether that opportunity is going to be in farming or equally in liquidating the asset for other purposes. It can be appreciated that some may say slow transitions, where full control is not given to the next generation, holding the business back. This to an extent may be true but on the other hand they can offer a safety net that is not always appreciated.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

'Kidworth 2020' will get through to the next upturn by increasing its borrowing to finance an increase in cow numbers and an upgrade of infrastructure where necessary. The forecast expansion (Kidworth 2020 Forecast

Profit and Loss Account) will move ‘Kidworth 2020’ into profit and generate a positive cashflow at not only an increased price, but less than is currently paid, which would allow them to survive in further periods of volatility.

‘Kidworth 2020’ has long term sustainability that it will achieve by benefiting from economies of scale. Going forward Kidworth should look to further reduce both variable and fixed costs to ensure long term sustainability. Kidworth should look to reduce their variable costs further by trying to spot opportunities for greater operation efficiency, greater organisation and better attention to detail leading to marginal gains. These are often low investment projects that can lead to good savings. These, combined successively, will help to limit and reduce variable costs benefiting the overall business.

In terms of fixed costs, Kidworth should look to invest in renewable technology and water management solutions that could significantly reduce their main fixed costs (water, electricity and heat) and in turn their carbon footprint. There are a range of renewable subsidies and grants that can make these sound investments. Additionally, renewable projects can offer excellent payback periods and some offer enhanced capital allowances. If finance is available and projects offer long term cash saving and protection from volatile commodities markets they are a ‘must’.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

If this is representative of a typical UK family dairy farm, there are three notable areas that could be improved.

1. Economies of Scale

Kidworth clearly demonstrates a lack of profitability which could be attributed to low cow numbers which is essentially due to a lack in economies of scale. The table below demonstrates average herd sizes historically in both the UK and New Zealand.

Average Herd Size per Year [2]												
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
England	**102**	**105**	**104**	**111**	**117**	**119**	**121**	**125**	**126**	**127**	**128**	**136**
New Zealand	**285**	**302**	**315**	**322**	**337**	**351**	**366**	**376**	**386**	**393**	**402**	**413**

2 New Zealand Dairy Statistics 2013-14, AHDB Farm Data Average Size of Dairy herds 2015

This table shows the gulf in the economies of scale being utilized by New Zealand and British dairy farmers, it should be noted that for a long period of time milk quotas have impacted the size of British Dairy herds. Analysing this table and ‘Kidworth 2020’ shows that to be competitive and to improve, British family farms need to utilize greater economies of scale which in turn should lead to greater efficiencies. Although it is a taboo word in the UK, British Family farms need to become as intensive as possible to compete and also be more commercial orientated as opposed to family orientated.

1. Recruitment

Kidworth is a classic example of how many UK dairy farms are not run as a ‘business’ in the strictest sense of the word and it could be argued this is holding them back. No self respecting multi-million pound business anywhere else in the UK would appoint someone into a key management position, who had no formal industry training or qualifications and equally, previously, had only ‘a passing interest in the farm’ and has never been actively involved.
This recruitment policy is archaic and without doubt holding the industry back. The UK and world dairy industry is not a hobby; it is a highly competitive industry where small margins determine the success of

failure of a business. Family farms need to break tradition and recruit professionals to run these highly complex operations if they want long term success.

2. Infrastructure, Investment and Systems

Kidworth is a classic example of so many British Family Dairy Farms. 'The layout is not ideal for the current setup and makes further expansion on site difficult'. This leads to inefficient daily operation, adding pence per litre to the cost of production, therefore making the business less competitive on a national level and even more so on a global level. A key area of improvement is to improve outdated infrastructure to maximise efficiencies allowing for better competition with more modern dairy operations.

British Family Dairy farms like Kidworth have evolved and expanded of over years. In many cases currently to there detriment as they are struck with 'bit by bit' expansions which are inappropriate for efficient management of current herds. This does not help operational efficiency as it makes tasks more disjoined therefore more time consuming and will end up holding the farm back. Hard decisions will need to be made but there are options, especially if younger generations are prepared to commit long term, such as investing in a purpose built unit on a greenfield site making use of new technologies and efficient systems and therefore looking at developing existing farm buildings into higher value commercial or residential units.

Kidworth 2020
Forecast Profit and Loss Account

Accounting Year End	Mar-20
Average Cow Numbers	400
Production per Cow (ltrs)	7,000
Total Litres Sold	2,800,000
Milk price (ppl)	25.00
Sales	**£**
Milk	700,000
SFP	28,600
Other Subsidies	2,400
Cattle Sales	95,000
Cattle Purchases	-
Valuation Change	7,000
Other income	5,500
Gross Output	**838,500**
Variable Costs	
Haulage	2,000
Fertiliser, seed & sprays	30,000
Feedstuffs	170,820
Veterinary & AI	35,000
Heifer rearing	73,000
Dairy	18,000
Total Variable Costs	**328,820**
Gross Margin	**509,680**
Power & labour costs	
Wages	62,500
Contracting & casual	29,388
Machinery fuel & oil	15,000
Motor expenses	5,000
Machinery repairs	15,000
Licences & insurance	500

Hire of equipment	1,000
Heat and Light	9,000
Depreciation	25,443
Total Power and Labour costs	**162,831**
Premises costs	
Repair and Renewal	16,402
Rates and Water	4,000
Insurance	4,500
Total Premises cost	**24,902**
Sundry	
Telephone	800
Office expenses/ PPS	1,000
Sundry	1,881
Bad Debuts	-
Accountancy & Professional	3,000
Total Sundry	**5,268**
Total Fixed Costs	**193,001**
Profit pre rent & finance	**316,679**

Kidworth Farm – DairyCo Benchmarking Analysis

Present Kidworth System

	% Difference Between Kidworth Now and DairyCo Top 25%	% Difference Between Kidworth Now and DairyCo Bottom 25%
Cows	-28.00	38.46
Milk Yield	4.08	5.48
Milk Price	-31.15	-26.32
Feed and Forage	77.67	29.49
Livestock	7.41	-19.44
Total Variable Cost	60.88	18.05
Labour	-14.52	-53.38
Power and Machinery	19.38	-6.83
Depreciation	-51.43	-67.10
Property Costs and Finance	14.14	-2.65
Overheads	104.44	22.67
Total Fixed Costs	2.11	-31.41
Total Cost Production	6.07	-26.4
Margin	-296.23	19.54

Proposed Kidworth 2020 System

	% Difference Between Kidworth Now and DairyCo Top 25%	% Difference Between Kidworth Now and DairyCo Bottom 25%
Cows	37.50	67.50
Milk Yield	-0.20	1.13
Milk Price	-22.00	-14.00
Feed and Forage	-19.91	-64.53
Livestock	40.94	21.25
Total Variable Cost	3.78	-31.14
Labour	-52.34	-179.30
Power and Machinery	-48.85	-91.72
Depreciation	-131.10	-241.15
Property Costs and Finance	-41.70	-66.13
Overheads	16.47	-39.21

Total Fixed Costs	-48.78	-121.49
Total Cost Production	-31.51	-89.53
Margin	-22.77	301.52

Benchmarking of Kidworth
PPL Analysis

	DairyCo Top 25 %	**DairyCo Bottom 25 %**	**Kidworth Now**	**Kidworth 2020**
Cows	250	130	180	400
Milk Yield	7,014	6,921	7,300	7,000
Milk Price	30.50	28.50	21.00	25.00
Feed and Forage	8.60	11.80	15.28	7.17
Livestock	2.70	3.60	2.90	4.57
Total Variable Cost	**11.30**	**15.40**	**18.18**	**11.74**
Labour	4.20	7.70	3.59	2.76
Power and Machinery	3.20	4.10	3.82	2.15
Depreciation	2.10	3.10	1.02	0.91
Property Costs and Finanace	2.90	3.40	3.31	2.05
Overheads	0.90	1.50	1.84	1.08
Total Fixed Costs	**13.30**	**19.80**	**13.58**	**8.94**
Total Cost of Production	27.20	39.20	28.85	20.68
Margin	**5.30**	**-8.70**	**-10.40**	**4.32**

Data from DiaryCo Evidence Report
Analysis of the Milkbench+ and international dairy benchmarking data for 2012/13
February 2014

Interview with winner and runners up in Australia – Philippa Hall

Paul Barrow – 26 year old Dairy farmer from Cumbria

What have you made of the trip?
It's been really good to look at different systems on the other side of the world. We've seen a good variety of systems to go back and compare and come up with new ideas.

What most struck you about the outback – what it what you expected because of the drought.
There was much less grass about than expected. But it was the resilience of the farmers. They all seem to be confident there was a future and they could see long term.

Anything in particular? Impressed by?
The set up at Maleny dairies. The set up they had there the development that they've got to try and take the matter into their own hands rather than being exposed fully to the volatility.

They've fetched it in house. They've coped with the issue of succession by dividing the business up so you've got the dairy processing side and the farm side. They've took the marketing, the brand. It's in house, they've built up an international reputation. Their farmers are still receiving a very good price where as others in Australia are still receiving a bad price.

Would the trip work in many different countries?
I think it would work but there'd have to be a crisis in that country. A swap over like that.

If you did have $10m or £5m would you invest in dairy in the UK or beef in Australia. ???
I'd go in the middle. I put a dairy unit but in Australia. In Queensland. The weather's right for it. The cows are out all year which is a major cost in the UK. There seems to be the infrastructure, the grass growth and the demand. And I think that'd be the best of both worlds.

What about periodic business – what did you make of the concept?
I think it's a good concept but you can't apply it to the UK really. You can't just switch dairying off with the click of a finger. Dairy is a long term game whereas the beef industry you can move in and out. Plus there's a lot of emotional, or heart strings in the dairy industry.

Take home message?
Be resilient. Times will come back. There's always someone in a worst situation than yourself.

Stuart Nicholls – Agri business consultant for Savills. Family farm in Buckinghamshire but lives and works in Kent.

What do you make of the trip?
The trip's been really eye opening and broadens my horizons. I've got a really good understanding of Australian agriculture in terms of the beef industry out here. It's really interesting to see whilst there's a lot of differences between the fundamentals and the systems - how they operate, the pressures they're under, a lot of the, there's a very large amount of similarities in terms of succession, financial issues, management issues, staffing.

Where you surprised by what you saw in the outback in terms of the drought? What it what you expected?
It was as I expected it to look. Dry, barren, desert like, no grass. But what surprised me was the photos for when it does rain and how green it becomes. In terms of stocking – that's what really surprised me. The number of

stock they are running in the outback, the yields they can achieve, or growth rates. And they systems by which they operate, whereby they completely de-stock for periods. That surprised me.

So the periodic nature is foreign to us from the UK – what have you learnt from that and is there anything to take back to the UK?
Where the concept can't be directly applied to the UK because we don't have extremes of weather there are certain situations where you could probably use that for price volatility. So it might be where wheat is selling for less for the cost of production you could look at the model to change your crop, moving to grass or maize for a few year, changing your core business. What would be key would be structuring the business to be agile enough to flick from one element to another, or one form of production to another.

Any other things that could be taken back to UK farmers?
I think there's mind-set here in a lot of the Australian gusy we met – they were an innovative guys and women that we spoke to. They talked about a lot of similar problems we have in the UK, whereby people get stuck in we're a dairy farmer, we've got to be a dairy farmer, we grow this, we've always grown this. So it is just taking the mindset that these guys too and saying this is what they dealt with and this is the result

If you did have $10m or £5m, what industry would you invest it in?
At the start of the week I was adamant dairy because of the concept of stocking for however long the drought lasts. But after spending a week seeing the potential for growth and the way they structure their businesses here I would definitely put my money in the outback and go for a beef herd here. I think there's far more potential to generate profit, and it's pretty exciting. And what you can invest off farm, putting money away in the good years to get you through the bad year.

Take home message to the UK?
Don't be afraid of change.

And vice versa – message for Australia?
Benchmarking and cost. I know a lot of the guys say it's not applicable here. But I think even if it's just benchmarking year to year on your own performance.

Some of the guys here weren't really fully aware of the potential of different systems. We looked at organic and conventional systems and highlighted the difference between those two systems and there was 0.75 cents and kilo premium difference. If you're fully aware and can save 10/20/30 pence per kilo and then on the scales they guys are over here then it can lead to some pretty significant gains.

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Tom Atkins – Savills Agri Business – 26 years old – read Agribusiness Management at Newcastle. Worked in dairy in UK and NZ.

What did you make of the trip?
It's been really good. I've enjoyed pretty much everything. The outback's an amazing place. And there were some great characters and really friendly people.

Where you surprised by what you saw?
I wasn't quite sure what I expected. I wasn't distressed by anything. It was really dry. I was and I wasn't surprised by this, but I was shocked by the land that they farm. Over here they are farming 30,000 acres, and that's small. The scales of the farms and the size of the operation they run surprised me.

Could Agrihive concept be replicated elsewhere?
I don't think it should be replicated. I think it should be a think tank above all the countries. And people from the countries all feed into it - Whether that be educational institutions or people within the industry. The concept should be used as a crown.

£5m v $10m dairy v beef?
Australian beef industry. The cattle price long term is probably more attractive. The diary price will continue on a downward trajectory and people have worked out how to produce milk in mass volume and however much people want it to change it's not going to change. And with Aussie beef there's a lot of talk about new markets opening up in China so that will only increase demand. And supply is harder to replicate with the drought so there might be some price increases there. Long term it's a more attractive prospect.

Periodic biz? What did you make of it?
I don't think it's a foreign concept. It's been named. It's not really ground breaking stuff. It's quite a clear concept – If you're going to have volatile markets you're going to best positioned being agile and not over committing. If you know there are going to be bad times ahead why are you over committing. You want to get in there when it's good and get out there whiles it's bad. I don't think that's a new concept but guys in England are just so committed and don't have the agility. It's a new concept in farming but I don't think it's a new concept in business. I look at the top investors, they are always moving their money because all commodities are going to go up and down. People should try and look at their businesses more in that way.

Take home message?
Make sure I save up enough money to come back out here!

Have you got a message to UK farmers!?
Yes. Try not to over commit. Make the most of the good times and limit exposure in the bad times.

Robert Hitch - Agrihive

It doesn't seem like over a year ago that Robert Craig approached me and asked if I would be involved in the Agrihive project aimed at the UK dairy sector. The plan was to provide a thought provoking case study of a typical dairy farm and ask farmers, industry professionals and outsiders what they might do to help the business through its next few years.

The launch of the competition was well supported by the agricultural press and industry and we set out to raise some fairly brutal truths about the industry and some of its problems. Whilst we always tried to get the message out to the wider public through the mainstream press we struggled to get anyone to cover the competition and issues.

That said the feedback from the launch event following contributions from Chris Walkland, and William Neville amongst others was good.

We attracted some good entries into the competition but didn't manage to get the main messages out to as wide a circle as intended.

That said once Ian Potter picked up the messages that William Neville had delivered at Agrihive the industry started to discuss them more widely, culminating in the NFU/AHDB Dairy Decisions for Dairy approach. In hindsight perhaps we should have involved Ian in the first place.

We have also had success with the case study with many farmers commenting it could be them! More importantly some of the agricultural supply organisations are using the case study as a tool with staff and customers to discuss issues.

When I now look back on the process I think we have managed to start the process of a more critical look at farm businesses and the families that own and manage them. I hope that the case study will continue to be read to prompt people to think about their own businesses and what, if anything, they should do to improve them.

Involvement in the project has certainly been a rollercoaster of ups and downs, but having contributed to it and seen the outcomes it has helped deliver I am glad I have done so. Would I do it again, yes but with a longer timescale!

Rob Hitch

Heather Wildman Saviour Associates

Why a UK Agrihive?

The key that made this initiative different to anything that I have seen done before is that it is based around a family case study The Kidworth family could be anywhere and anyone dairy farming here in the UK. For too long now industry and organisations who have data to share or news to break write about research, facts, statistics and averages in flat terms. Farming people relate to stories, they need to have their hearts and minds seduced and they need to be able to picture themselves so that they become Robert & Heather Kidworth and the Kidworth children John, Tom and Alison become their children. The case study deals with sensitive issues and highlights weakness in the technical and financial performance of the business and the reluctance and inability of the partners to effectively secure their families long term.

We received some great entries and suggestions with many people focusing on how they could turn this business around, tweak and amend the system, get more litres of milk from grass, reduce bought in feed costs, put on more cows, split the business, try alternative uses for the buildings, retire mum and dad. John take over the farm, Tom take over the farm. However very few proposed that the family firstly sit down together and discuss what each member of the family including all 3 children would actually like and need going forward and do they have the skills to do so? Without knowing this key information we are all at risk of resulting in 5 unhappy, unfulfilled people and potentially family fall outs, even bankruptcy.

It amazes me how quick we are as an industry to jump in with solutions before we know all of the facts and have all of the information to be able to have a clear view of the bigger picture. We see this happen each and every day from politicians and industry leaders at the top, to on the ground farmers and workers who have a tunnel view, who are unable to see alternative solutions or alternative ways of approaching things, why is this?

Going forward to have a successful sustainable and profitable UK dairy industry we must see more openness and transparency from the whole industry. We need strong industry leaders, with vision who are not afraid of saying what needs to be said and not worried about towing the party line and who can and will work in collaboration.   The UK Dairy industry needs to pull together and to stand tall and to acknowledge that we need to change and that we need to improve, be smarter and we all need to start approaching agriculture from a business perspective not just farming. Egos and self-promotion must be left at the door there is also often too much in house fighting, negative commentary and heckling from the side lines. Regardless of system or size we need to help and support each other as we have no entitlement to make money. We live and work in a competitive market place where the consumer now has so many choices available that we cannot assume that dairy will be a staple in their shopping basket.

Succession is often referred to as “opening the can of worms” but burying your head and avoidance of the topic is not fair and not acceptable. I would love to see that it became the norm for every farmer aged 48 to have their wills and succession plan successfully implemented and shared with their family & business partners and for it to become aspirational to be retired and off farm by 55 allowing the next generation to take the reins whilst they the retiree’s still have health, pride, energy and expertise to invest in new hobbies, careers or ventures. Lack of or poor succession is stifling our industry. But what is it that is holding back farmers from taking these decisions? Is it lack of respect or not believing the next generation has the skill sets? Fear of divorce? It all just looks too difficult? I never got the farm till I was 55? Fear of conflict & arguments?   What would I do if I was not farming?

Addressing and dealing with succession is not easy and it can be a long process but for this industry to spring back we need to break down these barriers enabling families to take control, allowing young people to know where they stand early in their farming careers, so that they can upskill, train, gain experience, invest and be prepared. Having a plan also empowers the retiring generation, they can look forward knowing that they will have sufficient funds, time, house and health to be able to exit the industry with dignity and pride.

Being a part of the Agrihive team has been a roller coaster of highs and lows. But once we got the support of our sponsors doors started to open and people and businesses started to accept that we were not going to go away! Have we accomplished all that we set out to do? No, I think not, but have we made a difference and started a whole new thought process and round of discussions? Yes I do believe we have. Thank you to everyone who took part, entered the competition and supported the summit. Thank you to all of our speakers, panellists and judges. Thank you to our sponsors and a massive thank you to James Walker the author and creator of Agrihive and to my UK partners Robert Craig, Robert Hitch and Neil Wilson it has been a pleasure and a hugely challenging process at times but it has been an experience that The Saviour will never forget

Neil Wilson

It's just over a year since I took a call about a wild idea to redirect the UK dairy debate involving 2 farmers, one English and one Aussie, an accountant and the Saviour. Doesn't time fly! And so did those who were fortunate enough to be judged as the winning entries of the Agrihive Kidworth Dairy Case Study as they jetted off to Australia with journalist, and our presenter at the Agrihive Summit, Philippa Hall. I really hope they all enjoyed themselves and return enthused about the job ahead.

The case study and the entries that are printed in this pack were really an opportunity for anyone to express themselves and present radical ideas and alternative thoughts for the wider sector. I hoped for, and expected, some fantastic examples of disruptive innovation in action as a follow on from the Agrihive Summit in November 2015 where the Agrihive team and their highly regarded presenters and panellists did their utmost to shake it up. I'll return to the case study later, but the main reason the Agrihive UK team got together just over a year ago was to change the direction of the debate to a more informative and constructive mode than it had been in. In February 2015 we could not have foreseen that milk incomes would continue to drop and that over a year later roughly 80-85% of the dairy farmers in this country would be losing money, no matter how good they were.
I have had the good fortune to be involved in this project with fantastic people, all of whom have a passion for this industry that many would find hard to beat. Boy, we needed it to meet the challenge of organising, running and managing a dairy summit in London (via the Australian Outback!) and the subsequent competition alongside the day jobs. Four of us in the UK and James Walker, the founder, in Australia managed to pull off a line up of speakers, panellists, judges and an audience that many other major conferences would give their right arm to have. I am thankful to each and every one of you who gave your time to attend that day as it really set the ball rolling and put Agrihive on the map. Not as a brand, but as a thought process. Disruptive innovation in action.

Ultimately it led to William Neville's questions, first posed at the Agrihive Summit, being published by Ian Potter. Mr Potter has commented several times that he has not had feedback and responses like it before. The subsequent Decisions for Dairy debate, which I am sure arrived as a result of Ian Potters Dairy Farmer article, also credited Agrihive for the efforts in changing the direction and tone of the debate.

Although it wasn't quite mission accomplished as far as I was concerned. One of our aims was to involve debate and ideas from outwith the farming industry. An effort was made to engage with entrepreneurs and businesses in other sectors unrelated to our agriculture industry, and, unfortunately I do believe we did not fully deliver this. However, the feedback I received was interesting coming as an unrelated outsiders view of farming. If I summarise; we are seen as insular, backward, moaning, old fashioned, lacking innovation and disconnected. These aren't my words, these are the words of those business men and women with whom I spoke about the project. Personally I don't believe them to be true, but that seems to be the image we portray and have built for ourselves. We must make every effort to build bridges and connect with the wider business community and our customers to rebuild the image and faith in farming.

That feedback also led me back to our case study and what 'we', the farming and business community could deliver to help the Kidworth's make some key decisions about the future of their business. I was pleased with the number of entries we received, but, in my opinion, far too many were one dimensional. Many headed off down the track of converting systems and giving up the rented land without much in way of radical, innovative thought around the ideas.

I had been hoping to see some considered analysis in some of the following areas:

- Could you consider the Kidworths to actually be good enough farmers and business people?
- Share farming or contract farming opportunities on the farm.
- John Kidworth might be a smart cookie, but he has little farm management experience. Is he actually fit to do the job?
- More thought on how to tackle the succession planning issue.

The leading entries did tackle some of these issues and the writers should be proud of their efforts.
The case study has also found its way into the wider sector and is being used as part of discussion group meetings and as training material for staff within agricultural supply businesses.

I believe the Agrihive team have moved the dairy debate forward. The engagement across the industry has been quite humbling; from the generous supporters without whom we couldn't have really got going, to those who took part in the Summit and watched online along with the Twitter debaters who joined in during the Summit and also on Agrichat UK and finally to those who put so much of their time into the case study competition.

If we have pushed some leaders into an uncomfortable place, then so be it. The dairy industry has lacked true leadership at its most critical stage. It's easy to lead when the markets are all on the up and everyone feels warm and fuzzy about life. But when the chips are down and farming families across the country are looking for something, some guidance, strong words or comfort they seemed to me to be let down. I believe we have helped to bring that into sharp focus for some.

I hope that the thoughts of others contained within this pack can bring inspiration to you. Or provide the base for some thoughtful analysis of your own business, its place in the industry and, ultimately, your future within it. The future certainly looks tougher and more competitive than the past. Please don't let anyone tell you otherwise. Running a farm business will continue to be a hugely challenging and rewarding experience and I hope that you are up for it. Good luck!

William Neville

One of the presenters at the CEO Summit held in November William Neville, Director of Savills, compiled a list of questions for all dairy farmers to look at, consider and answer thoughtfully and truthfully;

The 'William Neville' Checklist:

1. Have you the mind-set to take control of your own destiny? Or do you feel bewildered and a hopeless victim of circumstances?
2. Is dairy farming right for you and your family? What are your plans for inheritance? Are you doing the right thing for your non-farming family members?
3. What will you need to invest in your facilities in the next 10 years? How will you fund it and justify it?
4. Do you REALLY know your cost of production?
5. What is the realistic future milk price? Are you looking at the evidence or living on hope?
6. Have you worked out whether you are producing what your milk purchaser really wants? ie Are you maximising your return under your milk contract?
7. What are you really paying yourself per hour? What can you afford to pay yourself and remain competitive? Would you be better off paying someone else and trying to add value to other parts of the business? What are your other skills? How much could you earn off farm part-time or full-time?
8. Might there be a day when you will find yourself stranded without a milk purchaser at all?
9. Are you buying all your inputs at best prices, and when did you last check alternatives?
10. Are you ruthlessly and honestly benchmarking your performance and constantly trying to identify ways to incrementally improve performance?
11. Have you got your eyes open for niche opportunities even if they start small?
12. Do you have the right skills for the technologically and market driven global dairy industry of the future?

Finalists 1

Overview as I see it from an ‘outside farming’ person

Kidworth Dairy Farm has been in the same family for many years. For a long time farming in the UK meandered along without too many complications, this farm was no exception. Robert will no doubt be able to remember his father reminiscing about the ‘good old days’ when the Milk Marketing Board was in place (from 1933 until it was disbanded in 1994) and which provided a comfortable monthly milk cheque.

Hidden away and rusting in a far corner will probably be a ‘Standard Fordson’ tractor used on the farm courtesy of ‘Lend-Lease’ and imported from the USA around 1942, and which changed the face of agriculture in the UK forever and brought farming into the 20th century. Prior to this date, horse power would have been in use on this, and many other farms.

Robert feels that present farming practice is adequate for the needs of the farm today and hopes it will stay that way – he has no wish to look at reality and will not realise that farming has changed out of all recognition since he took over the farm from his parents.

If no changes are made to the running of this farm in 2016 there are only two options available – sell up or become bankrupt – which will impact on the whole family in a very negative way. However, I think that positive changes can be made to improve matters considerably.

The whole family MUST be involved in deciding the way ahead – authority cannot be held solely by Robert for decision making.

A meeting, with a properly drawn up Agenda, and preferably with an independent observer, such as an manager from Mole Valley or NFU should allow the discussion to run without argument and make clear that decisions have to be reached and plans put in place which must be acted on. This will only succeed if transparency and honesty are in place and a genuine desire to move forward and change is understood. A SWOT analysis needs to be carried out with discussions taking place, with the family, at least once a month from then on to analyse the results. It will not be an easy way forward to begin with, and help will probably be required from others who are well placed and competent to advise where necessary.

Topics must include – immediate future (2016) plus a three year, five year and ten year plan which needs to be drawn up but which also must allow for flexibility within changing markets and circumstances, but needs to be constructive and made with the intention of being acted upon.

One topic which must NOT be included should be 'how can the business get through until the next upturn in prices'. This is a very dangerous assumption and cannot be allowed to be factored into any future plans as it will give a false sense of security and wishful thinking to the proceedings.

The Farm

The most immediate and practical needs may be addressed by 'added value' without adding (much) to the running cost.

I would suggest immediate installation of 'pamper pens' and 'cuddle boxes' (Mole Valley Newsletter 619, page 4) if not already in use on the farm. (From my limited experience with lambing many years ago I can vouch for the use of a similar system we improvised and which truly did pay dividends). The increased milk production will compensate somewhat for the lower milk prices paid at the moment.

A must for this dairy farm is being aware how to interpret and manipulate milk quality. 'Analysis of slaughter data is essential as fat class is linked to nutrition. A forage inventory needs to be taken as the need to reassess the forage ratio in the ration needs to fit in with changing forage stocks'. (Mole Valley Newsletter 620) Speak to a Feed specialist to incorporate new objectives in the management of the herd. For example, improve herd health especially fertility and, very important, lameness.

Looking to improve productivity by judicial positioning on the farm of feed, method of feeding, water supply, adequate lighting. Also by applying a simple form of 'time and motion' to all activities to make the best use of movement of stock and storage, cleaning out the sheds, etc. Layout of the buildings should be looked at to minimise tractor and human movement to avoid duplication of needed action.

Further, essential needs to be discussed are:

Review farm insurance to ensure adequate coverage and that the farm, buildings and contents are not under insured.

Farm machinery – is this leased or purchased out-right – which is the right option for this farm.

A future requirement, could be to inspect alternative energy supplies and back-up energy storage, as well as rainwater harvesting systems (here again Mole Valley are experts in this area).

Grassland management – how new are the grass leys and are they adequate for the land and farming requirements – if they are 'old' they would benefit from inspection by a professional who can provide up to date information and advice. Soil analysis and assessment is very worthwhile and can provide valuable data – can the farm incorporate no-till drilling (MV Newsletter 619).

The cottage on the rented land – is this property suitable to be used – say, by those wishing to observe the skies in a 'dark skies' environment during the winter months (which I assume this area to be in). During the summer months could the property be used by conservation teams working in the area. Extra income could be provided if managed properly.

Are there any unused or odd shaped corners on the farm – could they grow fast maturing timber for use in biomass? Or other crops to aid energy provision.

Pharmaceutical companies are looking for small areas to grow restricted plants to use in drugs (under licence) are there any areas away from public access which could be used to bring in income.

The Family

Dairy farming, by its very nature, can be a very isolating job – the cows have to be milked every day – come rain or shine. Time off has to be organised – no just going off on a whim on holiday. Therefore, farmers need to belong to a framework of support, it is so easy to go into a spiral of work, coping with the weather, problems may arise when machinery breaks down, emergencies can crop up without warning. Depression and suicide rates are rising within the farming community. This farming family need to factor in a rota which allows Robert, Heather and John to structure in time away from the farm.

An analysis of other farms in a 50 mile radius would show that a consistent policy regarding planning for the future (and how farmers see themselves and their farms, in 10 or 20 years) is non-existent. Farmers have to stick together and protect themselves, not only against negative policies from government, but also being ‘used’ by the very companies they sell their products to.

Farmers need maximum control over their own lives and farms, which may well extend to teaching the town dweller the realities of farming and how it is so important to the future of the country. I am aware that many farmers put in a lot of time and effort in this respect, having school children visit the farm, becoming involved in local shows etc., but this takes time out of a busy schedule and usually involves the farmer and his family and employees who are always busy running the farm anyway.

Robert and Heather (who it is stated have no formal succession plan in place with the family) really do need help formulating a workable plan for the future. Robert will need to understand that without his willing consent to formulating this plan, the farm will probably not be able to move forward and survive into the future.

Good communication with the bank and accountant are a necessity – this must include Robert, Heather and John. Honesty and trust need to be built up and sustained so that when a problem occurs, there is a named person who would be the first point of contact and who would know the family and the circumstances, and would be friendly and co-operative and helpful. If this is not forthcoming with the existing bank and accountant it is well worth moving so that this link would work from a positive base, rather than attracting a negative response at a time when help is required.

Robert and Heather, when discussing the succession, must not be made to feel as though they are no longer wanted or needed. If a profitable sideline can be initiated (such as making their own ice-cream or cheese or other by-product from milk produced on the farm) which could be run by Robert and Heather, not only would they both still have an input but hopefully an added income too.

John, already having a financial background, would be ideal to further business expansion on the farm. He may well re-train in business practice and/or become expert in, say, soil analysis, biodiversity, and grassland management, and he will be able to bring in extra income and at the same time, help other farmers to gain added-value to their farms.

Every farm needs to be run as a business or it will fail. It would seem that in the future, farmers will be either running relatively small farms (and will diversify as a matter of course) or very large units consisting of a number of farms being run as one entity.

Alison, the daughter, who, it is stated, has no interest in the farm, would want and expect, her portion of inheritance in due course. This can be spell the end of the farm if not handled properly, and legally, now. I have personal knowledge of a dairy farm run by two sons, who spent all their working lives on the farm. They had another three siblings, who had no interest in and who put absolutely no input in time, effort or money into the farm. When the parents died the three siblings wanted 'their' share of the farm, which had to be sold and split five ways, despite all the upkeep on the farm being paid for by the two brothers.

The challenge is for the whole family to work together but be aware of what is happening worldwide, to learn where the threats will come from, and to be as self sufficient as possible. To have as many viable diversifications as they can handle.

Also to become part of a local network of farms which can help and support each other – a strong community is a great bulwark and protection for the future. Local farms and farmers are much needed and should have a voice which can be heard over the din of self centred business practice which only can only read the bottom line and has no understanding of the importance or responsibility of caring for the living and the land itself.

Finalists 2

What should this business look like to be competitive in a volatile global market?

To be competitive in any industry one must take a long term view and try to increase the effectiveness of its strengths, reducing the impact of its weaknesses, using both to exploit opportunities and reduce the effect of any threats.

The strengths of Kidworth Farm are its labour force. Currently the farm has both the eldest son (John), the father (Robert) working on the farm day to day but should the need arise can draw upon the other son, Tom. The average UK farmer is over 60, with many having no replacement, so Kidworth farm is in a unique position. Both of the sons are clearly qualified and passionate about farming. John, for example, with his math degree will potentially have much better insight into how to budget and plan then his father. Tom on the other hand has the unique gift of being a good stocks man, a declining and valuable skill. However both these resources are not being fully utilised by the farm, John being shackled by the control of his parents and Tom by working on another farm.

The businesses weaknesses focus mostly on the clear lack of planning and control. A clear example of this is the renting of additional land. This was clearly excessive to the dairy cows needs as beef x calves enterprise was added to utilise the land. The issue raised is: was this land taken on only because it was available or because it was part of the long term objectives and goals? It is the author's opinion that it was a case of the former, due to the current state of affairs of the farms accounts and the lack of any succession plan; at a point where the farmer is nearly at retirement age.

The greatest opportunity which the business has is the strength of British farming brand image. British produce is widely regarded by both domestic consumers and foreign markets as being the highest quality and a leader in environmental sustainability, animal welfare and most importantly taste. This consumer demand forces supermarkets to buy British, the proper percentage on shelves in comparison to other nationalities produce is debatable, considering the fact that most nations can produce staples such as milk or meat cheaper, is a triumph that should be celebrated. More importantly, an opportunity that should exposited further in export and domestic markets. Although control over branding and promotion is out of Kidworth farms control it does not have the excuse to sit by quietly. Why is it not heavily involved in marketing boards? Or hosting school children on farm to educate about the benefits of British milk? Or operating in a more efficient manner to ensure it is here for the future?

The threat of substitution from alternative milks such as soy, almond or other drinks have eroded and continue to erode dairy milks place in consumers basket. Why have the dairy boards not been more active in fighting this? Dairy milk in most cases is cheaper and just as healthy as the alternatives so why has this not been pushed further? Why have there not been massive pushes into how milk packaged, sold or flavoured been made, like other milks have had? Again the question of how much effect Kidworth farm could have? The answer is a lot; as mentioned in the previous paragraph.

So what do these strengths, weaknesses, opportunities and threats mean for the organisation and future look of Kidworth farm. In short it means hard decisions. In order to maximise on all the strengths and opportunities and minimise the weaknesses and threats Kidworth farm must decide on what kind of farm it is, a dairy or a beef x finisher, and specialise on that aspect. It is the authors opinion that the farm has to many fingers in too many pies. Having a beef operation, takes up time and resources which could potentially be put to more profit by focusing on the dairy enterprise and vice versa.

Specialisation will allow for several things:

- Reduction in land requirement
- Costs
- Greater efficiencies to be developed
-

This is what this farm needs to succeed in the future uncertain future.

How does a business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming back and why is that the case?

A business passes from one generation to the next with great care and much planning. It is not a death bed decision or last minute deal. Both generations need to be able to compromise and be absolutely clear about what each is responsible for, when transfers of power and control occur and how. And importantly the older generation must give up complete control. The specifics of all this will vary from farm to farm and generation to generation but complete clarity of all intentions and responsibilities needs to be made.

Succession and land ownership only hold back British dairy farming when it is rushed, intentions and timelines not made or not made clear, or when the wrong individual inherits. When succession is rushed or control not given up, tension is created. This tension will distract from the business of farming for a profit, and so the business suffers. However a smooth handover allows for the farm to continue to profit.

Of greater concern for is inheritance by the wrong individual. For a farm it must at all times have a full time soil and crop scientist, vet and stocks man, labourer, mechanic, builder, accountant, marketer and lawyer. Obviously this is not possible or financially feasible for most operations, so the farmer in this day in age must be a manager, and organise experts in all the aforementioned fields to complete these tasks for him or her. The trap most farmers fall into is that they either attempt to do all these tasks themselves, with some tasks being done substandard or forgotten; or subcontracting these jobs out to individuals which provide a substandard service. Therefore good farmer is a good manager. Being raised on farm does not assure the making of good farm manager. It may help but managers are either born that way or it must be extensively trained into an individual. It is the assumption that being raised on a farm makes one the ideal farmer or farm manager is what cripples British dairy farms and farms in general when it comes to succession and land ownership.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

There is no time like the present and so the business should do as much reorganising now when the cost of credit is low and so be able to take full advantage of the price rise when this happens. I will present my opinion in the form of 1 Year, 5 Year and 10 Year plans.

The challenges for this plan are the same as they presently are, ie an overdraft which is climbing and milk prices which are too low. I don’t think extending the overdraft is the best way of accessing the needed capitol, mainly because it is unsecured and more costly then other forms of capital. Therefore if John is serious about the future of the business then he should invest in the business with some of the money earned from the sale of the house. However this should not be done without restructuring the business from a sole trader into limited company, in order to protect his investment from poor spending or legal troubles.

Creating a limited company grants the business several benefits. Firstly a lower tax rate and potentially access to better rates of credit, but primarily it balances out the differing needs of the family from the business, by removing all control from the parents and giving more control to the rest of the family. How would this work in principle? Who would have majority control and money? John would be the majority shareholder and CEO of the business with the parents being secondary. John would have the most control due to his investment into the business. The other children have minority share holding rights. However the business would only include buildings, stock, and between 65-75% of the current owned land. The remaining land would remain owned by the parents but still be used, rent free by the business.

Both John and his father would draw a small salary enough to live on their earning would be boosted by their share of the profit. All other staff would be let go or hired out to other businesses. Profit would only be shared by John and the parents at first. It is assumed that both parents do not have a pension in place aside from any state pensions. Therefore when both parents retire they will give up their share within the business either in whole to the other son who come to work full time, paid as his father was, or split between Tom and the daughter should he not come to work fulltime. In terms of voting rights it would biased towards John. The remaining 25-35% of the farms land which the parents own, would then be rented back to the business, this rental income, assuming a rate of £190/acre would provide an income of between £10,000-15,000/year which would be the parents pension fund. The land would revert back to the business upon both parents death. The parents would still stay within the farm house but a small upkeep rent, to pay for utilities and maintainace would be charged at cost. The farmhouse would not be modernised unless significant savings could be made from the modernisation.

How does this benefit the children? It mainly sorts out the issue of succession in a manner which is beneficial to all children not just the one who inherits. For the daughter it would receive ownership of a business and so boost her credit and potentially allow for more advantageous mortgage agreement. When the farm comes back into profit it will allow for small income to be had. This also applies to Tom should he become interest in the same thing. For Tom it also provides a way back into the business when the parents retire. For John by investing in the business, and being the majority shareholder, it gives him control and power to override parents and move the business forward. The investment becomes a driver for John to push greater efficiencies forward and allows him to be more objective in what he invests in.

In terms of on farm efficiencies the farm should closely analyze what makes money and what doesn't, cutting operations which do not. So for example the beef suckler enterprise most likely will not have the same Return on Investment as the milk enterprise, therefore it should be cut for the time being and capital and labour tied up in this put to use increasing the dairy operations efficiencies. An example of increasing dairy efficiencies would be to create a forage budget and have some sort of grazing plan which maximises use of the grown grass. The rented land should either be put to use with more dairy cows, either to produce grazing, forage or protein, given up, or sublet to another operation. Milk yield shouldn't necessarily increase but rather the cost of each litre should decrease. This decrease could come from moving towards a more extensive system, such as seen in New Zealand or a more intensive operation where yield is king. It is not easy to suggest on over the other based solely on examining the accounts as this type of decision hinges more on what do the owners want from the business. Do they want a system which is less resource intensive or one which isn't? And more importantly how do they want their work life balance to be shaped?

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

In my education and I have the privilege of visiting many farms, some of which are thriving despite negative economic conditions and others struggling to stay afloat. The farms may be growing or producing the same product but what separates them is the attitude of the farmer or manager to how they are producing. The best farmers are always analyzing what they are doing and are never content with the status quo; the struggling farmers seem content with the status quo. If it worked for my father and his before that then it should work now, is the unsaid mantra. As said this management trait to move beyond the status quo can learned or inherited but I do not believe it is helped by the current subsidy system.

For over seventy years the current system of subsidies, in my opinion, allowed struggling farms to stay afloat when, if they were in any other industry they would have drowned. Take for example other price taking industries such as the oil or mining sector. Both of these industries have little control over the price which they receive for their produce, but also have high startup and equipment costs. A similar story to modern farming. Yet both industries consistently turn large profits but why is this?

I believe the reason why is that failure is punished. What I mean by this is that an unprofitable start up or existing company goes out of business. The same story goes for a manager who cannot make money, they are either fired or demoted. It is my opinion that in the dairy farming sector there isn't as much punishment for failure, because good year or bad a subsidy cheque will still come through the post. So yes this provides a cushion for the better farmers but far more damagingly hides a multitude of sins for the struggling farmer and allows them to continue. Farms which not efficient and not productive, steal resources, land, labour and capital, which would be put to far more profitable use in the better farms. Again looking at the oil and mining sector, failed business's resources are quickly swallowed up by competitors.

So if subsidies are the reason why the dairy and farming industry is flawed, then what needs to change. The simple answer is to stop subsidies now. Let businesses which cannot survive without them fall by the wayside and be forgotten. This simple answer works well on paper but would only dire consequences in the real world. Doing so would be equalivent to Margaret Thatcher's closing of coal and steel mills. Many of these were also dependant on subsidies but by Thatcher taking the simple approach created a multitude of issues, primarily wide scale unemployment and social issues which resulted from this, for the local communities which were based around these industries. The same story would happen should subsidies be chopped tomorrow. All the feed companies, manufacturers which supply the farming industry would be hit excessively hard. Therefore a slow reduction of subsidies is what is called for. A slow fade out would allow the industry to adapt itself to a new way of operating. So for example this could encourage older farmers without profitable successors to move out of the industry. A slow fade out would pinch unproductive farmers and make them reconsider their operation and how they work it.

Saying that subsidies need to be abolished will not be a popular move and is fraught with difficulties. The issue at the moment is that there are too many unproductive farms holding back the productive ones. Education to change these farmers will not work, the issue being that if the farmer still seems to 'make money' and afford the newest and coolest bit of kit, then why should he or she change. As the saying goes 'you can teach an old dog new tricks'. And farmers set in their ways will not change unless a rocket is put up their arse. Therefore make change happen by moving them where it hurts, their bank account.

Finalists 3

What should this business look like to compete in a volatile global market?

Innovative, creative and flexible. While seemingly daunting, the most successful and profitable businessses are all three. For this particular enterprise, I would recommend the following:

1. Vertically integrate. Establish a brand, focus on a product - fats are back, cholesterol is a farce – go with butter, be the best butter maker in the EU. E.g. http://pepesaya.com.au/ a dairy products enterprise focusing on butter started.
2. Establish a partnership. Explore options with dairying neighbours or professionals and grow from there. You need a savvy business mind at the top and agreement on vision, however once this is established, the potential for growth is large. Aim high, become the Almarai (see Saudi Arabia dairy industry) of the UK. Aim for a JV or buyout from PepsiCo in 5-7 years. Despite not knowing the family and their full skill set, I would suggest John has the capability to do this.
3. Implement livestock data monitoring, get on board with big data. Find a university or research

institute and partner with them – this will give you access to the latest technology for production gains and allow for R&D tax breaks.

4. Improve/review genetics. A beef cross already used for lower 50% of herd – this is great. Not much info is provided on the actual genetics though and margins gained since the practice began; will using a stud charolais give better margins on store cattle? Dairy genetics – the USA has some of the best dairy genetics for milk production. Seek out top producers there and bring genetics in, if it is not already happening. Saudi Arabia has annual average per cow milk production in excess of 12,000L – what is it they are doing to get this?
5. Explore alternative business structures – through partnership or incorporation of a company transfer ownership of the farm to the company, rather than family. This may help with the family seeing the farm as a separate business entity, with (potentially) greater emotional detachment. Become employees of the butter operation.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

The first thing this family should lock down in terms of future strategy is the succession plan, and a long-term vision for business growth. Establish a form of family governance that empowers both those doing the day-to-day management and operations (i.e. John, parents), and those not directly involved (i.e. Alison, Tom). Regardless of Alison and Tom's job and physical location, this is their family home and it's likely they will desire a level of involvement, even if that is simply just 'being informed'. Not finalising this will lead to fragmented decision making and potential disharmony within the family unit.
Governance systems can consist in simple and complex forms, and I'd recommend a simple structure here, e.g.:

- Structured, regular family meetings (timed, with an agenda and minutes taken) covering weekly, monthly and longer term task planning; opportunities to raise, discuss and find solutions for any issues, operational or otherwise; table ideas for the future. Allocate actions and set deadlines. Consider having the first few meetings mediated by a professional (e.g. family lawyer, accountant or farm consultant).
- Establish a 'board' consisting of key family members (here I'd suggest John) and external 'mentors' with a variety of experience, including someone from outside the sector. This will assist in strategic decision making in the future. Board members don't have to have a financial interest in the business, but care about the future of the family business unit. Could be colleagues, industry professionals, veterinarian, local agronomist etc.

Succession planning in any farming industry and/or family run enterprise is a deeply personal and emotional matter. Critical business decisions made without a full understanding of ownership of assets means restructuring can be delayed or made unnecessarily complicated. The succession planning process in the Kidworth instance should not be rushed; all parties should identify what they wish to get out of it; the process must be mediated by a family lawyer, accountant and/or financial planner to maximise clarity and understanding for all parties.

Extrapolating the Kidworth situation to the UK dairy industry, and in the absence of data on UK dairy farm ownership structures, the following scenario is relevant:

Assuming 75% of dairy farms are family run operations, and 50% of those are without formal succession plans, thus creating uncertainty in the core business unit, the flow on impact to collective (i.e. industry-wide) strategic decision-making is large. Key strategic decisions are either repeatedly delayed or made in haste with poor consultation, and reduced concern for the long-term vision of the enterprise. The business vision, and exit strategies, should be key influencers of decisions made now, that impact where the business wants to be in 5, 10, 20 years time. Overall growth of family dairy businesses is hesitant, and lacks clarity and vision. The UK dairy industry is a sum of its parts. If the majority of parts are similar to Kidworth, whole industry growth will also be hesitant, and lack clarity and vision.

How can this business get through to the next upturn in prices, and how can it reorganise to have long-term sustainability?

In the immediate term I would recommend an assessment of where the business is at *right now* in terms of financial situation. A quick look at finance alternatives such as long-term loan vs overdraft (generally a cheaper option) may reap quick gains.

Regarding long-term sustainability, my responses to the first question here covers the relevant points for reorganisation of the enterprise.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

You can escape the commodities based environment on an individual, small-scale level through vertical integration and diversification, but at a broader industry level farmers are generally at the mercy of price setters. Presence of many small enterprises weakens the overall power of the industry in getting better prices and contracts. Conversely, fewer enterprises with greater production capacity and combined resources spreads risk, enables more efficient use of capital items (tractors, harvesters), and greater access to new technologies.

When looking at this question I considered the most successful enterprises operating in commodities based markets that I've observed. These generally take a formal corporate approach (some even publically listed on stock exchanges), however, a large proportion of them started out as family enterprises, consequently retaining expertise and tacit knowledge. Most are at least somewhat vertically integrated. When looking for production gains they approached potential investors (neighbours, family members, professional service providers) and formed partnerships, joint ventures etc. They used economies of scale to gain efficiencies, spread risk, and maximise utilisation of capital items. The key thing is, they grew from within the industry.

Conversely, agricultural enterprises operating under a corporate structure initiated from outside the sector (e.g. managed funds, foreign investment) tend to implement an autocratic, hierarchical approach to management, are capital heavy (but can lack financial sustainability and run low fairly quickly based on uninformed term of investment expectations – short term vs long term) and low on expertise both at farm management level and sector-wide.

The dairy industry already has the knowledge, passion, technical capability and asset base to pull itself out of the doldrums. Reaching out to alternative investors for alternative strategy insights could provide the momentum – if you have a diversification idea, explore alternative financing options where you will often gain a mentor as well as the capital, e.g.:

- London Stock Exchange – Alternative Investment Market
- VC firms
- Backward integration from further down the value chain (e.g. a chef interested in food sourcing might want to invest in a dairy that can produce high quality milk products)

Export opportunities are often present beyond what is immediately visible. An example is northern NSW dairy co-operative, Norco, which in 2014 successfully lobbied the Chinese government to amend their quarantine restrictions for imported fresh milk from between 14 and 21 days to 7, allowing for much longer shelf life. Norco then went on to export 20 million litres in the subsequent 12 months for AUD $7/L. This successful lobby has enabled Australian dairy farmers to take advantage of the growing wealth in middle class China, asreflected in the price.

Exploration of macro trends in the marketing sphere may identify opportunities ripe for commercial exploitation. Individual farmers may see this task as daunting – start-up enterprises must have a market for their products or services to be successful, but where do they get their information? Services within the venture capital sector are evolving and growing – check out Vestd (www.vestd.com) - a platform that connects entrepreneurs with the skills and services they are lacking, and vice versa (e.g. someone that knows how to draw up employee contracts).

Finalists 4

What should this business look like to be competitive in a volatile global market?

Any business that wants to compete in a volatile global market has got to be strong enough to survive through the bad times and use the good times to build up reserves assuming that prices will recover.

Looking at the business in more detail :

Milk income has taken a hit of £20 690 from the fall in price. The retail milk price in a supermarket has gone from £ 1.40 for 2 litres to £ 1.00, so the cut has been taken across the supply chain, not just by the farmer. Conventional dairy management techniques are not going to make up for this magnitude of price drop , so farmers need to reconsider their whole position possibly looking at reducing the milk production during low price periods and increasing more profitable alternatives.

Cattle sales income: The dramatic increase in sales from £16 000 to £ 71 700 requires further analysis. The additional 150 acres of land leased for a rental of £28 500 ties up with beef x calves being retained and a jump in total sales. But it is not clear what other costs are associated with this activity.

Land ownership : Often overlooked the land and buildings are in themselves a business . Although no cash income is received the trend has been for farm land to appreciate. If traditional dairy farming operations are not viable will farm values be maintained and will the banks continue accepting land as security for loans? If the farm was rented out at a similar rental to that the Kidworths are prepared to pay, they have a potential income of £ 38 000 a year and would still benefit from any uplift in farm value. Selling all livestock would almost clear bank borrowings and there may even be the option of redeveloping farm buildings as housing or starting a new value adding business.

Although financial accounts are produced, this highlights the need for management type accounts which allocate costs to enterprises (cost centres). This would then confirm profitability of different parts of the business and should consider the question “Is our business to provide for our own family through a secure income, or provide milk for other people at a loss?”

Just as the street corner shop had to face the challenge of supermarkets, the traditional small dairy farm has to change if it is to survive. Hard as it may sound maybe there is no room for a traditional small dairy farm in the modern economy.

How does this business pass over from one generation to the next , is the burden of succession and land ownership holding the British dairy farm businesses back and why is that the case ?

If farming is so hard, why would any responsible parents encourage their children to farm, and why would anyone carry on farming? Anyone who has farmed will understand the appeal even if they can’t explain it. What has to change is the belief that “we have always done it this way and want it to continue exactly as it has been”

Robert and Heather have the option of doing nothing and allowing their hard work to be eroded, possibly a family dispute developing or facing the problem and coming up with a plan. All 3 children have undoubtedly recognised the value of the farm and may feel entitled to their share. John, the prodigal son, may have returned to prevent Tom getting too entrenched. Tom despite living at home now works on a neighbouring farm, probably earning more than he was paid by the family business. Alison would like to have her share in the near future.
There is nothing unusual about this family situation.

The starting point has to be an acceptance of the situation :

The farm is valued at £2.2 million (£10 000 an acre), it has debts of around £400 000, and a possible tax liability that needs consideration. Robert and Heather would require provision for their retirement. After owners drawings (£ 29 000 year) it is currently making a loss but in good years makes between £ 40 000 and £ 80 000. If it was rented it would bring in around £ 38000 / year (220 x £190/acre). It will not support 3 families in its current form.

If the farm was sold the parents retirement could be provided for , and each child could potentially receive around £ 300 ,000 or looked at another way John could come up with about 20% of the purchase price but current farming operations would struggle to repay the balance.

The problems comes from the fact that farmland is a finite or even diminishing resource. People are prepared to pay a premium for scarce commodities, and so farmland in itself has become a sound investment. This may keep the bank manager happy, but doesn't put any cash in the bank until land is sold.

Sorting out a succession plan won't solve the dairy farming viability crisis, but it would bring new younger minds in who can look for solutions knowing that they have a stake in the industry.

Finalists 5

What should this business look like to be competitive in a volatile global market?

- the business must reduce its fixed costs per litre produced to the lowest possible level so that when milk prices are volatile the business can stand it.
- The business should also look at the market round about it and see if there is a better use for their skills and business in the dairy industry rather than producing milk, for example could they partner up with aa larger dairy farm who is perhaps on an alligned contract and do all of their heifer and youngstock rearing? is grass at a premium in their area- should they be consolidating their enterprise and letting good qaulity grass out to neighbours who are constrained by lack of qaulity silage ground?
- All businesses need to consider what their long term goal is- and have a plan- which means putting the succession question and talks within the family to the most important level. These talks should be held in dicussion with a lawyer and an accountant so that the tax and legal issues that may surround any decisions can be worked out at the initial point. having outside ivdividuals to 'chair can also lead to a better and conclusive meeting happening rather than individuals skirting the main points.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

- In this case, the son who is a mathematician should use his £100,000 to buy into the business, effectively purchasing an additional higher capital share over what he may be willed from any succession plans. This gives him the main partner status without showing favoritism which may cause family disagreements, but will also allow the daughter some cash to purchase her house.
- Succession planning is holding UK agriculture back in a major way. All farmers need to consider where they want to be in 15 years time- if it is still milking cows then they will need to work out a plan BASED ON THE CURRENT MILK PRICE to get them there. If they have no successors and they intend to wind down then a plan should be formulated to get them there. Medium and long term planning is the most underutilised tool in scottish agriculture.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

- farmers need to realise that they have no right to farm just because they have been doing it for however many years. If they want to farm, then they must have a business case for doing so- that is the harsh reality of the modern world.
- One major improvement would be introducing a farm level dairy futures market operating like the grain market. The good farmers will be able to plan, and take the market risk on themselves. One of the biggest issues in farming is that farmers always want to get as much as they can for their produce, rather than looking at what it costs to produce, and what they can sell it at. Of course everyone wants to make as much money as possible, but this is high risk- whereas having a budget and a plan that you know you can sell at helps limit some of that risk, thus leading to long term prosperity.

Additional Thoughts

In this particular case study I would make the following recommendations

- The mathematician son should seek part time work utilising his degree and experience in the insurance industry. This means that he will not be relying on an income from the family dairy farm when he has the skills and experience and the training (and presumably investment from the family farm for tutition fees and university/living costs etc) and thus this should not be wasted just because he doesn't like it- at 27 he hasn't had a long enough shot at it in my mind to take that decision to put pressure on the family farm. By looking at part time or consultancy work he can earn his income and still retain a management role, again using his mathematic skills on the family dairy farm.
- The other son should be brought home to undertake the day to day milking and herd management. He should be paid a fair wage from the farm, but again some of that wage should return to the capital account- increasing his capital share of the farm, and decreasing his parents. Mathematician son and the older father should share relief milking duties.
- In the short term (5 years) i would recommend that this farm considers going organic- if it was located in Scotland that is. The organic aid payments through the SRDP would generate and additional income stream, as well as allowing the farm to switch to a low input system. With Covend reservoir also on the farm the reducing of fertilisers on the ground may have water quality benefits as well. The notes state that the farm can produce plenty forage and even sells some at times, suggesting that reduced grass growth won't have the same effect on cow numbers that it would on some units.
- The farm should also look at a paddock grazing system and managing the grass- the suns energy that ultimately grows the grass is the ultima free resource and if the grazing isn't being managed properly then there is definitely scope to improve on that.
- The business should look to diversify their enterprise in some way, would the economics stack up for a chicken shed? Is it close to a large town or population centre for a farm shop or children's play centre, would they be able to enter into an environmental scheme? The entire asset of the farm and lands should be looked at and ensured that every bit of land, building, and machinery is earning its keep- make your land work for you.

The key headline is- play to your strengths! If you're fundamentally 'not a good stockman' or not a good tractor driver, then find a better way of doing it.

The mathematician should not be able to after 6 years of training and work just decide that he is coming home to the family farm to work there- there should have at this point been a discussion about the long term future- he has skills and he should use them to pretext the long term viability of the farm and not put a cash strain on the business when he has that ability to earn it elsewhere.

As well as our finalists there were a number of other submissions worthy of publication as many contained good ideas that really are worth sharing. These submissions are detailed in the following pages and we hope that you enjoy reading them all.

Submission 1

What should this business look like to be competitive in a volatile global market?

This business should re-organise and invest in new technology, so it can be efficient on labour and costs. With the view to provide a profitable future for John and Tom, even when the milk price is at 16p litre.

Utilise the barn by gaining Planning Permission there by increasing capital net worth and providing an extra income stream, by renting it out. By doing this and bench marking the business with other like minded farmers the business can continue moving forward.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

With re-organising the business Robert and Heather should retire or become sleeping partners, allowing John and Tom to become 50:50 partners. John and Tom will rent the 220 acres giving Robert and Heather an income in retirement. On death the farm will go to John and Tom equally.

Alison would get £100,000 of the stocks held by Robert and Heather, for her deposit on the house, part of her inheritance, getting the reminder on death. Robert and Heather would take out £20,000 of the stocks to modernise the farmhouse. By doing this, this way tax liability on death can de reduced and transition of assets made easier as long as a will is in place.

The trouble with British dairy farming business, the older generation won't hand over until they die, this often causing problems with tax liabilities and family disputes, often splitting up farms.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

With Robert and Heather retiring, and John and Tom becoming partners, they are able reorganise. This is what needs to happen:-

- John to loan his £100,000 to the business, apply for planning permission for the barn. Go to the bank and offer new business plan to bank manager to refinance:- Increase bank current a/c overdraft to £200,000 to allow reorganise and do up barn with John's £100,000 loan.

- Buy 2 robots to milk 120 cows producing 10,500 litres/cow, costing £260,000, including build costs and adding this to the existing load of £188,961 and increase to 20 years term. Sell surplus 60 cows and run a flying herd, using a BB bull to increase calf values. Basing all costings at 16p litre milk price to compete with world market price.

- On current milk price of 21p litre a net profit of £94,000 is forecast. After the barn is done up and rented out an extra £12,000 can be generated.

Net worth of the farm would increase to £2.55m

If this representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

British dairy farmers have no control over prices they are paid, and are often in a contract that favours the milk buyer. So! The only option is to change the business to compete at world prices. Got to be proactive!

For far too long the mindset of the older farmer retaining control is different and outdated to their children. Younger members of the family are hungry for the chance to make decisions, often well educated, highly motivated and focused on using new technology to make profit. Utilising assets on farm to diversify and add net worth to the business.
Benchmarking with like minded farmers is often useful, in increase productivity, new pasture management techniques, using buying groups etc.

Investing correctly in the business to increase profit and efficiency rather than just a new tractor to save tax, when there is surplus money available. Gear the borrowing so everything is sustainable at 16p litre or breakeven world prices.

Submission 2

1. The farm must focus on reducing costs wherever possible to reduce the cost of production. With John focused on targets he should be critically assessing everything he does. Joining a benchmarking group would give him a good chance to challenge his expenditure.

Grazing grass must be utilised better in order to increase profitability. It may allow a reduction of concentrates due to higher quality grass being fed and also the ability to carry more cows, increasing output from the same fixed costs. This is a long term view with regards to expansion as the A/B producing will make it hard to justify producing extra litres.

2. Succession

John should use his £100,000 as a payment for all non-fixed assets (cattle, machinery etc.). This would allow him to buy-out his parents from the business. The farm should then be rented to John for £200/acre - rented land was £190 however the farm also contains buildings, around 2% of farms worth. This money should then be shared between the three siblings, allowing Alison money to buy her house. This would give a market value without large amounts of money needing to change hands. It should only be John who gets to make decisions about what happens to the farm with the other two being silent partners. This would give each person £14,666 each per year. By renting the farm in this way it will allow the family to critically assess if it would make more financial sense to rent the farm out to someone else instead of trying to farm it.

3. Getting through

Stop finishing calves, sell once born and give up rented land
Prices and labour requirements are from 'SAC Farm Management Handbook 2014/15'

Income	£71,700
Expenditure	
Purchase of calves from dairy enterprise (£161/head)	£21,735
Rent	£28,500
Proportion of fertiliser, seeds and sprays	£12,162
Proportion of labour	£8,125
Feed costs	£17,739
Total	£88,261
Profit	£-16,561
Profit per animal	(£-122.67 per animal)

Fertiliser, seeds and sprays

Total area farmed = 370 acres
Rented land = 40.5% of area therefore 40.5% of fertiliser, seeds and sprays
Labour

26 hours per cow =	4680	
9 hours per youngstock =	810	(assuming 45 heifers per year calving at 2 years old)
9 hours per beef animal =	1822.5	(assuming 135 animals per year sold at 18 months)
Total labour on cattle =	7312.5 hours	

Beef enterprise = 25% of labour time therefore 25% of wage bill

Feed = 1kg per head average over 18 months at £240/tonne

At £-122.67 per animal the family would be better selling the calves as soon as possible to increase income. With vet costs, silage costs and any mortality there will be no profit left from the calves compared with selling them. This is also assuming all cattle sales stated are from the beef stores. This alone would give the farm a March 2016 year end profit of £15,474. If all animals going through the system at that time were sold it would help the short term cash flow as well. However this can only be achieved if the tenancy can be given up without any additional costs being incurred.

There is a serious chance to improve feed rate to the dairy herd. This would reduce feed costs helping to reduce the cost of production.

Total spent on feed	£170,820
Minus youngstock and beef cattle feeds (1kg per day at £240/tonne)	£25,623
Total spent on dairy cow feeding	£145,197

Dairy concentrates at £225/tonne (SAC Farm Management Handbook) = 645.32 tonnes per year. This equates to 3.59 tonnes per cow per year, or 0.49kg/l milk. For a 7,000l cow this should be at 0.26kg/l. This high feed rate could be down to a number of factors, for example poor forage quality or a poorly formulated ration with the wrong ingredients. The problem should be rectified as quickly as possible. With a higher feed bill this year it could be down to a bad crop of silage. By reducing this to 0.26kg/l a saving of 302 tonnes per year equating to £67,999.50. With John focused on targets the feed rate per litre is definitely one he should be watching.

4. Flaws of British dairy industry

After visiting the Netherlands I am positive that the best way to have a successful dairy industry is to have one strong co-operative buying the majority of the milk. The clout it holds on the market benefits the farmers enormously. If this were to work in the UK there would need to be a mind change as some farmers may have a reduction in milk price in the short term joining a co-op however the long term benefits could be massive.
Milk must also be moved away from commodity markets. Already many other European countries are entering added value markets with strong brands. We must push into these markets or be left by the wayside as the rest reap the rewards. I want see all British milk being put into added value products and foreign milk on the shelfs in the UK. This way we would be targeting higher value markets which, with an excellent brand, should weather the price volatility a bit better than just producing commodity. If every processing plant in the UK was part of one large co-op this could would very successfully for the benefit of UK dairying.

Submission 3

Here are my thoughts for what they're worth. What a catalogue of problems. But thank goodness they're situated in the north west – were it the south west you would have to throw in badgerTB to the mix, which would probably mean that for at least half the time they couldn't move stock on or off the farm.

Clearly the farm is losing money badly and just can't go on like this without the bank demanding the sale of some assets. What should be tackled is the system. They are in an area of excellent grass growth but with only a commodity price available from a dairy(ies). Soo they simply must exploit what advantages they have. Management. Go in for:

1. Spring block calving
2. Add Jersey genetics
3. Optimise grass management/utilisation techniques. Cut concentrate usage to bare minimum
4. Scrutinise and reduce every single expense on the farm
5. Cut out all calf rearing except for own dairy replacements
6. Increase the number of milkers as much as possible – could they get to 400 possibly? How severe is the restriction placed on numbers by the current parlour setup? That's going to be the biggest hurdle.

Personnel

1. The most realistic one of the lot of them is Tom (and his sister). Tom knows his limitations. He's a very good stockman but not a financial manager. He could also clearly see trouble coming when his brother wanted to work at home too – also he realised there wasn't enough money to pay them all. So he very sensible gets a cowman's job locally, paying him more money and gaining experience outside the family business. Short of his health breaking down he should always be able to get a good job as a head cowman, for which he could attract a very good wage, a grateful boss, paid holidays and time off, and a cottage thrown in with no travelling expenses to work.

2. The sister is set up in a sound profession which she could practice in every corner of the country and most overseas countries too is she wanted/needed. She has married at a sensible age, hopefully a stable union, and she and her young husband should have the ability and motivation to work for their future. So I don't her as an immediate priority – and neither has she input much physical work into the farm as far as we know.

3. John has me a bit worried. He's got this glowing career and could afford to do a bit of farming as, say, relief milking at weekends if he had a burning desire to get his hands dirty as an antidote to actuary. As it is he threw up a great career and prospects (and there's plenty of opportunity in the insurance world to run one's own business if that's what he wants) to come and work on the – in reality – loss-making family farm. One accepts that he is having to deal with an old-fashioned approach to farming from his parents – but what, I wonder, has he done about the profitability of the farm in the past 2 years? How has he used his time and his brain? I suspect he's drawn up a lot of spreadsheets but not a lot practically. His knowledge of what one might term technical farming is clearly very limited. What I think he should have done, and should now be doing a.s.a.p., is getting on top of latest grassland management/utilisation techniques, and scrutinise every sundry cost on the farm. He could make a contribution there. Just how does he imagine he's going to make much money from dairy farming in the future? One has to suspect that he smelt a total asset value of £2.2m and thought he'd make sure by his presence that a fair bit of that came his way. He certainly hasn't made much inroad into getting the practical side of the farm business turned round.

4. The parents. I suspect they have no pension provision beside govt. OAP and they probably have a bit of a guilt complex in that they themselves inherited the farm scot-free from Robert's family. They have a desire, natural at their age, to keep on doing the same old things in a good-husbandry manner, just getting a little bigger each year, and failing to understand how the agricultural world is changing. They have no retirement house waiting in the wings unless they think they can make use of the cottage on the short-term rented 190 acres of land. Their real priority, at 70, is to be thinking of the incapacities of old age which could be hitting them at any time from now on. Their unselfish priority should be to ensure they are no liability to their children, as far as one can legislate for such things. Sounds as if they

haven't even made a Will. If they haven't then, on death, the State takes over and allocates who gets what, ensuring that the State itself gets a larger share than if there had been a Will.

The future for typical family dairy farms

I have for some time begun to think that the amazing movement in the latter 40s that saw tenant farmers buy their farms from the landowners - as the great estates were hammered by death duties at a draconian 98% - has in fact come to be a millstone round the new owners' necks. This is because land prices have risen so exponentially and so totally out of sync with farm incomes, that tax issues with the extraordinary value of an owner occupied farm have come to assume the major factor in its logical management. Think of other manufacturing businesses – and farming is just manufacturing really – and the owner owns the plant and the stock but the premises (sheds, buildings) are mostly rented – or are a depreciating asset. The only real comparison I can think of offhand is quarrying, where a large hole in the ground is more valuable (if planning permission can be gained) than the stone and sand extracted from it. Owning a farm may look great on the balance sheet but it's a major headache when it comes to inheritance. (The old landowners in the past covered it by letting the eldest son inherit the lot).

At the moment we are seeing, in East Anglia at least, situations where older farmers continue to live in their farmhouses but let out their land, probably to contract farmers. But the time will come (death probably) when the land is ultimately sold off, probably separately to the farmhouse if the latter is attractive. The money a non-farming child can inherit is immoral. I think we might well ultimately see a return to the old landlord-tenant system. Except that the landlord of the future will be large investment companies. They would only get 2% return on their capital – but land is a "banker" in terms of investment. It would protect the investment companies' balance sheets in times of stockmarket downturns, and land longterm must always increase in value over a period, simply because no more of it can be made, and alternative, leisure/housing uses for it will continue for ever. The money that is buying up farms now comes from outwith farming. It's money from industrialists, rich Arabs (how long will they survive the oil prices?) developers and lottery winners.

Financial Planning

Immediate

- Robert and Heather should sit down with their children and explain that they need to plan for their retirement – now. For this they would need to buy a home and have additional income to prop up their OAPs. They therefore make an offer to their children: take on the tenancy of Kidworth now.

- Kidworth would be offered to John, or Tom, or to both sons jointly, as a going concern at a rent of £200 p.a. for each of the 220 acres of land. (The new tenants would also have to shoulder the liability of the rental of the other 150 acres of rented ground until the agreement ran out – after that it would be their responsibility.) This rent would gross £44,000 p.a. for Robert and Heather. The offer would include all live and dead stock – nothing would be charged for these separately. Ownership of the land wold reside with the parents.

- The parents would look for a suitable house in a village or town, probably nearby. Hopefully house prices aren't too high in the north west. The parents would need some cash for a down payment and then hopefully a bank would loan them the rest on the basis of their assured rental from the farm. Maybe even John would temporarily loan some of his private £100k. We don't know where he lives at the moment. If the boys lease the farm jointly they could both live in the farmhouse, although with the aim of splitting/extending it into 2 separate dwellings eventually. There is a cottage on the rented 150 acres which sounds as if it's empty at present – but that's an unknown quantity.

- If the boys accepted the offer of the tenancy they would have to sell every possible asset to get cash: all autumn/winter calving cows, store and rearing stock, hay, grazing – evaluate everything carefully. Then buy in Jersey x heifers to calve next February.

- If neither lad is willing to take on the tenancy of the farm as outlined – then the plan would be to sell the lot, parents keep all the money, and their financial jugglings are over for the time being. They would need taxation advice but they should be able to avoid much tax as it's a family business. A gift of £200k to each child would not be out of the way at this juncture.

Long term

- Assume the boys took on the tenancy and Robert and Heather are settled into retirement. A Will is imperative, a.s.a.p.

- I would suggest that all their assets (house, cash, farmland, investments – less any minor bequests) are left to the children on the basis of 40% each to the boys, and 20% to the girl. This is because both boys have been interested and actively contributed to the farm business. Tom has worked harder and longer than John – but each has made a contribution and a commitment in his own way.

- So, on second death, the farm land (but not live or dead stock) would need valuing, and allocating out as stated. All 3 children should be joint executors so that each knows what is going on. The son or sons who are farming could offer to buy their sister out. Or one boy could buy out the other two. Or the farm could be left as it is, still tenanted by the son(s) but owned by the Executors, and the rental income (£44,000 p.a. or whatever) could be shared between the 3 children proportionately. I doubt if this latter arrangement would find favour for long.

Submission 4

What should this business look like to be competitive in a volatile global market?

This business, in this context, with this leadership, will be different to all others. We are gently leaving behind the era of 'best practise' which keeps us in the past discovered by others in their life context. Hurrah! for human creativity as there is much at stake!

In my view the general attributes of resilience for such a Farming Enterprise should be:

- Purposeful: Managed for the long run of time – 1000's of years.

- Inspiring: Creating a Quality of Life that reflects the needs and desires of those who manage the enterprise(s) which is informed by their awareness of the how the local habitat is aligned with the Biosphere.

- Intentional: Learning nature's successional responses and the early signs of deviation from what is possible.

- Socially Engaged: Trusted and Respected by consumers and all social support systems alike.

- Profitable through Quality: Able to withstand global and local volatility through demand for product and service and an ability to 'flex'. (The most flexible part of the system leads the system – Ashby)

- Enterprise creativity ensures that:
    - All solar energy is utilised fully to ensure effective resource conversion;
    - All product conversion is in line with how nature really functions;
    - Market Conversion is effective – able to realise appropriate currency for the value offered.

- Contributing to all social, environmental and economic capitals.

- In PRIME Condition – a living organism that is nurtured appropriately; adapting as the bio-environmental- psycho- cultural-social conditions change; proactive not reactive.

- Led, managed and operated by decision makers who think and act holistically – releasing the essence of human creativity; in flow with the successional 'seres' of microbe, mineral, soil, plant, animal, and human.

- Curious about what's really possible: "On a recent trip to the UK, over two days of travel, I didn't see a crop field or pasture on which the production could not be doubled by simply managing holistically."— Allan Savory – June 2015

- Outperformance will be the norm: The next few years will see factor 50 to factor 100 innovation as the norm as we recognise, respond, recover, regenerate, and renew our way forward.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

- Succession will be energised by spontaneous involvement – It will be desirable to pass forward / receive when the business is in PRIME condition.

- Transfer will come with 'Life in Total - Quality Assurance' requirements measured by the performance of the Water Cycle, Mineral Cycle, Solar Energy Flow, and the Community Dynamics of Microbe, Soil, Plant, Animal, and Human; Creating the life conditions for soil, plant, animal and human 'thrival' is truly our never ending function.

- Such sense of burden is temporary until the next wave of hope becomes certain hope through outperformance across all expectations. A sense of burden is a normal and healthy aspect of human change. Whether it is felt as 'Something needs to change but I am not sure what' or 'feeling stuck and in a rut' all are signs of deep inner change which is a process of reaching into new psychological spaces to handle the complexity. Nature is smart!

- As a species we are adept at managing crisis and common enemy through the management of symptoms. Intentional change towards a truly viable planet and species is something that we are learning to do. Integral Intentional Change is new. Holistic Management is one of the few processes that can lead us through this transition whilst keeping the bank manager in tow until no longer needed except for deposits.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

- This basic assumption of the next upturn in prices may never happen!

- The application of Holistic Management can however handle either eventuality.

- In my view, having read the case study and the recent writings of the Farmer, 'the change has already happened he is just finding ways to grow into it'! We could start tomorrow! Why wait?

- **If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?**

- What is flawed is our inability to handle the complexity of how life really functions. We are now dealing with the unintended consequences. We are in a time of change more significant than the Renaissance. Let's call it the transition to an 'Integral Age'.

- If pushed I would argue that what is fundamentally flawed is that most of what we believe to be true is incorrect. Yes just about everything!

- There is nothing here that will not change – We are at present in a no-mans land of confusion, loneliness, and stuckness. The irrational inertia is being chipped away; This case study and competition indicates this!

- All change will ultimately be demand led – If it is informed and volitional it will happen.

- Nature is smart. Lets become aware and use this wisdom.

- Time to shed the 'Emperors new Clothes!'

Submission 5

What should this business look like to be competitive in a volatile global market?

The main objective of a business which operates in a volatile market is to be as efficient as possible. This therefore allows it to stay in a strong position with minimal losses during low points in the market and to prosper during better times. Litres produced is not always a measure of profitability. Cost of production is more important and is key to achieving efficiency. The business must keep costs as low as possible without compromising the performance of the cows. Feed costs contribute to 40-60% of cost of production in dairy farming therefore investing in efficient cows which make the most of the cheapest feed available to the farm, which in this case is grass is a must. The farm should also make more use of their grass growing potential and paddock graze or strip graze in order to get more out of each acre. This business must utilise what it is good at. This therefore means investment in genetic traits suited for grazing in order for their cows to thrive in that system.

A business like this must also have a clear budgeting strategy in order to keep track of costs, this budget must also allow for strategic investment in the cows and modernising the facilities to allow the business to improve. Everyone who works on the farm or has an involvement must have clearly defined roles. This allows informed decisions to be made quickly and easily to allow the business to react in difficult situations at speed. The business should also look to become as efficient as possible in its current state as expansion does not always mean increased profits as extra labour would have to be taken on as well as a redesign of the steading. This would be feasible when steady profits are being made in times of high milk prices but becomes difficult to justify in difficult times. The business should also when possible get rid of the expensive rented land as in difficult times will not provide enough of a return to justify it especially as stocking is not tight currently.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

When passing a business from one generation to another the main objective should be to try to keep the business in as strong a position as possible which in this harsh climate may have to come at the cost of fairness. The business must look at the eagerness of both boys to come home and farm as a positive situation and look to include both of them in the future plan of the business utilising their differing skillsets effectively. In the current situation with cash flow shortages, it is unrealistic for the business to pay three workers full time salaries and they are not in a position to expand. Whilst the father is fit enough to work he should be included in the running of the business. The older son should utilise his qualifications to get a part time job in accounting or book keeping for other farms in order to subsidise his income. The younger son should return home full time to milk the cows and share the work load with his father as they have the expertise in animal husbandry and day to day farming. The older brother should still be part of the business managing the financial side of things for the time being. Once the father becomes unfit, the older brother should then return home full time. At this time the father will need payed out in order to survive in his retirement due to not having a pension. As the farm is relatively small it wouldn't be within the farms interests to sell land despite its high equity. Therefore, the older son could use the money from his house sale in the city to buy the farm from his father at a reduced price. The other son should be given a small share and salaried as he does not have the capability to run a business on his own if the business was to be split in the future between the brothers therefore it would be pointless in giving them equal shares.

Succession is a major problem for many farms in the UK. Due to differing family and farming situations there is no set way of how to deal with the subject and there is generally a lack of planning for the future. This could be due to parents not knowing which children, if any, are going to come home to farm in the future so long term plans cannot be made until they are of working age. Regardless of the future of the farm business, owners must put in place a pension/retirement plan. Not doing so can put the business and its next decision maker in a difficult position in deciding how to pay out the retiring generation which will prevent future business investment as the new decision maker will have a financial burden. The case study shows an example of how a business can only support a certain number of families depending on its output. In UK farming if succession is not carried out the business can become financially drained due to the owner's children growing up and then having their own dependents to fund. Land ownership is also a problem due to its extreme market value and relative lack of monetary return from farming it. This creates problems when people do not want involvement in the business but want their share paid to them. On asset value alone farm businesses would have to pay out extreme amounts of money to these people. Common sense must prevail in these situations as farms cannot afford to do this. In order to survive in the current climate business owners may have to be more business focused and put less onus on "fairness". A compromise could be to offer shares of some kind in the business to people who do not want involvement which pays out a dividend per year. This also protects the person if the owner decides to sell as they would have a share in the business and they would be entitled to some of the sale money.
If a clear succession plan is not put in place it can lead to a distortion of roles within the business. For example the parents, who are older and not involved full time with day to day operations, still having the final say in where money is spent. This holds the business back as, as we seen in the case study older generations hold differing values to younger generations which could prevent the uptake of newer more efficient technology and ideas which would aid efficiency. It is vital that this does not happen as for example, precision farming techniques based on modern technology are proven to increase efficiency and performance and older generations may feel that their system is the only way or may not understand the need for new ideas.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

The business must go into survival mode in the immediate future in order to avoid bank intervention. The immediate problem which should be addressed is the cash flow problems due to the poor milk prices. Contact must be made with the bank to consider what options are available. With the business close to its overdraft limit it would be beneficial to ask for an increase. This is feasible due to the overall value of the business and the current equity. This increase must be able to see the business through the cash flow shortage period. It is vital that the business continues to invest in important areas such as the livestock's health and welfare and maintenance of sheds and machinery as this will ensure that the farm is in a position to react once prices return to a sustainable level. Discussion over a loan repayment holiday during this period should also be discussed with the bank in order to reduce outflow of cash. A major clamp down on unnecessary spending is also needed. The decision maker must go through the businesses spending and decide on the vital and non-vital purchases. Budgeting must also be done in order to calculate how much the business can spend over the difficult period as the current level of losses cannot continue. The business must also ensure that it is producing to the milk buyer's specifications. There is no point in producing milk which is costing more to produce than they are getting for it. Therefore culling inefficient cows and cows with undesirable traits should be carried out. This will also provide a small cash injection. Due to the farms low stocking density and vast amounts of silage it may be beneficial to look into having another enterprise to utilise the space and feed such as contract heifer rearing or a bed and breakfast system. This would suit as the farm has no free cash available to fill the space with stores or any extra milk quota on their contract to increase cow numbers.

In order to reorganise for the future the farm needs to become more sustainable. For example increasing slurry capacity to make use of slurry at the correct times of the year can dramatically save on bought in fertiliser expenses and improve ground fertility making it more productive. The farm also has to begin to make the expensive rented ground bring in some return. As they are tied in and cannot get rid of it one option could be to increase the amount of crops grown on this land to reduce the amount of feed bought in, which in turn would reduce cash outflow. Investment in good breeding genetics is also vital to improving efficiency. The aim should be to improve health and fertility and increase milk from forage due to the farms strength in forage growth.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

DairyCo (2016) show that the UK has a trade deficit when it comes to dairy products due to not being self-sufficient in dairy produce. Despite this the industry continues to tell us there is "no demand" for milk in the UK which is the reason for low prices. Things are not helped by the fact that two large European milk processing companies now control such a large share of the UK market. This creates a lack of competition placing all the power in the processors hands when it comes to contracts. Currently producers are having to stay with their current buyer no matter the price due to a lack of alternatives and a lack of demand for milk due to the cheap milk available on the spot market. There must be legislation implemented to prevent these companies having such a control over the market. Farmers must force a shift to allow them to move away from being price takers. UK dairy farms, no matter how efficient, cannot compete with other European countries on production costs as they have either cheaper labour or better grass/crop growing conditions. However, the price being paid to UK farmers is being dictated by the European/World market as a whole. Due to the state of the market and the EU free trade policies, dairy products are cheaper to import from other countries. The government must take action to limit these activities to try to strengthen UK dairy farmer's position. There must also be better distribution of levy money into advertising and education in order to persuade the British public to want British produce, choosing it over imported cheese and butter etc. This should include showing the traceability, high standards and low carbon footprint of buying British. The British brand is key in improving demand. There are also concerns over the UKs processing capacity and whether if demand did increase or British dairy produce we would be able to accommodate therefore investment is needed in this area.

Another problem within the industry is a lack of transparency coupled with poor communication from milk processors. This is regarding the volumes of milk that they can handle from producers and the penalties for overproducing. There must be clear guidelines for how much milk that processors require as dairy farmers must be able to plan for the future. Rearing heifers is not only expensive but also time consuming, therefore more guidance must be given on requirements for volume and quality of milk. This can only be achieved if the processors know how many products they will be able sell and therefore how much milk they will need and this can only be achieved if supermarkets give processors secure contracts of 12 months + with a set minimum price for these products. This could then filter back down to the farmer who would be given guidance on what they are required to produce and then they could then plan for the foreseeable future.

Submission 6

What should this business look like to be competitive in a volatile global market?

Given the ever increasing global supply chain capability there is a constantly increasing risk of cheaper imports by large conglomerates in the form of either milk, milk substitutes and other drink products. To be competitive the business needs to operate more efficiently and to focus on its core business. Given the proportionally high cost of feed, there needs to be mor e collaboration between similar sized operations to secure lower cost and security of feed supply. There also needs to be more collaboration on the sales and marketing side, working together to generate new markets and demand for milk products.

There needs to be awareness of who their competitors really are, not other dairy farms but rather other substitutes for milk.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

Robert and Heather need to embrace John's renewed interest in the business and accept that John may have different views on how to operate the business. However, there needs to be consensus on what constitutes the "Core Business". John needs to put his money where his mouth is and invest the 100,000 pounds into the business. This money can then be used to reduce bank debt, invest in new or upgraded equipment, purchase new bull (refer below) and/or opening new markets.

The challenge of land ownership and succession is not unique to the dairy industry or Britain. There needs to be a shift from the concept of ownership to one of control. Through the use of family trust and company structures the land is owned by the trust not the individuals while at the same time controlled by the individuals through the company trustee. Thus removing the challenge of passing ownership to future generations. The focus is then on passing control. This approach allows the family to concentrate on the long term, intergenerational success of the business rather than the businesses taking a hit, or potentially collapse, every time there is a handover of the business and land between generations.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

They need to reduce and keep control of input costs, specifically feed. Given the underutilisation of the land it would be advisable to allocate a portion specifically targeted at fodder crops in order to reduce feedstuffs input costs (-15%). Start focussing on being a dairy. Immediately sell beef bull and schedule purchase of additional Holstein bull. Breed only from the Holstein bulls. All steers to be sold as soon as they are weaned. All heifers to be retained to build up herd. Increase milking herd on leased land to be in line with numbers on own property (~70 head). Then increase overall herd to lift relatively low stocking density (+30% or ~75 head). High level impact to P&L as follows:

1. Increase numbers on leased land: milk revenue - feedstuffs = gross margin impact -> 107,310 - 66,430 = 40,880

2. Increase stocking density: milk revenue - feedstuffs = gross margin impact -> 114,975 - 71,175 = 43,800

3. Reduction in feedstuffs of 15%: (325 head * 949) * 15% = 46,264

Cumulative benefit = 130,944 pounds (based on FY15-16 forecasted numbers)

Carry out a detailed cost review and implement subsequent cost reduction strategy.
The business needs to be running as efficiently and cost effectively as possible to maximise benefits of an increased milk price.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can it be improved?

Scale. If the ownership or control of the dairy farm is to remain at the family level then there needs to more collaboration between family farms. This collaboration needs to be on both the cost side and sales side. Without this shift then the family dairy farm will not be able to compete with larger scale dairy enterprises and will go out of business.

Submission 7

What should the business look like to be competitive in a volatile global market?

The business has two options, grow within its current sector or expand into other sectors of the market. I believe the latter is the correct direction due to the farm set up, cash available and skill set of those on the farm. It will be important to consolidate the business they currently have and expand into a market for which they have skills and enthusiasm.
If no action is taken the bank will be calling in the collateral within a few years.
Alternatively the option is to sell the farm and look at a separate business direction with the capital released!

Succession planning

Rather than thinking of succession a further option should also be explored. One of selling the cows and land and looking at a different direction for the business.

With loans of around £289,000 and an asset value of 2.2 m it would be possible to liquidate all farm assets, re pay all outstanding debt and end up with approxamitly half a million for each of the children and mum and dad. Although not succession planning in the true sense it will enable each sibling to decide what they want to do in life without the pressures of the parent or the restriction of the unit. If John decided he wanted to remain on the once family farm he would have the option to purchase the farm with the cash already held and the sale value used as a mortgage deposit, the same goes Tom although he would have a larger mortgage due to the lower level of cash in the bank.

Robert and Heather would move into the rented property after ensuring a lifetime lease rather than just 3 years. They would be able to continue raising stock and with the capital available could raise small numbers of pedigree breeding cows which require less work yet still keep them active working with the animals they have would have worked with all their lives. A small building for winter would be required but again the capital would cover this as may the landlord.

Should the business decide to diversify and grow rather than sell then decisions would need to be made as to how the family grow into the business. It would be possible to bring all three siblings in as directors but with John still working on the holding would it be right to all have equal shares??

A sensible way forward may be to bring the two boys into the business as directors as it's likely that Tom will end up helping on the beef side as Dad gets older and instead of brining Alison in to the business buy her out, enabling her to purchase her own house as is her plan.

Tom should be encouraged to continue milking else where and this income should be added to the farm income rather than Toms. Tom will be able to assist on the home farm when time allows and when needed, this will increase as the parents get older but in the mean time the cash generated will off set the work difference between Tom and John and may enable relief milking to move from a way to earn some cash into a business of its own right, supplying relief milkers to the industry. This would be Tom's enterprise but would call on John's business brain to ensure things run as they should. A bank of relief milkers would be required and these would be self employed called in as and when required.

How can this business get through to the next upturn?

If liquidation wasn't accepted then I would want to see the remaining 3 year lease on the neighbouring farm increased to a 99 year one. I believe the lower producing cows should then be sold, this will generate some basic revenue, couple this with the £100,000 John has available and there is now cash available to build an animal barn on the rented land. This will enable the beef calves produced to be taken to fat rather than to heavy store. Working with the local Leader (or similar) scheme there should be funding available to assist the diversification and to help to purchase the sundries required, weigh crush, building layout etc. This would be at a 60/40 percentage enabling the cow sales and 100K to increase in value and lower in risk.

Working with a local abattoir the meat produced can then be sold direct to local meat box schemes and also in Manchester via the daughter – initial research show only National meat schemes in the area, and although not produced locally to Manchester it could still be marketed through Alison as a family produced product. Any excess stock can be sold through the local fat stock market. This should ensure steady cash flow as the stock will be reared 12 months of the year and ensure Robert and Heather are kept involved, active and busy yet away from some of the main day to day activities of the main unit.

The reduction in numbers initially should allow John the time to market the beef scheme, keep milking the most profitable cows and mark time in the industry before deciding if a growth in cows is the right way forward. Keeping John challenged will be key to a successful outcome so he must be able to take the business the direction he wants to.

Good land management will be key it will be important to grow as much of the grass, corn and straw on site as possible. There is enough land to enable a number barley hectares to be grown. This would reduce straw costs and enable home grown feed to be used for the finishing animals, there would also be the option to sell the straw or corn should the need arise. Managing the grass to maximum yield will enable no loss in silage production, better grazing grounds for the finishing and beef animals and good corn yields. Wrapping bales will give a second saleable product and if the where possible these should be held and sold when the market requires them.

Is the current milk contract the best available? With a few less cows the income from this will drop so is it time to consider moving to a different contract or moving out of contacts and working with a local milk round provider or ice cream manufacturer and sell direct, adjusting rations accordingly to produce the style of milk required.
By increasing the lease to 99 years a guaranteed second home is now available. This is where a second diversification project should be set up – cottage accommodation. With good quality cottages brining in around £1000 a week at peak times revenue will be increased and Heather will be able to service the guests as required with no further costs incurred.
The main house needs modernising and with four people living there needs to be fit for purpose. Splitting the building into separate units would be logical and the cash to do this would have to be borrowed but would make live so much easier for all concerned.

It is clear that if direction isn't changed the business can't survive in its current design.

Is this representative?

Yes, I believe it is. Family ran farms survive due to large ownership percentage and low bank input coupled with cheap family labour. This allows for relative easy trading with the back up of the bank when required. However with a decline in milk prices small farms such as this are struggling. They don't have the option to expand without huge investment and often this isn't possible due to land or building restrictions.
Growing in numbers isn't always the answer, although many think it is! Growing means more costs, more inputs and more risk. Can they expand without borrowing the money and raising the bank % of ownership – most can't. If the Basic Payment Scheme is the difference between profit and loss or worse, loss or failure than the business really shouldn't still be running.

As parents get older family members want or need to get involved but this means another £20 or £30 thousand to find as they will need to be paid for the work, especially if said siblings have families. How do you bring two or three people into a business that is only really sustainable for a single family unit – in this case mum and dad. Money and land issues have split up more than one family and when some of the family is still living and working at home this can lead to confrontation with those that have moved away to earn a living, yet still believe they are entitled to part of the 'family' asset.

Small niche farms survive and do so quite well; producing what is wanted and needed and selling this produce locally is a model that is repeated up and down the Country. The other end of the spectrum is to mass produce into commodity markets. 1000 cow units and farms with 200ha fields do this well and unfortunately if you have a 1000 cow diary locally they will be producing more than the local purchasers can use so don't compete – work with them. Can you produce what they need? Grass, silage, feed stuffs are all used by big units, becoming a supplier has its risks but it does give a good way forward as the big units will keep getting bigger and killing off the small producer that the end user doesn't need.

The issue explored in this study is currently being replicated all over the Country, especially in the North and South West. People have run family farms for generations, farming the same land with the same methods and often with the same blood lines. However the world has changed. If a business can't move with the world it will get swallowed up by the world. Diversification, consolidation and as explored above liquidation should all be seriously considered.

If you ran a shop on the high street and no one wanted your product you'd soon sell it and move on yet British Family farming still believes they can trade on their assets, borrow on their assets and await the next major upturn – but will there be one? Markets, especially milk, have changed. Global production and use has changed. Selling milk to make it into powder that sits in a store in Russia hasn't proven to be sustainable. The costs of producing, processing and transportation fluctuate but no matter what is produced a market is required, not a store.

Working together, producing together, selling together into known and pre ordered markets will be key for family farms. Leave the mass production to the big units and concentrate on producing the quality that is required. Locally there are some great examples of diversification yet no matter how different the market the business has moved into the reasons for change follow the same process.

Riverford Organics

Riverford Organics at Totnes have moved from a small family farm into a National producer of veg boxes.
After a number of years away from the family business working in the marketing sector Guy Watson returned to the family farm and saw a need locally for good quality, locally produced fresh vegetables.
The family had been farming the land at Staverton since 1951 but UK agriculture was already heading downhill due in part to the BSE crisis and both European and UK law changes, a change was needed.
The farm was already producing milk, beef and some vegetables and cereals but if a change was going to make a difference it had to be large. The main of the soil on the farm is graded 3a/b, suitable to grow most crops with careful management. (See annex 1)

Because of the quality of the land it was felt that organic produce was a way forward with doorstep delivery the marketing strategy. This system was put into place only because it fulfilled a criteria similar to the one laid down by Preston Sullivan and Lane Greer.

A large number of questions posed under the titles of Preston Sullivan and Lane Greer were answerable (see annex 3) so the business plan was written and the diversification plan was put into motion. Ten years on and the scheme is going strong. The turnover of the business is now in the £5 million bracket and there are 36 franchisee teams around the country delivering for Riverford.

Case study -Celia Boden-Cummings

Compare this to a farm in the Davidstow area. The area is classified by DEFRA as being 'Less Favoured' and 'Seriously Disadvantaged'. Celia and Richard Boden–Cummings moved to Cornwall from a 2000 acre farm in the Sussex area. Whilst in Sussex they produced beef and sheep. Due to the expansion of Gatwick Airport and housing they felt a move to smaller farm prudent. The cattle were sold and, along with the sheep the Boden-Cummings moved to Advent, Davidstow, Cornwall.

Richard started to repair the walls and hedges around the farm because like many Cornish hedges they were in a state of disrepair. His quality of work was soon noticed by the locals and his skills were put to use in his 'spare' time working for local farmers and land owners. This left Celia at home to look after the family, the sheep and the cattle that had been purchased.

After a short time it was felt that the situation could not continue and a change in the business was required. The Boden-Cummings looked at the options available to them and included the same type of questions that Guy Watson and his family had asked them selves. However the answers were totally different. (See annex 3)

The decisions made were to cover three distinct diversification areas. The first was to rent out the land as it was totally unsuitable for growing anything other than ruff grass. This land is now rented out on a farm business tenancy to a local suckler cow and sheep farmer. Richard went stone walling full time and now has a three year waiting list. He is also converting some redundant buildings into a school to try and train other locals in the art. Celia went back to her college training and started up a 'farm secretary' business again based in one of the redundant farm buildings. Celia is now a well know local agent who manages to keep many of the local moorland farmers legal both in the eyes of DEFRA and the Inland Revenue.

Two totally different farms in two areas are not that far apart (75 miles). Both needed to change and diversify but two projects that are as similar as chalk and cheese. Riverford diversified but stayed in mainstream agricultural production albeit with different crop. The Boden-Cummings were unable to change the cropping or the management system on the farm so decided to stay in agriculture, unlike many small farmers, but used their own skills and talents rather than using their land.

Conclusions

There was three substantial reasons for these decisions. The first was the land itself. Annex 2 shows us that only the better quality land in the UK can grow quality crops. There would be no point in trying to grow crops, organic or otherwise at Davidstow where as at Staverton the land was suited to the organic vegetable. The second big reason was climate. Although Staverton is not that far from Davidstow the land is lower, dryer, warmer and less likely to be hit by Atlantic winds. Again these climate conditions limit what can be grown, produced or managed. Skill level was the third consideration. The Boden-Cummings had skills that were required locally and little option to change the farming techniques used on the farm. Guy Watson had skills in marketing and knowledge of organic production, he also had land that would support a change in production methods.

Diversification projects need plenty of thought before they even become a serious consideration. The list of projects is endless, limited only by a farmers' imagination and the realistic aim of the business to succeed. There is a large database of assistance available to a producer that wants to diversify and the thought of going into a scheme unguided and unaided should not put somebody off completing a feasibility study if nothing else. Projects do not need to be life altering and huge, Riverford Farm's project is one of the largest in the South West. The Boden-Cummings on the other hand is one of the smallest and simplest. Both work well, suit the land and climate well and allow the owners to work to their strengths whilst bypassing both theirs and theirs land's weakness.

ANNEX 1 Agricultural Land Classification

Voelcker Consultants (ca 2000) tell us that UK land is classified into 5 distinct types. Land was classified by the then Ministry of Agriculture (MAFF), which allows agricultural land to be graded from best (Grade 1) to worst (Grade 5) in a way which is consistent across the country. The system is objective, nationally applicable, and easily understandable. Grade 6 and 7 are not covered in this document as they are of no real value to agricultural production.

The guidelines for classifying land are contained within a technical document (Agricultural Land Classification of England and Wales: Revised guidelines and criteria for grading the quality of agricultural land [unknown]). Agricultural land is assessed on the basis of its long-term physical or chemical properties, and how these might restrict its use. The limitations express themselves in four main ways which directly affect the use of the land.

- the range of crops which can be grown

- the level of yield

- the consistency of yield

- the cost of obtaining the yield

For any area of agricultural land there are a number of factors which are assessed in order to establish what might be restricting land quality and the degree of the restriction. These fall into the 3 broad categories of climate, site and soil, with a number of specific factors being examined within each of these.

CLIMATE	SITE	SOIL
Rainfall Temperature Frost risk Exposure	Gradient Flood risk Uneven topography	Texture Structure Depth Stoniness Chemical properties

The ALC system places land into one of five grades, with Grade 3 being sub-divided into Sub grades 3a and 3b. Grades 1, 2 and Sub grade 3a are defined as the 'best and most versatile land' Current estimates put the amount of 'best and most versatile' land in England and Wales at 38% of the total land in agricultural use. (Department of the Environment, 1997).

ANNEX 2 Riverford Farm pre diversification

Marketing
Where am I going to sell the products? Locally.
Who is the customer? The Public.
What is the size of the potential customer base? South West to start and then UK wide.
What are the customers' needs and desires? Quality food at an afortable price.
Am I going to sell directly to consumers? Yes.
Am I going to wholesale to the commodity market? Yes.
What are the seasonal price fluctuations I can expect? Limited to available produce.
What are the quality standards that I must meet? Food standards agency and soil Association.

Personal

Do I have time to devote to this new enterprise? Yes
Does the workload correspond with the time of year I want to work? Yes, all year round.
Do I have the skills and experience necessary to do this? Yes, and experts will be brought in to fill the knowledge gap.
Do I like to supervise people? Yes
Have I managed a business before? Yes
Do I have enough personal energy to do this? Yes
Can I count on my family members for support? Yes.

Land

What is the water drainage like? Suitable
Are the soils suitable? Yes
What is the seasonal rainfall pattern? Suitable
What will happen to my enterprises during a flood or drought? Should be ok
Are these plants adapted to this climatic region? Yes
Are there water resources available for irrigation ? Yes

Buildings

Do I have adequate facilities? Yes and grants are available to build more.
What additional machinery will I need? Specialist machinery to be purchased.
Can I rent or borrow machinery or storage facilities? Yes, contractors also to be used.

Labour

How much labour will be required? Lots
What is the source of labour? Local and seasonal travelling staff

ANNEX 3 Celia Boden-Cummings pre diversification

Marketing
No marketing experience, limited local market for new enterprises, poor road links to holding.

Personal
Skills in livestock, accounts and records as well as stone walling.

Land
Wet, low grade, windy and hilly.

Buildings
Old and unusable for new projects without rebuilding.

Labour
Limited local labour available.

Submission 8

What should this business look like to be competitive in a volatile global market?

To be competitive in a global market , the most basic of business goals must be to generate a profit that will cover, drawings, tax and re-investment…….a very obvious statement but harder to achieve with crippling low milk prices. At the core must be the desire and commitment by the owners to milk cows in an efficient way for the resources they have available. Utilising the forages which the farm produces must be at the heart of this strategy. **The aim will be to have a resilient, low debt, low capital requiring business which can generate an increasing net worth to the owners.**

Moreover, the farmers must consider as part of their strategy not only producing efficiently but also understand the market they are producing for. Who are the buyers in the area, how financially sustainable and competitive are they in the market place, can they add value or are they purely supplying the global commodity market? In the latter situation, producing at low cost per litre is critical, with the need to maximise volumes for the resources available.

The business should always be looking for ways to be continuing to be sustainable in that environment…..a flying herd, thereby releasing capital, land and labour for the harvest of milk….however depending on the skills and resources available, it may also allow an alternative income stream away from the milk market by providing a beef enterprise. My advice would be to focus on the enterprise where the farm has potential and skill. Also looking at tourism opportunities may also offer other income streams which can be helpful in low milk price scenarios.

How does this business pass from one generation to the next?

To answer the topic of succession, the family must be able to talk with themselves. Maybe a facilitator would be helpful in these situations but what is important is that everybody's voice is heard and respected. It may also be that the oldest person should not have the burden of trying to find all the answers. Instead the following process could be helpful in these situations, adapted from Knight….

1. What are the personal and business goals of each individual
2. What is the purpose of the business?
3. Is the business in a financial position to meet the goals of the individuals?
4. Understand the family dynamics and inter generational differences.
5. Importance of a formal communication strategy i.e. meet monthly for management and quarterly for strategic business
6. the importance of discussing and planning for retirement
7. formalising roles and decision making
8. Establishing a formalised pay and reward system
9. Understanding their business structure, legal and tax implications
10. Understanding the roles of professionals in the process

Is the burden of succession and land ownership holding British dairy farming back and if so, why?

What would encourage more dynamism in British dairy farming? There are already many dynamic businesses in the sector who would benefit from freeing up of the availability of land in the market. However , is this the critical factor which needs to change in UK dairy farming? I am doubtful of this. I also think it will be unlikely that there will be a significant change in the UK land ownership structure. British dairy farms do not operate in an isolated bubble and there other forces at work here, and many of these are not agricultural.

At the heart of the problem is an industry with poor structural problems and which lacks meaningful strategic leadership from government downwards. There is no overall vision and no overall plan!!! Is there a comprehensive plan which includes the production, processing and marketing for UK Dairy plc? I'll expand on this in my last answer.

How can this business get through to the next upturn in prices?
How can it reorganise to have long term sustainability?

The first step as a family business is for all the members of the family realising where they currently are. This means identifying their strengths and also their weaknesses. Considering the threats and opportunities that are available for the business and then devising a strategy to become this resilient business. They may need professional advice to give wise counsel and they may need to learn some new skills to manage the grass and the cows to improve efficiency.

On analysing the accounts, there are the problems of the business currently not providing a strong growth in capital equity and basically standing still. The business is paying too high a rent and interest % in relation to its gross output however it is not over borrowed in relation to its assets. The two significant weaknesses are its high bought in feed use with the grass not being efficiently utilised and secondly, the extra acres rented are unnecessary for their current cow numbers and production. Moreover, the farm has another 3 years of this tenancy which will require a cost effective use of the grass it provides to cover the £190 per acre cost.

The ideal way forward, determinant on individuals' goals, would be for working to each person's talents and abilities….this would mean having a business structure which provides leadership, business management and production management . These roles and responsibilities need to be established. For example, there may be a "family board" of owners established who will make strategic decisions. John could be given the role of manging and financial director and Tom as dairy herd manager.

With this larger pool of family labour, the cow numbers could be expanded to match the farm's (including the rented land) ability to produce grass. A system of production of either spring calving or autumn calving needs to be established. The dairy youngstock sold and the proceeds used to purchase cows. John's may also provide a low interest loan to the business to provide funds to buy another 100 + milking cows and install some extra cubicles in the previous "store shed". A beef bull should also be used on all the cows which will also help the cash flow. (there are strong supplies of good value in-milk heifers to be found regularly at Carlisle market). Please note that it is difficult to make some of these judgements without visiting the farm and understanding all the needs of the milk purchaser.
At this time it may be unwise to move milk buyer unless an excellent offer is forthcoming. However, this would be an appropriate time to form alliances with other dairy farmers in order to make strong consolidated approach to another milk purchaser as a group of producers.

Every cost should be scrutinised and budgets created and analysed critically.
Some KPI's should be established, regularly measured, monitored against predicted and managed to provide healthy results. These should focus on grassland production and utilisation, milk production and quality, and cow health and fertility.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

On analysis of the structure of the British dairy industry there are some basic flaws which ensure a lack of profitability. A brief summary of these are:

- the product is an undifferentiated commodity;
- everyone has similar costs and access to the same technology;
- and buyers are price sensitive, knowledgeable and willing to switch supplies at a moment's notice to get a better deal.

A structure like this in any industry will make sustainable profitability difficult. There are examples of other industries with similar issues.

To improve, there needs be an understanding by the government, industry leaders and producers of how poorly structured this industry is. An understanding of Michael's Porter's "Five Forces" would be a starting point….
http://www.quickmba.com/strategy/porter.shtml

Agrihive must be congratulated in identifying the requirement for fresh leadership within the industry but this needs to be allied with a vision and plan from government which links production, with processing, with the market. Sadly, over the last few decades, the industry has been left to survive by itself. I believe it will survive but wouldn't it be better if the vision was of a more prosperous future for all. We look forward to the day we have a sustainable, globally competitive British dairy industry. For much of Britain, this will mean an industry producing milk from grazed grass and structuring businesses to be sustainable and resilient if world milk prices are low.

To conclude, there is wisdom to be found elsewhere on these matters. This has been one of the aims of Agrihive and maybe we also need some Divine inspiration! The most helpful words I have heard as a dairy farmer can be found in the "Parable of the Shrewd Manager" as told by Jesus in Luke chapter 16…..Let us never forget that one of the greatest investments we can make is in people…..
http://www.gty.org.uk/resources/sermons/90-467/a-good-lesson-from-a-bad-example

Submission 9

Teagasc Target vs Good/Average Producer	**Average**	**Good**	**Target**
Ha	40	40	40
Cows	84	112	112
Yield per cow	4854	4854	6806
Price per litre	0.29	0.29	0.29
Stocking Rate LU/Ha	2.1	2.8	2.8
Capex per cow	2000	2000	3000
Capex	168,000	224,000	336,000
Sales			
Milk sales	118,243	157,658	221,059
Livestock sales	17,645	23,526	23,526
Total Sales	**135,888**	**181,184**	**244,585**
Costs			
Concentrate	9,029	12,309	12,039
Fertiliser	14,852	14,852	14,852
Heifer Rearing	15,777	21,036	21,036
Contracting	8,775	8,775	8,775
Vet/AI	9,156	12,208	12,208
Miscellaneous	1,117	1,117	1,117
Car/ESB/Admin/Ins	11,672	11,672	11,672
Machinery operation	7,768	7,768	7,768
Labour	22,700	30,266	30,266
Bank Interest	7,560	10,080	15,120
Total Costs	**108,406**	**130,083**	**134,853**
Cashflow	**27,482**	**51,101**	**109,732**
Depreciation	11200	14933	22400
Taxable Income	**16,282**	**36,168**	**87,332**
% Capex Financed	0.75	0.75	0.75
Loan amount	126,000.00	168,000.00	252,000.00
6% Ten Yr P+I	-€16,150.34	-€21,533.79	-€32,300.68

Interest	0.06	0.06	0.06
Periods	10	10	10

Cost per litre	0.29334177	0.26674674	0.206295128

Submission 10

What should this business look like to be competitive in a volatile global market?

To begin with, one needs to identify the current strengths and weaknesses of the farm business, as it is these which will shape its competitive ability. Simply, at the moment the businesses costs are too high and it's income too low.

The most excessive costs I have identified (weaknesses) are feedstuffs. £170k and labour :- wages and contracting charges £61k, both of which could be greatly reduced by Kidworth's positive attributes. The farm has good grass growing qualities, when managed properly, grazing is a low cost quality feed, and easy accessible. Currently the milk yields, 7,300 L are relatively low when one considers how much is being spent on brought in feed. There is plenty of scope to increase lower costing yields and therefore, income, or at least maintain yields at a greatly reduced cost. Increasing cow number sis less of an option due to limited slurry storage, in the short term.

Labour and contracting charges can come down depending on the working dynamics of the family, after all there are potentially four working people within the family and recent investments mean the main tractor and telehandler are fit for work. When Tom left contracting costs increased by %5,000, yet £50,000 had already been invested in plant.

To be competitive the business need to maximise its assets (people and machinery), reduce costs and increase income, and ultimately produce what their milk buyer wants, combined with being aware of the longer term regularity threats to the business (pollution, animal welfare, etc) and consumer trends.

Three potential income streams at Kidworth include potential for family members to work off farm, but contribute to the business, ie Tom. Is he paying rent or being subsidised for living in the main house? The rented land has a cottage on it, this could be rented out to off set some of the land rental costs.

The business has much scope to be competitive, if it can fully maximise its assets, reduce its costs and nurture an inclusive working family dynamic, where each persons strengths are fully utilised to the greatest effect.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

The Kidworth dairy farm, as a very long term business that has passed through many generations will have faced succession dilemmas and hard times before and overcame them. The way forward is to get all the interested parties together, (Kidworth's seniors, John and Tom) and establish what they want from the business, and how they would work towards achieving it, together with a strategy for improving the farm as a whole.

Some of the business problems stem from the families state of flux, both brothers coming and going over the years has not built a stable environment for employees and the parents. Now is the time to test the sons commitment by engaging both of them on the farm and see if it is really something they want to do, in its current form as a dairy farm and whether the family can work together, now that is it make or break time.

Looking at the brothers skill set, John could manage the office, financial and agronomy side of the farm, with some hands on work, maybe tractor driving. Tom could manage and carry out the day to day animal husbandry. The Kidworth snrs could do whatever their skills are, everybody could be available for milking to give flexibility.

Let's remember if you do nothing, nothing will change! Ultimately, the older generation need reassurance that the next one will be successful. A period of management and working practises need to be established and proven over a number of years. It's understandable no one would want to hand over their lifetimes work to see it fail through inexperience and poor management and, or a lack of commitment. But if there is commitment, passion and team work, a cohesive strategy and openness to new ideas, Kidworth will realise success in succession.

I do not think that succession and land ownership are holding British dairy farming businesses back, after all on a simple level, milk production continues to increase despite producer numbers being in decline. It is not really indicative of an industry being held back. The continued low prices for milk are far more likely to hold British dairy back. As the next generation realise there are far easier ways to earn a living and the educational establishment is weighted towards graduates, who lack practical skills needed for dairying. The very nature of this job lends itself to a way of life and let's face it producing a vastly undervalued product may not be something the next generation actually want to do. This is the burden not the succession itself.

It can't really be argued that land ownership is holding British dairy farms back, particularly in Kidworths case as it has provided the farm with adequate finance to continue trading, conversely the rented land is placing an extra financial burden on the business.

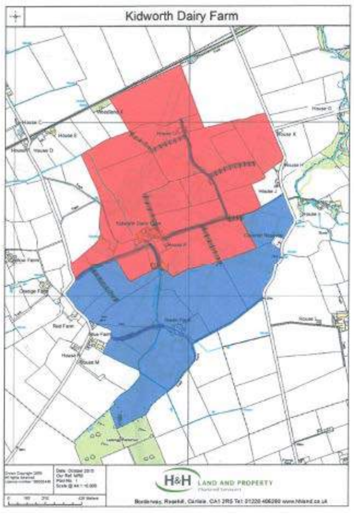
Land ownership is often the catalyst that allow British dairying to continue, it makes the long hours worthwhile by providing security, freedom and the satisfaction that everything you do has the potential to remain long into the future. Your hard work isn't just providing a landlord with an easy income.

Maybe the only burden of succession and land ownership on British dairying is its contribution to the oversupply of milk in this country, by dairy farmers working below the minimum wage and hours of work that normal employees would not tolerate getting no meaningful return on their high value land, which all makes for a ow cost production, which other dairy businesses will proper employees and rents to pay cannot compete again, forcing them to operate below the cost of production. Perhaps that is where any burden lies.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

The immediate concern is raising the overdraft to £150k, presumably this will come at a price, a more economical route would be for John to use £50k of this £100k to support the business during this transitional period and it will gauge his commitment and give him a direct stake in the business. Having sorted out the immediate financial shortfall, savings have to be made and income raised.

Both sons need to get onto the farm together with their parents as that is where the future of the business lies, in their hands! If the family can run the farm with little external labour, contractoral charges and wages could be halved (£62K - £30K). Thirty thousand would be reasonable drawings for two brothers at their stage of life, with no dependants.



The farm is a good grass growing area so needs to be managed, because of its central location it would be straight forward to create a system to use this grass, paddock, strip grazing etc (see map). With the addition of electric fencing and better access, to start, a fortune would not have to be spent, trackways could be just field strips, weather permitting, but there already exists large areas of wet weather access grass.

Existing tracks

New initially fenced walkways

Approx. 1500m of new electric fenced walkway would provide access to most fields

The land does not appear to lend itself to maize growing but 40+ acres of whole crop wheat could be considered to replace some brought in winter feeds. Also clover or Lucerne crops.

This management could be carried out by Tom with the family's support initially. With the successful implementation of home grown forage utilisation and the current falling grain price, I think at least a third could be saved on bought in feeds costs, approx. £60k. Furthermore with that sort of saving at stake professional advice would be of benefit to aid Tom and John's knowledge. Other potential savings could be made with the accounting feed of £2,400. John is highly literate in financial affairs, there must be scope there. Also the insurance bill, John holding a senior position in insurance, must be able to reduce the fees and reverse the continuing year on year upward cost.

Although these savings are relatively small, they can amount to several thousands, which all helps to turn things around.

It is not all about costs, but also raising revenue, are health problems or poor genetics holding the cows back? The brothers ought to consider using a few higher genetic merit AI bulls to lift the potential herd, using proven sires to suit their system. Indeed, a strong genetic base is very advantageous to achieving long term sustainability. The rectification of any fertility and lameness problems in the herd would also be of benefit as any issues could be depressing the yield.

The milk contract needs to be looked at to make sure that standards are being met without incurring penalties and bonuses are being achieved if possible.

The store cattle bring in a reasonable turnover but feed costs need to be watched and they need to be fed what can be grown on the farm, where possible, whole crop, clover/lucerne silage.

The rented land which includes a cottage could provide an income by being rented out, which would offset potentially £5 - £10,000 from the rental costs. This is also house 'O' on Kidworth farm map, could this be rented out?

All of these measures will produce positive cashflow if approx. £100k which should turn the financial fortunes for the year around. Other financial implications are the farmhouse modernisation and the parents desire to financially assist their daughter, in the short term, these can wait until the full financial pictures immerge from the proposed changes. At the current time the business cannot afford to subsidise family members who are not actively involved.

Looking forward, depending on how the family cope with the work load, since the farm stocking density is relatively low, in theory the long term temptation would be to increase cow numbers, but if more land is being used to grow the animals feed it may not be feasible. Also slurry storage and current housing are restrictive issues. When one also considers the close proximity to water courses, environmental legislation is only likely to get stricter in the long term.

For Kidworth, long term sustainability I believe can be attained with good grazing and cow management, home grown feeds, committed family approach, focus on cost reduction, and an awareness plus utilisation of other income streams.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

The flaws in the UK dairy industry unfortunately are in many cases shaped by the common free market forces which govern most commodities be they steel, oil or milk. The basic structural market is one of supply and demand, combined with regulations which prevent monopolistic business models.

In view of these entrenched marketing principles, which are flawed to the producer at times of over supply. Unless they are milking cast numbers of cows and can benefit from economy of scale and/or have a decent super market contract. For the majority of producers this simply is not the case.

The best way forward for the majority of producers is by marketing, branding, differentiating and adding genuine value to milk.

How can a typical farm like Kidworth differentiate and brand its product when all too often its milk will be mixed and sold with no positive marketing regarding its origin and method of production. It is a lost marketing opportunity when milk from cows which spend most of their time outside grazing is mixed and sold with milk from continuously housed cows, with no differential being made for the method of production.

A similar commodity is eggs, they are not sold in mixed boxes of free range and cage produced, the methods of milk production need to be declared so that consumers can exercise a choice, be it fair trade, free range or housed, it is a fundamental flaw. Choice matters to consumers and they are willing to pay extra for differing methods of food production and ethical pricing, it is a potential premium that could benefit the majority of typical producers. Free range is a strong brand which is respected and understood by consumers and this will help to insulate producers from the ravages of the market.

A simple starting point for the initial marketing of free range dairy would be a percentage listing on dairy producers of the free range content. It's a novel idea, which would set the ball rolling in favour of dairy businesses such as Kidworth.

The adoption of free range principles would also aid in the restriction of milk supply by tying milk production to a farms available grazing land. Currently large indoor herds can be kept on relatively tiny farm areas by the transport of feed from miles away, which at a time of cheap oil makes a milk over supply situation inevitable with resulting depressed prices for everyone when all milk is marketed together regardless of production technique.

It isn't easy to bring improvements and change to the British dairy industry structure but the adoption of a simple free range brand could be the type of initiative which gives the majority of producers a much needed price premium in the market place, which is valued by consumers and provides a long term sustainable production method for producers.

Submission 11

Before we attempt to answer the four questions, there are some key questions/points to consider or at least ponder over. Some are business, some personal and some physical about the farm.
For example:

- "Robert and Heather have concerns about Tom not being able to run a business." But has he been given a chance?
- What level of conflict is there between the brothers? Has one stepped on the others toes unintentionally or can they not work together, period?
- What was the reason for John to return to the farm? Was he genuinely unhappy in his job, or was he worried that he would miss out on his chunk of inheritance?
- What is John's view on the £100,000 he has in the bank? How did he get the house to sell in the first place? Did his parents help him out?
- Does anyone else have any savings?
- Do the brothers want to be in dairying? Or is everyone just doing it because that is what has always been done?
- Looking at the maps, does the 'lay of land' allow for cow tracks to be extended into the rented ground?
- What sort of milking parlour is there?
- What does the milk buyer think of seasonal supply and/or who else is around?
- How fixed is the FBT on the rented land? Is there hope of renegotiating a longer term FBT or even a purchase?

Also, the family members need to come to terms with some hard truths about the business.

- In the accounts provided, for every £1 revenue, 65p goes on variable costs. **This is no good!**
- With £170,000 spent on feed the cows should be yielding 9000 to 10000 litres. Why is their genetic potential not being exploited. However pushing for higher yield on their current contract would just mean that the extra milk would be sold on a "B" price. **Also no good.**
- Pasture management is non- existent. Why?
- Tom earning an income on a neighbouring farm and this business spending over £30,000 on paid labour. Why? (Working for someone else to gain experience and independence is great, but leaving home under these circumstances is very concerning and sad for all parties involved).

Assuming everyone is upfront and honest about their intentions and everyone 'wants to make a go of it' only then can we move on. Maybe putting one plan in place that decides everyone's future is not the best thing to do? It might be better to have a plan for:

1. The here and now. This will focus everyone's mind, help the cash flow and start turning things around.
2. The next 3 years. This will give certain people a chance to step up to the mark and a chance for Robert and Heather to see if the brothers can work together.
3. 3 to 5 years. Real succession/tax planning where Robert and Heather can take a back seat role and ease into retirement.

The above points will give everyone a timescale to aim for.

What should this business look like to be competitive in a volatile global market?

In a competitive volatile global market this business **needs** to: (in no order of importance),

1. Utilise every blade of grass on the farm.
2. Spend less money on purchased feed.
3. The whole family/ business partners **need** to work together and value each other more.
4. Prioritise, what is important, what needs to be done and what can wait.

5. Understand their costs and where they come from.

This can be achieved by doing the following:

- All family members to join a discussion group to learn how to manage grass and pick up ideas.
- All family members to be involved in doing a financial budget and cash flow forecast for the farm.
- Invest in paddocks and cow tracks. (Looking at the map, the farm buildings look fairly central when also considering the rented land. At £190/acre this needs to be utilised.)
- For now, put all cows to a beef bull so calves are sold at one month old to reduce work load and simplify the system.
- Start setting up a block calving system. Ideally one, but if milk buyer insists on all year round milk, then have a spring and an autumn calving block.
- When cows are culled, replace with Friesian type that are more robust to deal with a grazing system and produce a better beef calf. When the cow type is roughly where it needs to be in the future, then replacement heifers can be reared to suit the system.
- Increase cow numbers by at least 50 or 60, but not to chase yield! Yes you need cash to buy cows but they also sit on your balance sheet. This will increase the stocking density so that better quality grass can be grown.
- Aim for a cow yielding 5000 to 5500 litres on 1 to 1.25 tonnes of concentrate for example.
- Sell surplus young stock/ stores and any machinery on the farm yard that are surplus to requirements. This will help fund the extra cow purchases.
- With 4 able bodied people in the family business, and a simplified system, get rid of paid labour and replace with relief milker at weekends for example. Target should be at least 750,000 litres of milk produced per person. So with 1,300,000 litre milk sales someone has to go.
- Establish a rota or job description so that family members have structured 'time off' (to start, every other weekend for example). Far too often on family farms, people assume roles and responsibilities, good in some ways but when priorities change (i.e, boy meets girl and all that) things go wrong when you end up with **'management by assumption'.**

In a competitive, volatile global market, this business needs to look like a professionally run organisation where everyone involved sings from the same sheet, everyone is continuously learning and challenging themselves to do better all the time. The business becomes a lean profit driven machine, where the farm's assets are utilised with the aim of maximising the tonnage of grass grown and utilised per hectare, and using inputs only when needed. Finally if all members want to farm, then a clear strategy is in place, so that everyone's net worth grows to give them that opportunity.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

(I will answer the second part first).

Land ownership?

Who says it has to pass on to the next generation?

Land ownership is a burden in so much that we all place such a value on it, yet the value of the produce that we get from it is undervalued. What was the value of farmland 30 years ago compared to today? And to illustrate my point, what was the price of milk 30 years ago and where is it today?

Why is land value so high?

Could be subsidies? Subsidies distort market values of everything including land. Add this to a steady appreciation in land value and you have a 'snowball 'effect where the bigger land owners can get bigger, faster.

Outside money? People from towns and cities who yearn for the country life can sell a town house and buy a small farm with very little finance required in some cases. This has a two-fold effect in that adequately and viably sized farms get broken up into small holdings with the remaining land sold or rented to larger farmers in the area. Secondly, these former farm dwellings that are now sold to people outside of farming means that it is even more difficult to have affordable rural housing for young families who want a career in agriculture.

Farmer V's farmer? We've never been good at working together, we will go behind our neighbours back to secure that bit of land that's for sale next door.

Succession?

If young people don't want to milk cows for a living then they shouldn't have too!
Farmers and business people should not get into a trap of wanting to set something wonderful up for their kids whom ultimately might not be as eager to do it.

Maybe succession becomes a burden because farming generally tends to have low return on capital employed and insufficient access to cash, which ultimately means that the farming business cannot grow as fast as the family that lives upon it.

For example, as time has progressed, with the aid of mechanisation and a more specialised farming systems, one person can now look after more cows, more pigs, more acres, etc. However if the size/value of the farm output has not grown in conjunction with the size of the family, then someone inevitably has to earn a living outside the farm gate.

All of a sudden as a farmer/ parent, you are faced with the heart wrenching and emotional choice of wanting to be fair to all family members, and also realising that a farm business cannot be cut up into pieces, let alone equal pieces at that. (All of which gets even muddier when you factor in valuation changes).

We need to concentrate on creating wealth through profit, not just let wealth creation come from land value appreciation. If that happens then that is a big bonus but only a bonus, because nothing is worth anything until it gets turned into cash.

So how does this business pass over from one generation to the next?

Depends on whether Tom and John can work together or not? If both are keen farmers yet **CAN'T** work together then one will need some financial help to establish a business elsewhere. To this end John could use his savings. There may be no need to sell anything substantial off as the business isn't too highly geared at the moment. The farm is worth over £2.2m yet has liability of £375,000, therefore a net worth of 83%. With a good business plan and a willing bank manager there is plenty of scope to accommodate the wishes of all family members within reason.

If however Tom and John **CAN** work together, then a joint venture could be set up between the brothers which pays a nominal rent to Robert and Heather to cover the loan repayment. Robert and Heather in turn hand over ownership of livestock deadstock and machinery to the brothers in the form of an interest free capital repayment loan. This means that the brothers are committed to farming the land that their parents have worked hard at, and it gives Robert and Heather a sensible income to live on with limited tax liability. This arrangement could be done for say 10 years so that by then, the brothers have paid down significant debt and built up their own balance sheets/credibility/track record, and they'd still only be in their thirties!

Benefits:

- Land ownership (for the time being is still with Robert and Heather) so the risk to the family jewels being sold off is small.
- Robert and Heather can still help on the farm if they wish.

- The rent received by Robert and Heather will repay the loan. The interest free capital repayment loan agreement between Robert and Heather and the brothers is paramount, which gives them a guaranteed income with minimal tax liability unlike a salary for example.
- With ownership of trading assets transferred to the brothers, they now have real equity and are free to manage the farm as they see fit.
- Now the brothers are running the business for themselves, nothing makes you think twice about buying something than when you have to pay for it yourself!
- Even if the brothers did sell off the cows, with an interest free capital repayment loan in place, they are bound by that commitment to repay all of that capital to their parents.
- Will help to build a track record and credibility with whomever the brother's bank with.
- Profitably run they can grow their balance sheet's.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

If this business waits until the next upturn in milk price there will be NO business left to think about. Not because of the bank but because family members will lose heart.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

There are a whole host of reasons, some already mentioned. Some are interconnected and some are because of external factors. Dairy farming is a long term commitment yet a lot can happen over time that can have a huge bearing on people's views and outlook on life. It is a very weird industry in some ways.

- We have had thirty years of milk quota , yet ironically in the year they come off there is too much of the stuff.
- The dairy industry was deregulated in 1994 because the MMB was seen as a monopoly by politicians, yet the percentage of the retail milk price returned to the farmer is less now than then, and dairy companies are merging together to become bigger and bigger.
- We've got advisers of all sorts telling us how to improve yields and production efficiencies, yet agricultural borrowing is at record levels.
- We've got banks eager to lend yet when you compare the return on capital to other sectors of the economy, they shouldn't.
- As dairy farmers we all share the same problems and have to earn a living from a finite amount of resources, and therefore one would think that we should all pull together, yet we are becoming more segmented.

1. Aligned versus non-aligned,
2. Co-op supplier versus direct supplier,
3. Liquid versus manufacturing,
4. All year round calving herd versus block calving herd,
5. Organic versus non organic,
6. All year housed versus traditional summer grazing, etc.

Different dairy companies have different contracts depending on what their customers wants, yet by the time the milk has been pasteurised, homogenised and standardised, one wonders what all the fuss was about?

One particular flaw the industry has is that there is no ONE voice that stands for us all. For starters the unions just keep shouting about what their subscribers want to hear, be they NFU, SNFU, FUW, FFA, TFA and so on… Then, the Ministers responsible for rural affairs in each of their devolved regions just talk about what affects their own constituents. For example, having a different policy for eradicating TB in Wales as opposed to England is pathetic. The bug knows no boundaries so there should be no divergence in strategy. We are on an island, get it sorted one way or the other!!

We have a tax system that needs to be 'tip-toed' around, which prohibits some people from selling up and giving the next generation a chance for fear of being robbed by the tax man.

Subsidies just distort everything anyway. We would all be far better off from having a fairer price for our produce and less subsidies that just keep beurocrats in work.

Milk companies want level supply which forces farmers down the path of high capital investment yet the price they pay is based on commodity market.

And then there are the supermarkets who couldn't care less, and that's a discussion on its own!
How can all this be improved?

- Have dairy cooperatives or producer organisations that treat all members the same.
- Have one union.
- Have one DEFRA.
- Reduce reliance on subsidies.
- Milk processors need to understand that if they want a guaranteed supply of quality milk to grow their businesses that it has to go hand in hand with the grass growing seasons.
- Through educating farmers/ land owner, have unions, banks and processors on board, create some sort of pathway similar to what is in New Zealand. A system where young aspiring dairy farmers can climb the ladder from earning a wage, to herd manager, to share farmer, to farmer/ land owner. There are some who do this now but it needs to become a recognised industry wide platform.
- There needs to be a complete change of mind set towards running a business. Start at the bottom of the P and L sheet and work up instead of starting at the top and then working out how the family can live on what's left.
- There needs to be an understanding that owning land and running a business are two different things.
- Finally, promote and educate the general public and the supermarkets, not just about the nutritional value of milk but about the virtues of having it produced locally and in an environmentally, economically and socially sustainable way.

Up until now even though the UK dairy farmer has operated under a quota regime, we have enjoyed a fairly liberal regime compared to other EU states. Now with quotas gone and Sterling stronger than the Euro, other states namely Ireland and Holland will be keen to flex their milk producing muscles and tap into the UK market. Unless we can control our cost of production, utilise what grows under our feet and use that to our advantage then it's going to get a lot tougher. We can do it. It's about blocking out the garbage and focusing on what is important.

- **The farmer and his/her family.** (These people have the skills and knowledge of how to manage grass and look after the cow).
- **Creating wealth.** (Machines depreciate, stock looked after properly grow in size and numbers).
- **Grass.** This can grow almost anywhere and in places where combine harvesters can't reach. It soaks up free sunlight energy and managed properly will not rob the soil like other crops.
- **The cow.** If it wasn't for the cow over the last 8000 years then modern day society would not exist as we know it today. She can turn something that we can't digest (grass) into something highly nutritious day after day.

The milk. It's a food in its own right and yet it can be an ingredient or broken up into ingredients. To call it a commodity in some ways is undermining its great credentials. We should be adding value to it, not de-valuing it.

Submission 12

What should this business look like to be competitive in a volatile global market?

To be competitive in any industry one must take a long term view and try to increase the effectiveness of its strengths, reducing the impact of its weaknesses, using both to exploit opportunities and reduce the effect of any threats.

The strengths of Kidworth Farm are its labour force. Currently the farm has both the eldest son (John), the father (Robert) working on the farm day to day but should the need arise can draw upon the other son, Tom. The average UK farmer is over 60, with many having no replacement, so Kidworth farm is in a unique position. Both of the sons are clearly qualified and passionate about farming. John, for example, with his math degree will potentially have much better insight into how to budget and plan then his father. Tom on the other hand has the unique gift of being a good stocks man, a declining and valuable skill. However both these resources are not being fully utilised by the farm, John being shackled by the control of his parents and Tom by working on another farm.

The businesses weaknesses focus mostly on the clear lack of planning and control. A clear example of this is the renting of additional land. This was clearly excessive to the dairy cows needs as beef x calves enterprise was added to utilise the land. The issue raised is: was this land taken on only because it was available or because it was part of the long term objectives and goals? It is the author’s opinion that it was a case of the former, due to the current state of affairs of the farms accounts and the lack of any succession plan; at a point where the farmer is nearly at retirement age.

The greatest opportunity which the business has is the strength of British farming brand image. British produce is widely regarded by both domestic consumers and foreign markets as being the highest quality and a leader in environmental sustainability, animal welfare and most importantly taste. This consumer demand forces supermarkets to buy British, the proper percentage on shelves in comparison to other nationalities produce is debatable, considering the fact that most nations can produce staples such as milk or meat cheaper, is a triumph that should be celebrated. More importantly, an opportunity that should exposited further in export and domestic markets. Although control over branding and promotion is out of Kidworth farms control it does not have the excuse to sit by quietly. Why is it not heavily involved in marketing boards? Or hosting school children on farm to educate about the benefits of British milk? Or operating in a more efficient manner to ensure it is here for the future?

The threat of substitution from alternative milks such as soy, almond or other drinks have eroded and continue to erode dairy milks place in consumers basket. Why have the dairy boards not been more active in fighting this? Dairy milk in most cases is cheaper and just as healthy as the alternatives so why has this not been pushed further? Why have there not been massive pushes into how milk packaged, sold or flavoured been made, like other milks have had? Again the question of how much effect Kidworth farm could have? The answer is a lot; as mentioned in the previous paragraph.
So what do these strengths, weaknesses, opportunities and threats mean for the organisation and future look of Kidworth farm. In short it means hard decisions. In order to maximise on all the strengths and opportunities and minimise the weaknesses and threats Kidworth farm must decide on what kind of farm it is, a dairy or a beef x finisher, and specialise on that aspect. It is the authors opinion that the farm has to many fingers in too many pies. Having a beef operation, takes up time and resources which could potentially be put to more profit by focusing on the dairy enterprise and vice versa.

Specialisation will allow for several things:

- Reduction in land requirement
- Costs
- Greater efficiencies to be developed

This is what this farm needs to succeed in the future uncertain future.

How does a business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming back and why is that the case?

A business passes from one generation to the next with great care and much planning. It is not a death bed decision or last minute deal. Both generations need to be able to compromise and be absolutely clear about what each is responsible for, when transfers of power and control occur and how. And importantly the older generation must give up complete control. The specifics of all this will vary from farm to farm and generation to generation but complete clarity of all intentions and responsibilities needs to be made.

Succession and land ownership only hold back British dairy farming when it is rushed, intentions and timelines not made or not made clear, or when the wrong individual inherits. When succession is rushed or control not given up, tension is created. This tension will distract from the business of farming for a profit, and so the business suffers. However a smooth handover allows for the farm to continue to profit.

Of greater concern for is inheritance by the wrong individual. For a farm it must at all times have a full time soil and crop scientist, vet and stocks man, labourer, mechanic, builder, accountant, marketer and lawyer. Obviously this is not possible or financially feasible for most operations, so the farmer in this day in age must be a manager, and organise experts in all the aforementioned fields to complete these tasks for him or her. The trap most farmers fall into is that they either attempt to do all these tasks themselves, with some tasks being done substandard or forgotten; or subcontracting these jobs out to individuals which provide a substandard service. Therefore good farmer is a good manager. Being raised on farm does not assure the making of good farm manager. It may help but managers are either born that way or it must be extensively trained into an individual. It is the assumption that being raised on a farm makes one the ideal farmer or farm manager is what cripples British dairy farms and farms in general when it comes to succession and land ownership.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

There is no time like the present and so the business should do as much reorganising now when the cost of credit is low and so be able to take full advantage of the price rise when this happens. I will present my opinion in the form of 1 Year, 5Year and 10 Year plans.

The challenges for this plan are the same as they presently are, ie an overdraft which is climbing and milk prices which are too low. I don't think extending the overdraft is the best way of accessing the needed capitol, mainly because it is unsecured and more costly then other forms of capital. Therefore if John is serious about the future of the business then he should invest in the business with some of the money earned from the sale of the house. However this should not be done without restructuring the business from a sole trader into limited company, in order to protect his investment from poor spending or legal troubles

Creating a limited company grants the business several benefits. Firstly a lower tax rate and potentially access to better rates of credit, but primarily it balances out the differing needs of the family from the business, by removing all control from the parents and giving more control to the rest of the family. How would this work in principle? Who would have majority control and money? John would be the majority shareholder and CEO of the business with the parents being secondary. John would have the most control due to his investment into the business. The other children have minority share holding rights. However the business would only include buildings, stock, and between 65-75% of the current owned land. The remaining land would remain owned by the parents but still be used, rent free by the business.

Both John and his father would draw a small salary enough to live on their earning would be boosted by their share of the profit. All other staff would be let go or hired out to other businesses. Profit would only be shared by John and the parents at first. It is assumed that both parents do not have a pension in place aside from any state pensions. Therefore when both parents retire they will give up their share within the business either in whole to the other son who come to work full time, paid as his father was, or split between Tom and the daughter should he not come to work fulltime. In terms of voting rights it would biased towards John. The remaining 25-35% of the farms land which the parents own, would then be rented back to the business, this rental income, assuming a rate of £190/acre would provide an income of between £10,000-15,000/year which would be the parents pension fund. The land would revert back to the business upon both parents death. The parents would still stay within the farm house but a small upkeep rent, to pay for utilities and maintaince would be charged at cost. The farmhouse would not be modernised unless significant savings could be made from the modernisation.

How does this benefit the children? It mainly sorts out the issue of succession in a manner which is beneficial to all children not just the one who inherits. For the daughter it would receive ownership of a business and so boost her credit and potentially allow for more advantageous mortgage agreement. When the farm comes back into profit it will allow for small income to be had. This also applies to Tom should he become interest in the same thing. For Tom it also provides a way back into the business when the parents retire. For John by investing in the business, and being the majority shareholder, it gives him control and power to override parents and move the business forward. The investment becomes a driver for John to push greater efficiencies forward and allows him to be more objective in what he invests in.

In terms of on farm efficiencies the farm should closely analyze what makes money and what doesn't, cutting operations which do not. So for example the beef suckler enterprise most likely will not have the same Return on Investment as the milk enterprise, therefore it should be cut for the time being and capital and labour tied up in this put to use increasing the dairy operations efficiencies. An example of increasing dairy efficiencies would be to create a forage budget and have some sort of grazing plan which maximises use of the grown grass. The rented land should either be put to use with more dairy cows, either to produce grazing, forage or protein, given up, or sublet to another operation. Milk yield shouldn't nessecarily increase but rather the cost of each litre should decrease. This decrease could come from moving towards a more extensive system, such as seen in New Zealand or a more intensive operation where yield is king. It is not easy to suggest on over the other based solely on examining the accounts as this type of decision hinges more on what do the owners want from the business. Do they want a system which is less resource intensive or one which isn't? And more importantly how do they want their work life balance to be shaped?

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

In my education and I have the privilege of visiting many farms, some of which are thriving despite negative economic conditions and others struggling to stay afloat. The farms may be growing or producing the same product but what separates them is the attitude of the farmer or manager to how they are producing. The best farmers are always analyzing what they are doing and are never content with the status quo; the struggling farmers seem content with the status quo. If it worked for my father and his before that then it should work now, is the unsaid mantra. As said this management trait to move beyond the status quo can learned or inherited but I do not believe it is helped by the current subsidy system.

For over seventy years the current system of subsidies, in my opinion, allowed struggling farms to stay afloat when, if they were in any other industry they would have drowned. Take for example other price taking industries such as the oil or mining sector. Both of these industries have little control over the price which they receive for their produce, but also have high startup and equipment costs. A similar story to modern farming. Yet both industries consistently turn large profits but why is this?

I believe the reason why is that failure is punished. What I mean by this is that an unprofitable start up or existing company goes out of business. The same story goes for a manager who cannot make money, they are either fired or demoted. It is my opinion that in the dairy farming sector there isn't as much punishment for failure, because good year or bad a subsidy cheque will still come through the post. So yes this provides a cushion for the better farmers but far more damagingly hides a multitude of sins for the struggling farmer and allows them to continue. Farms which not efficient and not productive, steal resources, land, labour and capital, which would be put to far more profitable use in the better farms. Again looking at the oil and mining sector, failed business's resources are quickly swallowed up by competitors.

So if subsidies are the reason why the dairy and farming industry is flawed, then what needs to change. The simple answer is to stop subsidies now. Let businesses which cannot survive without them fall by the wayside and be forgotten. This simple answer works well on paper but would only dire consequences in the real world. Doing so would be equalivent to Margaret Thatcher's closing of coal and steel mills. Many of these were also dependant on subsidies but by Thatcher taking the simple approach created a multitude of issues, primarily wide scale unemployment and social issues which resulted from this, for the local communities which were based around these industries. The same story would happen should subsidies be chopped tomorrow. All the feed companies, manufacturers which supply the farming industry would be hit excessively hard. Therefore a slow reduction of subsidies is what is called for. A slow fade out would allow the industry to adapt itself to a new way of operating. So for example this could encourage older farmers without profitable successors to move out of the industry. A slow fade out would pinch unproductive farmers and make them reconsider their operation and how they work it.

Saying that subsidies need to be abolished will not be a popular move and is fraught with difficulties. The issue at the moment is that there are too many unproductive farms holding back the productive ones. Education to change these farmers will not work, the issue being that if the farmer still seems to 'make money' and afford the newest and coolest bit of kit, then why should he or she change. As the saying goes 'you can teach an old dog new tricks'. And farmers set in their ways will not change unless a rocket is put up their arse. Therefore make change happen by moving them where it hurts, their bank account.

Submission 13

What should this business look like to be competitive in a volatile global market?

To be competitive in any industry one must take a long term view and try to increase the effectiveness of its strengths, reducing the impact of its weaknesses, using both to exploit opportunities and reduce the effect of any threats.

The strengths of Kidworth Farm are its labour force. Currently the farm has both the eldest son (John), the father (Robert) working on the farm day to day but should the need arise can draw upon the other son, Tom. The average UK farmer is over 60, with many having no replacement, so Kidworth farm is in a unique position. Both of the sons are clearly qualified and passionate about farming. John, for example, with his math degree will potentially have much better insight into how to budget and plan then his father. Tom on the other hand has the unique gift of being a good stocks man, a declining and valuable skill. However both these resources are not being fully utilised by the farm, John being shackled by the control of his parents and Tom by working on another farm.

The businesses weaknesses focus mostly on the clear lack of planning and control. A clear example of this is the renting of additional land. This was clearly excessive to the dairy cows needs as beef x calves enterprise was added to utilise the land. The issue raised is: was this land taken on only because it was available or because it was part of the long term objectives and goals? It is the author's opinion that it was a case of the former, due to the current state of affairs of the farms accounts and the lack of any succession plan; at a point where the farmer is nearly at retirement age.

The greatest opportunity which the business has is the strength of British farming brand image. British produce is widely regarded by both domestic consumers and foreign markets as being the highest quality and a leader in environmental sustainability, animal welfare and most importantly taste. This consumer demand forces supermarkets to buy British, the proper percentage on shelves in comparison to other nationalities produce is debatable, considering the fact that most nations can produce staples such as milk or meat cheaper, is a triumph that should be celebrated. More importantly, an opportunity that should exposited further in export and domestic markets. Although control over branding and promotion is out of Kidworth farms control it does not have the excuse to sit by quietly. Why is it not heavily involved in marketing boards? Or hosting school children on farm to educate about the benefits of British milk? Or operating in a more efficient manner to ensure it is here for the future?

The threat of substitution from alternative milks such as soy, almond or other drinks have eroded and continue to erode dairy milks place in consumers basket. Why have the dairy boards not been more active in fighting this? Dairy milk in most cases is cheaper and just as healthy as the alternatives so why has this not been pushed further? Why have there not been massive pushes into how milk packaged, sold or flavoured been made, like other milks have had? Again the question of how much effect Kidworth farm could have? The answer is a lot; as mentioned in the previous paragraph.
So what do these strengths, weaknesses, opportunities and threats mean for the organisation and future look of Kidworth farm. In short it means hard decisions. In order to maximise on all the strengths and opportunities and minimise the weaknesses and threats Kidworth farm must decide on what kind of farm it is, a dairy or a beef x finisher, and specialise on that aspect. It is the authors opinion that the farm has to many fingers in too many pies. Having a beef operation, takes up time and resources which could potentially be put to more profit by focusing on the dairy enterprise and vice versa.

Specialisation will allow for several things:

- Reduction in land requirement
- Costs
- Greater efficiencies to be developed

This is what this farm needs to succeed in the future uncertain future.

How does a business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming back and why is that the case?

A business passes from one generation to the next with great care and much planning. It is not a death bed decision or last minute deal. Both generations need to be able to compromise and be absolutely clear about what each is responsible for, when transfers of power and control occur and how. And importantly the older generation must give up complete control. The specifics of all this will vary from farm to farm and generation to generation but complete clarity of all intentions and responsibilities needs to be made.

Succession and land ownership only hold back British dairy farming when it is rushed, intentions and timelines not made or not made clear, or when the wrong individual inherits. When succession is rushed or control not given up, tension is created. This tension will distract from the business of farming for a profit, and so the business suffers. However a smooth handover allows for the farm to continue to profit.

Of greater concern for is inheritance by the wrong individual. For a farm it must at all times have a full time soil and crop scientist, vet and stocks man, labourer, mechanic, builder, accountant, marketer and lawyer. Obviously this is not possible or financially feasible for most operations, so the farmer in this day in age must be a manager, and organise experts in all the aforementioned fields to complete these tasks for him or her. The trap most farmers fall into is that they either attempt to do all these tasks themselves, with some tasks being done substandard or forgotten; or subcontracting these jobs out to individuals which provide a substandard service. Therefore good farmer is a good manager. Being raised on farm does not assure the making of good farm manager. It may help but managers are either born that way or it must be extensively trained into an individual. It is the assumption that being raised on a farm makes one the ideal farmer or farm manager is what cripples British dairy farms and farms in general when it comes to succession and land ownership.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

There is no time like the present and so the business should do as much reorganising now when the cost of credit is low and so be able to take full advantage of the price rise when this happens. I will present my opinion in the form of 1 Year, 5Year and 10 Year plans.

The challenges for this plan are the same as they presently are, ie an overdraft which is climbing and milk prices which are too low. I don't think extending the overdraft is the best way of accessing the needed capitol, mainly because it is unsecured and more costly then other forms of capital. Therefore if John is serious about the future of the business then he should invest in the business with some of the money earned from the sale of the house. However this should not be done without restructuring the business from a sole trader into limited company, in order to protect his investment from poor spending or legal troubles

Creating a limited company grants the business several benefits. Firstly a lower tax rate and potentially access to better rates of credit, but primarily it balances out the differing needs of the family from the business, by removing all control from the parents and giving more control to the rest of the family. How would this work in principle? Who would have majority control and money? John would be the majority shareholder and CEO of the business with the parents being secondary. John would have the most control due to his investment into the business. The other children have minority share holding rights. However the business would only include buildings, stock, and between 65-75% of the current owned land. The remaining land would remain owned by the parents but still be used, rent free by the business.

Both John and his father would draw a small salary enough to live on their earning would be boosted by their share of the profit. All other staff would be let go or hired out to other businesses. Profit would only be shared by John and the parents at first. It is assumed that both parents do not have a pension in place aside from any state pensions. Therefore when both parents retire they will give up their share within the business either in whole to the other son who come to work full time, paid as his father was, or split between Tom and the daughter should he not come to work fulltime. In terms of voting rights it would biased towards John. The remaining 25-35% of the farms land which the parents own, would then be rented back to the business, this rental income, assuming a rate of £190/acre would provide an income of between £10,000-15,000/year which would be the parents pension fund. The land would revert back to the business upon both parents death. The parents would still stay within the farm house but a small upkeep rent, to pay for utilities and maintaince would be charged at cost. The farmhouse would not be modernised unless significant savings could be made from the modernisation.

How does this benefit the children? It mainly sorts out the issue of succession in a manner which is beneficial to all children not just the one who inherits. For the daughter it would receive ownership of a business and so boost her credit and potentially allow for more advantageous mortgage agreement. When the farm comes back into profit it will allow for small income to be had. This also applies to Tom should he become interest in the same thing. For Tom it also provides a way back into the business when the parents retire. For John by investing in the business, and being the majority shareholder, it gives him control and power to override parents and move the business forward. The investment becomes a driver for John to push greater efficiencies forward and allows him to be more objective in what he invests in.

In terms of on farm efficiencies the farm should closely analyze what makes money and what doesn't, cutting operations which do not. So for example the beef suckler enterprise most likely will not have the same Return on Investment as the milk enterprise, therefore it should be cut for the time being and capital and labour tied up in this put to use increasing the dairy operations efficiencies. An example of increasing dairy efficiencies would be to create a forage budget and have some sort of grazing plan which maximises use of the grown grass. The rented land should either be put to use with more dairy cows, either to produce grazing, forage or protein, given up, or sublet to another operation. Milk yield shouldn't nessecarily increase but rather the cost of each litre should decrease. This decrease could come from moving towards a more extensive system, such as seen in New Zealand or a more intensive operation where yield is king. It is not easy to suggest on over the other based solely on examining the accounts as this type of decision hinges more on what do the owners want from the business. Do they want a system which is less resource intensive or one which isn't? And more importantly how do they want their work life balance to be shaped?

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

In my education and I have the privilege of visiting many farms, some of which are thriving despite negative economic conditions and others struggling to stay afloat. The farms may be growing or producing the same product but what separates them is the attitude of the farmer or manager to how they are producing. The best farmers are always analyzing what they are doing and are never content with the status quo; the struggling farmers seem content with the status quo. If it worked for my father and his before that then it should work now, is the unsaid mantra. As said this management trait to move beyond the status quo can learned or inherited but I do not believe it is helped by the current subsidy system.

For over seventy years the current system of subsidies, in my opinion, allowed struggling farms to stay afloat when, if they were in any other industry they would have drowned. Take for example other price taking industries such as the oil or mining sector. Both of these industries have little control over the price which they receive for their produce, but also have high startup and equipment costs. A similar story to modern farming. Yet both industries consistently turn large profits but why is this?

I believe the reason why is that failure is punished. What I mean by this is that an unprofitable start up or existing company goes out of business. The same story goes for a manager who cannot make money, they are either fired or demoted. It is my opinion that in the dairy farming sector there isn't as much punishment for failure, because good year or bad a subsidy cheque will still come through the post. So yes this provides a cushion for the better farmers but far more damagingly hides a multitude of sins for the struggling farmer and allows them to continue. Farms which not efficient and not productive, steal resources, land, labour and capital, which would be put to far more profitable use in the better farms. Again looking at the oil and mining sector, failed business's resources are quickly swallowed up by competitors.

So if subsidies are the reason why the dairy and farming industry is flawed, then what needs to change. The simple answer is to stop subsidies now. Let businesses which cannot survive without them fall by the wayside and be forgotten. This simple answer works well on paper but would only dire consequences in the real world. Doing so would be equalivent to Margaret Thatcher's closing of coal and steel mills. Many of these were also dependant on subsidies but by Thatcher taking the simple approach created a multitude of issues, primarily wide scale unemployment and social issues which resulted from this, for the local communities which were based around these industries. The same story would happen should subsidies be chopped tomorrow. All the feed companies, manufacturers which supply the farming industry would be hit excessively hard. Therefore a slow reduction of subsidies is what is called for. A slow fade out would allow the industry to adapt itself to a new way of operating. So for example this could encourage older farmers without profitable successors to move out of the industry. A slow fade out would pinch unproductive farmers and make them reconsider their operation and how they work it.

Saying that subsidies need to be abolished will not be a popular move and is fraught with difficulties. The issue at the moment is that there are too many unproductive farms holding back the productive ones. Education to change these farmers will not work, the issue being that if the farmer still seems to 'make money' and afford the newest and coolest bit of kit, then why should he or she change. As the saying goes 'you can teach an old dog new tricks'. And farmers set in their ways will not change unless a rocket is put up their arse. Therefore make change happen by moving them where it hurts, their bank account

Submission 14

Assumptions:

> The farm is located in the South West of Scotland.
> There are two cuts of silage of approximately 100 acres each year.

What should this business look like to be competitive in a volatile global market?

In my view, the two most important factors to ensure that there is a viable future for the business is one, have a manageable overdraft and two, have a business plan.

I appreciate it is easier said than done to have a manageable overdraft, but if the business is able to reduce their outgoings and/or increase their income in points mentioned later in the discussion, then the business stands a fighting chance at surviving, and should also hopefully reduce the stress on the family.

The business also needs a business plan for the coming years so all members of the business know what the aims are for the farm. One big factor is the milk contract that the business is currently with – what are the conditions to be met? – is it viable for the farm? The business has greatly increased their production, however this has also meant an increase in feeding costs amongst others, so is this really the right contract to be on?

The business also needs to be looking at future investments. If the farm is to stay in the Kidworth family, then when it can be afforded improvements and modernisation must be encouraged to keep the farm viable. Is there also any possibility of diversifying? Possibly running a self-catering unit from one of the cottages within the business? Or is there renewable energy potential from within the land?

Finally, the dairy herd is the farm's greatest asset, so the Kidworth's should be looking to improve the fertility and longevity of their herd. The health of the herd should also be a priority, as a healthy herd should, in theory, incur less costs.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is this the case?

The Kidworth family business has some difficult discussion ahead to ascertain what direction the business is going to go in. As I view it, the farm has 3 potential options. The first but probably least likely is to sell the farm, pay off the debtors. This then would allow Robert and Heather to purchase a property for their retirement, help their daughter Alison in her future, and the two sons would also benefit financially. However, the sons would then have to pursue alternative employment, which may defeat the point of what John wishes to do with his life.

The second potential succession option is for the brothers to continue the farm in partnership, however this would heavily depend on whether they have a good enough relationship to be able to work together. From the descriptions of them, John has the financial knowledge, whereas Tom has the animal husbandry experience. So in theory between them, they could balance out well in a partnership. However I would have my reservations that the farm as it stands would be not be able to support two families full time, and so at least one of the brothers, and any spouses in the future, would require to work part-time away from the farm to bring in enough revenue to live off. I would also suggest that the money John received on the sale of his house is partly used to provide accommodation for Robert and Heather when they retire.

The third potential succession is that only one brother continues to farm Kidworth farm, and comes to an arrangement with the parents and other brother financially to provide for them leaving the family business. I take exception at the comment that Tom may not be up to running the farm, as he may yet meet someone who is able to help him with running the farm. Also, although John has a financial mind, that is not enough to successfully run a farm. He must also expand his animal husbandry experience as he would need to have reasonable knowledge before running the farm full time.

Whatever the Kidworth family choose to do, I would encourage them to have a thorough discussion with all members of the family, and to start the succession process sooner than later. Historically, succession was not really discussed in families as if there was a son it was assumed that the family farm would be handed on to him. However, farming has changed, meaning fewer farms are staying within families. It is definitely a detriment to the industry if generations of knowledge is lost, but unfortunately the burden of costs and legislation in running a farm is seen as too much for some now, and so farms are being sold or returned to estates. In Scotland, there is also the future potential issue of the Scottish Government altering the succession laws which could be potentially devastating for family businesses. Ultimately, farmers are custodians of the countryside, and if land is not farmed and managed properly, it is of little use to the modern world.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

From the business's accounts I ascertained that the feeding costs have increased by 55% (over £70,000) in 5 years. Part of that will have been increased costs from the suppliers, however with the current price of milk, this is an unattainable cost to be managing. Therefore, the business needs to reduce their outgoings in feeding, but still retain the same output for their milk contract if volume is what is needed. One way of doing this could be to reduce the amount of grass forage they produce (as it was noted that some years they are able to sell forage due to over-production) and replace some of the acreage with possibly wholecrop or barley. Wholecrop doesn't require additional storage which may suit the farm as it is, and as the business gets contractors in regardless, it shouldn't affect the contractor costs too dramatically. Barley is also another potential crop which could be harvested, as there's also the by-product of straw, however there would need to be access to a grain drier within the local area.

Another income other than the milk for the business is the beef stock. The beef bull breed is not specified, but it may be an option to change the breed of bull depending on what is currently in demand in store cattle.

The Kidworths say that there is no real system with their pasture management. This could potentially impact the cost of fertiliser which appears to have increased over the years, so could be another saving? I would suggest reviewing how the grazing is conducted, and implementing a rudimentary system to see if it is beneficial to the farm.

In the future, if there is a market to change, the Kidworth's may also want to consider what type of milk contract they are supplying. I appreciate that there isn't a lot of choice available to the producer at the moment, however it may be something for the future to maybe move away from a liquid contract and concentrate on a manufacturing contract. My reason for suggesting this is that as a family farm they are able to control the milk quality more so than a larger dairy unit. This should hopefully bring them more financial benefits.

If this is representative of a typical UK dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

I think that the Kidworth's farm is typical of a UK dairy farm, with regards to its acreage, age of steading, herd size and succession issues.

I believe that the biggest issue currently with the British dairy industry is the lack of quotas. Large dairy units are being encouraged, however the larger a unit becomes, you can be sure a smaller, family run dairy farm has folded. I do not agree with the attitude that when milk prices are low, putting on an additional 100 cows to a 1000 cow herd is going to improve the milk price, and it only adds to the problem of surplus milk in the country.

It is also important for farmers to have a good relationship with their milk buyer. It is in both the producer and the buyer's interests to get as high a price as possible, but it is also important that ultimately supermarkets understand the need for a sustainable milk price for there to be a thriving dairy industry in the UK.

I strongly believe that for farming to survive without turning into 'factory farming', businesses must become sustainable. In that, I mean that their output is equalled by their input. The farm must be able to provide the feeding for the dairy herd (with the exception of additives such as molasses and chaff), and so the farm is able to utilise the slurry without having to take it off farm. This was how it was done generations ago, and so we should be able to still do it now, just on a bigger scale.

Another point to note is that the Government, both British and Scottish, do not seem to understand the fundamental needs of the farming industry, not just in the dairy sector. This year has been particularly difficult for dairy farmers, and recovery is going to be slow. They need to see the rewards of their labours to justify the efforts that go in to farming. Financial support goes some way to helping farmers survive, but I don't think they necessarily understand how many industries are associated with agriculture, and how important it is to support it not just financially, but working towards securing an industry for future generations.

Submission 15

Firstly, this is a great initiative, well done everyone involved. The Kidworth case study is extremely 'typical' of so many UK dairy farms. My family farm also currently faces the exact same problems as those investigated in the case study, so I look forward to the results. The home dairy farm has two families, 6 in the next generation, 3 of which would like to actively farm, 2 of the potential successors have completed higher education, extremely focused and business minded, 1 potential successor not educated and no clear life goals or business direction. No succession plan, and all succession conversation being solely driven by the next generation!! I'm left wandering whether to pursue formally joining the family business and risk being demotivated and not reaching my or the farms potential, or do I turn my back on the home farm and seek out opportunities to build wealth with other more progressive thinking dairy farmers...

Secondly, my apologies for such a rushed entry. I wasn't going to enter and then thought it was a disservice to the industry if I didnt, so sorry for the 5 minute entry, would have loved to commit more time to this.

How can this dairy business better handle volatility?

The facts are simple, the business must reduce costs and be resilient to low milk prices. Yield per cow has no bearing on profit or resilience to milk price volatility, it amazes me why UK dairy farmers are so production focused. Cutting costs can be done in any system as long as the operator is focused and competent. That said, I believe it is easiest to cut cost using block calving and a grass based system, particularly if they are in a grass growing area.

What is fundamental flawed with the UK Dairy Industry and how can we fix it?

History has flawed the current UK dairy industry. My parents have farmed in a period of relative milk price stability and a period of very high subsidies. Because of this they are inefficient, don't challenge accepted thinking and have no short term financial management or long term business direction. The subsidies also mean that farmers can semi retire, run a few beef animals and live off single farm payment. In New Zealand a retiring farmer knows he must sell his farm or find a share milker in order to provide an income from the land without actively farming himself. This creates huge opportunity for young people with new ideas. Succession is also very very poorly handled in the UK dairy industry. New Zealand approaches it much more business minded and has options for farmers with or without a successor.

Submission 16

The business needs to "optimise rather than maximise".

Succession and family funding:

Remove the rented land - cost is too high for the return from an extra 30 cows and the beef calves, when the £28,500 and variable costs are factored in. The sale of the cattle would go some way to providing cash to pay out relatives and the return from calves is good, the first loss being the least. This would also reduce the labour input from the retiring father.

In addition it might also alleviate the limited slurry storage.

Use of sexed semen might have a small positive financial effect by increasing the beef calves.

Soil testing to save on fertiliser vc might help to overcome the negative cash flow, although fertiliser prices are out of step with UK farm returns currently.

The answer to the "burden" is partly in the rhetorical question - the capital tied up in land ownership is excessive.

The dedication farmers demonstrate to their way of life is a double edged sword which makes it difficult for them to let go; it is almost inevitable that economic decisions are compromised....but if that makes you happy [and the bank balance can stand the indulgence].

The British dairy industry:
Greed is a problem of human nature, instead of continual growth, learn to optimise. Benchmarking locally with neighbours up to national and even international comparison is folly, all that matters is that the individual business can survive and keep going. Local dairy farmers rent land and try to make and move 3 cuts of silage at 200m above sea level, because it can be done in Somerset or New Zealand.

Submission 17

This is a most interesting case study. So many farm families are in this dilemma. I do not intend to produce detailed accounts. My John Nix is over forty years old now.

However it is very clear Robert and Heather need to urgently sit down and make a will. They both have (hopefully) many more years active service.

The decision to be made is how they want to pass on their farm. If it is to be split equally then none of the children have the £733000 or £1466000 if say John wants to take over.

John is a big boy now. He has been out in the world, tasted corporate life, and now has dropped out of that and wants to muscle in on the farm. It looks like he has pushed Tom out. My guess is that his wife would like to enjoy a life style beyond the business ability to pay. He has £100000 from the house sale. It would not be wise for him to invest this in the farm until parents decide on the will and inform the children. He better go and buy another house and let it to bring an income some of which he may like to pay parents in lieu of rent.

John can always get a job teaching or in business.

Tom is ok he has a job, but I doubt he would like to see John grab all the goodies.

Alison has a good job and a husband. Now she is angling to get the bank of mum and dad to help buy her a house. Mum and Dad don't have the loot unless they have squirreled a nest egg away. Alison will have to learn that it takes half a lifetimes work to buy a house.

THE FARM

This is quite a reasonable size for now. However there is not enough there to feed two or three families. Problem now is milk price has fallen from 29 to 21 pence per litre and left them £80000 short this year. Many are in the same boat.

In addition there is a large debt of £328017. That would wipe out four years profit even if milk returned to 29 p.

Dairy farms are a declining species. In our village there were 28 dairies before .Now there about three. Future dairy farms will be much bigger and automatic milking machines will take over. Capital required is in the hundreds of thousands. One supplier I heard is selling thirty per month. Kidworth doesn't have the cash.

If John took over would he be the hands on person to get his hands dirty. It doesn't sound like it.

Parents may be fit now but also might like to ease off a bit and take a holiday to see brother in Australia.

SELL THE COWS PAY OFF THE DEBT FARM LESS INTENSIVELY AND DEVELOP ALTERNATIVE SOURCES OF INCOME

Easier said than done. However many farmers have alternative incomes and some have 1000acre units. This takes time and capital. Around here Band B is popular .I know one who has four business units two houses two caravans a flat all let. Two others have cider business, one has many business units which now dwarf the

1000acre farm income. Equine is another big deal now. It doesn't have to cost too much. I have re built two old sheds at a cost of £ 9000 and now get a 50% return on capital.

For the KIDWORTH family Parents must have a WILL to prevent future strife which will surely come. If they decide to divide the cake equally the children can live happily as long as they invest the money wisely.

For now the challenge is how to generate cash to live. The memorial in Chagford church says "that in this shadow world nothing lasts"

Submission 18

This business must focus on the core enterprise which is Milk production. If it can survive and make modest profits when global milk prices are low, then it will flourish in better times. Milk from grass and forage must be the priority, chasing yield through high purchased feed input and renting extra land is no route to success.

John has the business brains therefore should be employed part time, as a consultant on a profit sharing scheme. Tom is the stockman, so therefore should return to milk the cows. A share farming agreement could be implemented to give Robert and Heather income as they move to retire.

A share farming agreement with John as a financial consultant on a part time profit sharing basis, with Tom employed full time, also on a profit sharing basis. This way, both sons make best use of their individual skills as well as having a stake in the business. The burden of succession and land ownership is holding Dairy Farming back, this is due in part to the high value of land and the lack of use of share farming to bring the next generation into the business. New Zealand has being doing just this for many years.

As I see it, the farms rented land should be given up, the herd changed to block, Autumn calving, on grass silage and moderate purchased -feed input. The farms geographical location and lack of cow tracks would render Spring block calving outdoors far too risk averse.
180 cows should be milked on the 220 owned acres and a flying herd policy adopted. This reduces pressure on the slurry system, makes good use of the other facilities giving Tom more time to focus on the cows which he enjoys. The farm is not over borrowed, but it is the farming system that is wrong. Feed costs are excessively high, with wages, contracting and private drawings combining to the huge cost of £103,000.

Kidworth farm must be considered to be a typical British Dairy farm. As such, this farm supported one family in a better financial climate than the present one. It is unrealistic to think that both sons could return and be provided with a reasonable living, with profits to reinvest, when at the whim of global market exposure. Renting or share farming with capital invested in cows will give new entrants a much better return on capital than buying land, which is probably an unrealistic ideal for young, enthusiastic diary operatives. It can also give the older generation, owner occupier, income with minimal work.

Submission 19

I have read this document several times since I first saw it and each time it makes me feel weak at the knees. My initial thought is "I wouldn't start from here" but that isn't very helpful, you can't go back in time and re-write the past. I would like to know a lot more about the characters involved and their willingness to embrace the challenges that face them. A generation ago Robert and Heather would have given the farm and business, lock, stock and barrel to their eldest son John and he would have taken care of them until they died. Tom and Alison would have made their own way in the world without expecting or receiving much in the way of funding from their parents. Here and now, John wants to exert his non-farming skills and experience on the family business and Robert and Heather would like to help and support all their children.

My Questions?

- Who is living in the farmhouse?
- Are Robert and Heather fit and well? Do they both work full time on the farm (by which I mean every day of the year)? Do they have interest or hobbies that take them away from the farm? Do they have any off farm savings ie. A pension?
- Is John married? Does he have children? Is his wife interested in farming? Is he now hands on caring for stock? How much time does he want to have away from the farm? What non-farm interests does he have?

- Do Tom and John get on? Has there been a falling out? Does Tom have any experience of working anywhere but his parents and the neighbour's farm? Is the neighbour's farm the same type of set up as his parents? Is he able to save some cash?
- Does Alison get on with her brothers? How much money would her parents like to give her to purchase a house?
- What happens if anyone mentions succession? Do they have a blazing row? Can they talk about it calmly and sensibly? I expect it may be the elephant in the room and it has never actually been brought up in a constructive way in recent years.
- What is John's idea for the future direction of the business?
- How do they all feel about accessing professional help to get them through this period? Do they prepare budgets? Does anyone go to a discussion group?
- Is there any non-family labour? Are the £32,500 wages Johns? Are the £42,363 net drawings and tax Robert and Heathers?

The Challenges

What should this business look like to be competitive in a volatile global market?

The business needs to break even in a low milk price year and generate a cash surplus in years when the milk price is not on the floor. A proportion of the cash surplus should be removed from the farming business to fund Robert and Heathers retirement and Alison's house deposit.

The business should break even in the bad year with the family labour still able to take time away from the farm. Family run farms such as this one can artificially reduce their cost of production but working all the hours available, dispensing with non-family paid labour and drawing virtually nothing from the business. This is fine whilst all are fit and well but makes the business very vulnerable in the event of an unexpected event, such as one of the key players dying unexpectedly, being injured or ill for a long period. For example, if Alison were taken seriously ill, her mother may want to spend an extended period caring away from the farm caring for her. Right now, at Kidworth, would that be possible?

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

Right now, at Kidworth, I would say it's going to be difficult. They need to start talking about it. I think they should get some professional help to get the conversation started and to keep the discussion focused and actionable.

I think the burden of succession and land ownership is a huge problem for many British dairy farming family businesses. For generation, the farmers have farmed contentedly, lived a life they are happy living, with hard work and little time away from the farm but no commute, no boss, a great view and interesting working environment with animals and in the outdoors. During that time their net worth has grown hugely as land values have increased, but they didn't even think to take any cash out of the business or feel it was necessary.
The younger generation have received more formal education than their parents. Their and society in generals aspirations have increased greatly: regular time off, holidays, electronic gadgetry, mobile phones and the like are now expected and essential rather than luxurious aspirations.

Unlike New Zealand where farms are bought and sold as farmers move up, on or off the farming ladder, the culture in Britain is for a farm to stay in the family. This means the value although large on paper is not realised and cannot easily be shifted into different ventures such as Robert and Heather's retirement or Alison's house. In New Zealand they might sell the existing farm, buy a house in town to retire, provide a deposit for Alison's house, and a capital sum for John and Tom to get involved in separate new farming enterprises. This doesn't tend to happen in Britain.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

Now is not the time to make drastic changes. They will cost money which is not available. They need to have a plan that the whole family are engaged in and committed to.

Have they got a budget for 2016/17? If not, they need one fast. The should get professional help to set it up and Robert, Heather and John all need to be included in the discussion so they all "own" the budget and understand where spending has been allocated and where savings can be made. They should set the budget milk price at today's price and plan to go back to the budget and make adjustments if the price drops further. They shouldn't expect to make any money this year and be pleased if they generate a modest profit.

Short term they can gradually increase cow numbers utilising more grazed grass and conserve less forage. Long term they need a plan they all agree on. I suggest that they create a paddock grazing system, incorporating track and water supply infrastructure. Extend the grazing period aiming to have the cows grazing between February and November. Cross breed the cows. Move towards a block calving system; either spring or autumn. Increase the stocking density on the farm. This grass rich system will create a more resilient business which is more able to withstand the volatility of the global milk price and generate cash when the milk price is high. In the short term this will cost money and it is likely to be five years before the benefits start to be seen.
I would invest in Tom's education and life skills by funding his air fare so he can work for a year or more on in a progressive New Zealand dairy business.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

I think the British dairy industry is divided into those who have, for whatever reason, already made the changes necessary to succeed in the volatile global market place and those who have not. They have reduced their costs, simplified their systems, invested in their employees training and progression. They see their farm as a modern business operating with the same pressures as other small family businesses in addition to a fantastic way of life. They are engaged with what their customer (milk buyer) wants and they are aware what is going on within the dairy industry globally.

Others have continued to farm the way they always have done. The fundamental question is: Do they want to change? I fear that in many cases, they don't. If that is they case, all will be fine until a life changing event forces the business to breaking point. If they do, an open mind and top quality professional advice will take them a long way. There are many keen young people who would love an opportunity to get in to dairy business ownership. It should not be beyond the wit of our industry to get the two together and make the partnership work for both.

Submission 20

What should this business look like to be competitive in a volatile global market?

It should be playing to its strengths, not following a conventional 'high input' system which is only producing a moderate performance.

It's strengths are :-

a) 'Excellent grass growing area of the country'
b) 'Ploughable pasture land , predominantly Grade 3'
c) 'well fenced and drained '
d) '150 acres of rented land lies into the home farm'

Therefore it would be ideally suited to a spring calving extended grazing system with an NZ Friesian type cow producing the bulk of its milk off forage between February and December.

Slurry storage and room for building expansion is limited so a lower input system would suit and would minimise the need for further major capital investment. Provision for Cow tracks, paddock fencing and watering points would have to be factored into the new system.
How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case ?

Each member of the family will have their own aspirations, which it will be essential to meet if the business is to continue to trade and to be viable :-

Robert (60) and Heather Kidworth (59) – provision for retirement John Kidworth (28) – has the business acumen to manage the farm Tom Kidworth (25) – keen on livestock but not financially literate Alison Kidworth (24) – would like to be paid out so she can buy a house

If John and Tom can work together then potentially there could be a good mix of practical and financial skills in the business, provided the 2 sons recognise one another's strengths and weaknesses.

The suggested way forward is for John and Tom to both be introduced as Partners into the business (so both the parents and the sons each have a 25% share of equity and profits). John's money matched by a loan secured on the farm is used to pay out his sister on the basis that he has only just returned home to farm. Over time the 2 sons can buy out or partially buy out their parents to afford them a comfortable retirement. The remainder of the estate will be left to John and Tom equally in their parents will(s).

Clearly the value of land makes farming in the UK a very capital intensive business and consequently there is not the same mobility in the industry compared to New Zealand, where farmers are much more relaxed about succession and are quite happy for non family members and share farmers to build up equity in their livestock and other farming assets.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

Alter the cow breed and calving pattern and adopt a paddock grazing system to maximise the use of grazed grass.

Reduce wintering and mechanisation costs by extending the grazing period and allowing the cow to undertake its own 'harvesting'.

Maximise the number of 'milkers' and only rear replacement heifers. Dairy Bull and Beef calves to be sold at 7 – 10 days old to minimise youngstock grazing and housing requirements.

Develop the skills to turn grass into milk cheaply and efficiently including pasture measurement and management, soil fertility, breeding etc.

Submission 21

Introduction

I was sitting one afternoon over Christmas reading the Scottish Farmer newspaper and noticed the small article in the corner of a page about entering a competition to win a trip to Australia by answering a few questions on the dairy industry and how try to help a farm solve its current financial situation and move it into the future as a viable business. So I decided to sign up and have a read at the case study.

I've been to university; I have gone through the stress of many assignments not to mention a dissertation. I know a little about farming. I try to keep abreast of current world economic affairs. I can type (kinda). And I have some spare time at least until lambing starts.

How hard can this be?

In this report, I am will endeavour to answer the four challenges laid out in the case study and help Kidworth Farm operate into the future as a profitable business.
So here I go ……………………………………………………………………………………………….

What should this business look like to be competitive in a volatile global market?

When reading through the case study farm details, I noticed lots of familiar problems faced by so many dairy farms. Milk price has not only fell in the UK but also in Ireland and many other parts of the EU. In fact the global price of milk and milk products is volatile in many parts of the world.

At Kidworth Farm, the current price received for milk over the past financial year has hit the business badly. But sadly it is not the only farm that is facing this problem.

In order for a business to compete in any kind of market it must work out how viable it is in that market. A warts and all analysis should be undertaken.

There are many different models and ways to calculate the viability of a business. I will use simplified versions of The Dimensions of Business Viability Model to analyse the information provided on Kidworth Farm and my knowledge of the dairy industry to assess how the business fits into current economic climate. There are 6 points which are covered and in turn these have sub-points.

Market Viability

Market environment – The dairy market has traditionally been a very unstable market. The UK is the 3rd largest milk producer in the EU and with loss of milk quota in March 2015, there has been an overall increase in the production of milk in the EU. Coupled with loss of the Russian market and the Euro rate, trading has been tough.

Kidworth Farm is part of this system. They are depending on a processor to buy their milk and for that processor to sell it on to the raw milk, butter, cheese or wherever.

Competitors – These can be defined as other dairy farmers, even goat milk producers to other countries within the EU and all over the world.

Kidworth Farm is doing the same as the farm next door or down the road a few miles. Their milk is collected on the same lorry as 5 or 10 other farms and nothing will make it standout from other farms.
Similar products – There are many different kinds of milk available to the consumer. Everything from cows and goats milk to oat and soya milk to UHT or milk powder. All competing to be used in the consumer's morning cup of tea or bowl of cereal. Maybe the milk will be processed and turned into butter which will be competing with low-fat spread and New Zealand butter. Or maybe it will turn into the many different kinds of yoghurt that are available.

Kidworth Farm's milk will be mixed with so much other milk from many other farms in a way it could end up in 20 different items.

Pricing – There can be a wide range of prices paid for the end products milk is made into but the price received by the farm only varies a few pence. The dramatic price drop in last year has caused major concerns.
Kidworth Farm like other farms must sell at the prices dictated by the buyer. The only influence this farm can have on the price received is over the SCC and TBC bonus.

Packaging – Again, the milk is collected in a tanker and mixed with thousands of litres from other farm. The packaging is decided on by the retailer. The producer has no say whatsoever which can cause problems when a Buy British label is used on a product which is produced in another country.
Kidworth Farm has not influence on packaging at all.

Distribution to market – Usually there is a charge paid for collection of milk from the farm to the processor. It is taken from the milk cheque and if not paid then no milk will be sold.
Kidworth Farm can influence this charge by every other day collection if they have the bulk tank capacity. Careful control over temperature must be done as well. This information cannot be stablished from the case study notes.

Promotion & Marketing – This is usually carried out by the retailer at point of sale but in recent years, there have been more campaigns undertaken by the like of Farmers for Action, National Farmers Union or other groups within the dairy industry. The later groups have come to the fore in recent months highlighting the plight of farmers.

Kidworth Farm would not have its own promotion and marketing plan except for the way it conducts its everyday activities. The way some farmers behave can cause more harm than good to the industry. There have been reports in the press of welfare, fraud of theft all of which cause harm to the industries reputation.
Looking at some of the information and figures available in the case study, the next section of The Dimensions of Business Viability Model

Technical Viability

Capacity – Kidworth Farm is a good sized farm, which is already milking more than the average number of cows on UK farms. However, the average milk yield is below average. There is room for improvement with milk yield and stocking rate for this farm.

Availability of resources, raw material labour and professional services – Kidworth farm has good quality land in a ring fenced block, well drained land, has invested in buildings in the past though seems to have shortage of slurry storage. There are lots of advisers in soli management, breeding, feed and other aspects of agriculture that could help this business.

Supply chain implications – Kidworth Farm currently sells its milk through a regional buyer on a commodity type contact which has recently had A/B pricing introduced. This is not ideal but as nothing else is available, the farm must take what they get.

Manufacturing process – As the farm produces milk from Holstein Friesian cows, it will not have excess to markets that need higher butterfat milk that those who farm Jerseys, Guernsey or Ayrshires can benefit from.

Ability to apply IP (Internet Protocol) – This may be a strange point to cover for a dairy farm but there are many farms around the world who have Facebook pages and webpages for their farms. Some people find it interesting to see what is happening on other people's farm. This could be an option in the future. They could do a progress blog.

Business Model Viability

Uniqueness of model in terms of competitive advantage – At present Kidworth Farm is the same as most other dairy farms in the UK. There are not standout features about this farm. Maybe with a change in the farms fortunes by

Ability of competitor to duplicate – It is very easy for a competitor to copy what Kidworth Farm is doing. Anyone with land can buy some Holstein Friesian cows and start to milk. However, how this farm utilises what it has cannot be copied as easily. If the farm moves into a grass-based production system or maybe a zero grazing system or even go organic then for many the cost and lack of knowledge could stop them.

Ability to create value through priority knowledge and process – There are limited opportunities for creating value to raw milk. It would be at great expense but the milk could be turned into liquid milk, cheeses, butter, yoghurts or ice-cream. This could always be a future option when the farm gets back on its feet.

Ability to create wealth – The farmer will always be asset rich and cash poor. The case study values Kidworth Farm at £2.2m, a valuable asset but currently in a poor financial state. Looking at the cash flow statement and profit and loss accounts, it's not the worst I have ever seen and with a little hard work the farm should be able to turn its fortunes around.

Ability to duplicate and delegate – The farm is limited by the number of people working on the unit. A best the farm work would be carried out by 3 men and maybe 1 lady. Silage, ploughing, hedge cutting, slurry and some of the milking could be set to contractors to reduce overheads tied up in machinery purchases and maintance.

Management Model Viability

Application of knowledge and skills – The farm already has a qualified mathematician available. This should be a help with the accounts. The owner has years of experience running a dairy farm. There is another hard working son who is currently employed on another farm. In the agricultural industry , there are many different types of people who are willing(for a fee) to help any farm business willing to take their advice. The government even provide advisers to collect information on farm businesses and their current situation.

Training - There are a few options for training in agriculture. Qualifications in spraying, Artificial insemination of cows, farm nitrates or health and safety would all benefit Kidworth Farm.

Employment management and recruitment – Like most family businesses there must be a few disagreements. It seems reading the case study that the current owner and his wife have a traditional view on farming whereas the son working on the farm wants to change this way.

Management of intellectual property – This is impossible to stop in agriculture. In fact most farmers are encouraged by focus groups and other bodies to share their methods of production.

Management of risk – For Kidworth Farms, risk could be defined as financial or health and safety. Like all farms, there is great financial risk involved as is the current situation. With health and safety, farmers deal with dangerous animals and large machinery every day. Farming is one of the most dangerous professions in the world. Sadly almost weekly we read about serious accidents of fatalities on farms.

Ability to delegate to staff – On a small family run farm there is not much delegation to be done. Basically as long as the work is done it won't matter who does it.

Suitable organisational structure- Again as Kidworth Farm is so small this is not a factor in measuring the viability of the business.
Suitability of management and product protocols – Kidworth Farm is producing a product that will be consumed by humans. They are legally bound by law to produce is food as safe as possible. I know in my part of the world, it is written into food and feed regulations that all farms must keep feed, medicine and pesticide use records. These can be checked by any department agricultural official at any time. Does this have a plan to stop potentially harmful food getting into the food chain?

Ability to measure business progress – there are a number of schemes which allow a farm to chart progress (or decline). The national milk recording scheme, benchmarking or joining with the grassland society will all help in assessing the situation of the farm.

Economic and Financial Model Viability

Start-up cost – Kidworth Farm already has the land, housing, stock and other raw material to allow it to produce milk. There maybe a few costs incurred in improving the current production system.

Working capital – Kidworth Farm has machinery and stock to allow it to operate on a daily basis.

Operating costs – Looking at the variable costs on Kidworth Farm, there are high feed costs and the rent of the extra land has increased expenditure. The farm must decide if it really needs this extra land.

Raw material costs – The basic cost of the raw materials on the farm have not changed much but the quantity used has increased for meal. Generally the farm cannot influence the price paid because they are decided on the world market and the farm needs them so they buy them.

Overall return on investment – Currently this is very bad for Kidworth farm.

Overall profitability – This is a business that is not profitable at present and if it does not drastically change its farming policy it will be closed in a short time.

Break-even point – Kidworth Farm are losing money at 21ppl and making money at 31ppl. They need to figure out how to product their milk at 10 – 15ppl cheaper in orders to turn the business around.
Sustainability of market verses projected revenue – It looks like there will be no improvement in milk price for maybe the next 12 months. So processors are still cutting the price paid. Taking this into account, Kidworth Farm will find it very tough to survive into 2017/2018.
Ability to generate economic value – The farm has a number of beef cattle that can be sold off to generate cash flow to keep the bills paid until a rescue plan is developed.

Exit Strategy Viability

Ability to create wealth from exit strategy – As the case study indicated the whole value of the farm is £2.2m and the son has £100,000 from the sale of his house.

Ability to define exit strategy – Simple – sell the stock and put farm on the market.

Ability to relate exit strategy to industry model – there are hundreds of farms all over the country ceasing to farm their land. And when the stock go to market there is always someone to buy them and the land is in great demand.

Ability to identify potential buyer and/or strategies – As above

Ability to create capital assets – This could be pay all money owing on the farm, buy a house for mum and dad with a retirement nest egg and divide what is left between the 3 children.

Ability to schedule exit strategy – Anything from 1 to 6 months depending on the area the arm is situated. The stock could be sold at a few weeks' notice but the farm may take a little longer.

Conclusion

Kidworth Farm is clearly in a poor financial state but this is because the milk industry in general is in a bad way. There is no way Kidworth Farm can influence any factors outside it's farm gate so if this business is to turn around it MUST focus on reducing or improving its production costs.

A key factor that affects profitability is cost of production not the price paid per litre. Finding the right balance between input use and milk output is also very important. Kidworth Farm now needs to find a production system that suits its type of land, cows and farm set up.

Now I have outlined the current state of Kidworth Farm who will be leading this change at Kidworth Farm?

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is this the case?

This challenge can be divided into 2 separate questions. I will try to answer both but by doing the last part of the challenge first.

Is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

This burden of succession is not unique to the dairy or any farming business. Just look at the Royal Family as the perfect example. If King Edward VIII had not chosen Wallis Simpson over his birthright to be King of England, then Prince George would never have had the chance to be King.

Many farms all over the world pass in a similar way to the eldest son. It is a proud moment in any man's life when this eldest son takes over the reins of the family business and keeps the family name alive to pass on to the next generation. Everyone one wants to improve on what they have been given and pass on a better business than the previous.

It is a great tradition in farming circles in the British Isles too. But over recent year there have been a number of important factors which have changed this tradition.

- **Age**
  The average age of UK farmers is 59 years old. It is bad when it appears as the third choice when the average age of the UK farmer is typed into Google!
  This means that his son is probably married and started a family. With the current cost of living today, he mostly will have an off farm job and be helping out on the family farm after his full-time job and at weekends.
  There are a small number of farmers who will only hand over management of the farm when they die or are too ill to do anything anymore. With the population living longer a farmer's son has to wait much longer to take over.
  Many of the younger farmers have good ideas which they would like to introduce to the farm but not all older men are open to change or diversification.

- **Education**
  Many more young people are leaving school and heading to agricultural college or university to study. They get the taste of life away from the work on the farm and it opens up more opportunity to earn a good wage in an industry they are interested in.
  Many families see the importance of a good education for their children to help them move forward in life. Even the sons who want to come home are being encouraged to do part-time courses in order to get some kind of qualification in agriculture. The government has written in the new entrant's scheme that those applying must have a basic qualification. Many farmers are actively encouraging their sons to look for trades away from the farm like engineering or building work.
  Not only are the next generation getting educated but more and more are heading away from agriculture into other industries from which they will never return to the family farm.
  Many university educations open doors all over the world and with opportunities in countries like Canada or Australia, many young people are choosing to migrate. The world is a lot smaller than it was 50 years ago when their father left school to come home to farm.

- **Fewer children for farm to pass to**
  Families are smaller now than 50 years ago. As there are fewer children chances are there are less boys or no boys to pass the farm on to. It is virtually unheard off to pass the farm to a daughter because she will marry and the name will change. I know a lot of good farms that will be sold when the current owner retires or passes away because either there are no sons or if he has a son, they are not interested. Some will pass to females but this is not very common.

- **No sense of loyalty to what generations past have built**
  There is not the sense of pride and social status that being a landowner used to carry in bygone years. If someone said they owned 400 acres of land in 1900, they would be considered rich. Nowadays they would be considered small, skint farmer who always moans about money.
  Many young people would rather have the money to spend when the farm is sold and start up something they are interested in. During the building boom years many children decided they would rather sell the farmland for building development than graze cows or grow cereals. Daddy knew he was wasting his

breath and gave in, even though the land could be traced back X number of generations before he had it.
Farming is not considered as an important job like a policeman or a lawyer. When I was at high school (20 odd years ago) I was almost embarrassed to say I lived on a farm.

Taking into account the factors mention previously is the burden of succession and land ownership holding back British dairy farming? Answer – Yes! There are many young men (and women) out there who would jump at the chance the run any kind of farm of their own. They maybe from a farming background (not only dairy farming) or not but the cost of getting into the industry have been preventing young blood from entering the industry – an industry which badly needs young blood! Many young people out there who are the youngest son or a daughter who really wants the chance to show the world what they can do and due to circumstance beyond their control they are prevented.

Young people with a top class agricultural education are leaving these shores to become share farmers in New Zealand, Australia, and Canada or in the USA. Why can the dairy farmers in the UK who have no interested heirs give these young people a share option in their business, a chance to show what they can do and keep them here? Answer MONEY. The family may not want to farm but they will be happy to spend the money generated when the farm is sold.

For this reason the British industry will continue to shrink and those farming the land will continue to get older. The scene is set for the circumstances which would influence how I would pass on Kidworth Farm to the next generation.

How should Kidworth Farm pass over from one generation to the next?

The case study has provided much detail around the family and their current situation. Having read through this detail I have arrived at 6 suggestions which could allow Kidworth Farm to move into the future.

- **Suggestion 1**
  John could join in partnership with his father and become a 50 – 50 shareholder in the farm. This would ease the tax burden for the farm and allow the next generation to get their name on Kidworth Farm. The father's shares are split between John, Tom and Alison on his death,
- **Suggestion 2**
  John could join in partnership with his father but invest some of his £100,000 he has from the sale of his house in the business. He would get a 60% share of the business and have a greater say in what happens on the farm. The farther, share of the farm is split 3 ways on his death.

- **Suggestion 3**
  Suggestion 1 or 2 with the addition of Tom coming back to work on the farm a couple of days a week as paid casual labour and receiving his father's share when he retires or passes away.
- **Suggestion 4**
  Robert semi-retire and with Suggestion 2 and John investing half of his £100,000 and Tom coming home to work half of the week and getting his father's shares in the farm in 5 years.
- **Suggestion 5**
  Tom should come home part time and John should go out to work of farm part time. He has more chance of getting work and making money outside the farm. Tom is capable of doing the work and John could help with the finances. They will eventually become 50 – 50 shareholders.
- **Suggestion 6**
  Tom should come home full time again and farm with his father. John should get a job away from farming.

All the suggestions above would allow the farm to take advantage of the New Entrants Scheme as part of the Basic Payment Scheme or Direct Farm Payment or whatever it is called depending on where in the UK you live.

My suggestion for Alison is sit tight and when the farm is back on its feet again, then give her some money to buy a house or help pay off her mortgage.

As for Robert & Heather, when the decision has been made to pass the farm to whichever son they decide, then step back and give them the chance to show what they can do. Be there to help when they need it and give advice when they ask. Help out with the farm work as needed. As for finances, it may take a while for the farm to turnaround but I believe it can be done then the rewards can be shared. They will be able to afford to go on holiday knowing what they have built up over the years is in safe hands.

Conclusion

I think the best option for Kidworth Farm is Suggestion 6. Tom shows that he keen on being a farmer even if it means working for someone else. Tom should go out and do a part-time course in agriculture or record keeping. And if my suggestion is followed about using advisers to get the farm back on its feet, I think with his love of farming he will make it work. Tom and his father were OK running the farm before John decided to come home. It was falling milk prices that put the farm in its current situation. His father may think he is not up to running the business but has he been given the chance? I think I would not be happy if I worked my butt off for 9 years just for my brother to come home and take over just because he was not happy in his chosen career. His father should be giving him the chance to show what he can do. It's sometimes not brains that will run a farm, it takes hard work and I think Tom is up for the job. (He needs to find himself a women with a good job as a backup just in case.)

As for John! Don't mean to be rude but as a lady from my part of the world by the name of Agnes Brown would say John should " **** off". He was very happy to go off to university, study mathematics, get a good job and buy a house for himself. (I would say helped along the way by the money made by Tom & his father on the farm.) John left school, came straight unto the farm. He would have been up milking in the morning or calving cows in the middle of the night while John would have been enjoying university life. John had a very good well paid job for a number of years and seems like he got bored with it. Who says if he takes over the farm he would not get bored of it in a few years and sell it too? At least Tom showed he was keen on farming by humbling himself and going to work on another farm.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

Kidworth Farm is facing a serious dilemma. The profits of the last few good years have been decimated by this past year's difficult trading environment. The dairy industry is in such a poor financial state that 12 months can completely change a farm's fortune overnight and force many farms out of business.
Looking through the case study of Kidworth Farm, I have noticed a few points that will favour and/or will hinder the viability of the business into the future. By highlighting these factors firstly, I will endeavour to provide some ideas to help Kidworth Farm survive in the short, medium and long term.

Factors which favour Kidworth Farm.

- Consists of a 220 acre block of land in a ring fenced block.
- Option of 150 acres of land that can be rented on a neighbouring unit.
- Ploughable grade 3 land on both farms
- Investment in modern farm building over the last few years.
- Farm is well fenced, drained and maintained.
- All stock home bred.
- Has beef bred stock which can be sold off to raise funds.
- Business can produce extra forage for selling = good grass growing land.

- The farm has a good sale value.
- Family interested in continuing the dairy business.

Factors which are a hindrance to Kidworth Farm.

- Low stocking rate.
- An average milk yield.
- No system of grazing.
- High percentage of cows served to dairy sires.
- No set contract for selling milk.
- Poor financial projection for the farm in 2015/2016 and the foreseeable future.
- A substantial bank loan and a large overdraft that will need extending.
- High variable costs.
- A son at home on the farm who has trained in an entirely different profession and a son working on another dairy farm.
- The owner and his wife are approaching state retirement age.

Taking into account the factors mentioned previously, I would recommend that Kidworth Farm should aim to ……..

SHORT TERM PLAN

- Head to bank manager to renegotiate terms of current loan and possible extension to overdraft. Looks like the loan may have been taken out when interest rates were higher than today.
- Start selling off beef stock in small batches to raise funds and provide a cash flow.
- Get soil samples carried out on as many fields as possible. This will show what the land needs and allow fertiliser application to work with the slurry. Do slurry analysis as well. Consult an agricultural adviser to discuss a fertilising plan will grow as much grass as possible on the farm.
- Aim to get cows and/or young stock out to graze as early as ground cover and weather permits. Start with staler cows for few hours daily up to all cows out both day and night.
- Set up a paddock rotation system of 21 – 24 days with day and night paddocks as soon as possible. A simple electric fencer and posts will allow paddock size to be adjusted to stocking rate, grass growth and weather conditions.
- Cull out all stock that is underperforming. All cows with high cell counts, bad feet, not in calf and persistent problem animals must go. If not milk recording – Start. Find a Dairy adviser who will help go through performance figures, advice on breeding and feeding etc.
- Sell of the beef bred and dairy bred bull calves at 1-2 months old to reduce feeding and labour costs and to generate income.
- Aim to produce as much 1st cut silage as possible as early as possible. Have grass tested to optimism quality and cut at correct stage. If paddocks get ahead of stock. Consider baling into silage or haylage bales with aim to selling later in the year. Or if the weather permits make some hay.
- Carry out a good service on milking parlour and give place a power wash out to reduce TBC and disease build-up in stock housing.
- Aim to produce clean, high quality milk. Sometimes quality is more important than quantity. This may allow milk to be sold into specialised markets in the future.

As you may have noticed from my short term plan, I am suggesting that Kidworth Farm progress towards a grass based low input dairy unit. Moving on to the next stage of my plan, I will aim to expand on some of my short term suggestions.

MEDIUM TERM PLAN

- Design a breeding plan specifically for Kidworth Farm.
  Unless the farm already milk records, and other individual cow performance figures are available, it will be difficult to establish which are poor, average, good or great cows. A great looking cow could produce

poor quality milk and vice versa. The current policy on farm is to breed the top 50% of cows to a dairy bull and the rest to beef. This in turn makes me ask a few more questions like:

- What is the specification for the top cows?
- What is the herd calving index?
- What is percentage conception rate for each service?
- What is the replacement rate for the herd?
- What is mortality rate for cows and calves?
- Is service by Ai or natural?
- What beef bred bulls are being used?

I would recommend that each cow be assessed on their individual merit to establish who indeed the top cows in the herd actually are. I would then breed these top 50 % to top Ai bulls which have figures which are strong on legs, fertility and udders but not excessive on amount of milk but high on quality. Aim for a cow that will be able to walk to grass, met her nutritional needs from this grass, go back in calf quickly and last a few years in the herd. I would use sexed semen on ALL the replacement heifers using the same criteria. For the remaining cows, I would serve to the Aberdeen Angus and/or Hereford using Ai or buy a bull (the latter being my preference). Bulk-buy all straws for a better deal and don't be afraid to try test sires.

- What do with the beef bred and dairy bull calves born on farm?

As my vision for Kidworth Farm is to be a specialised dairy farm, I recommend that all beef bred and dairy bull calves are sold at 2 -3 weeks old. This as mentioned before will reduce labour time and expensive feed costs. This is the reason why I suggest using a native beef breed was the increased demand of both breeds. Blade or Mole Valley are a good outlet for native bred calves and throughout the country there are lots of farms which specialise in rearing dairy bull beef. Get a contract for the extra calves and sell calves as soon as they are feeding well.

- Grassland and soil management on Kidworth Farm.

Grass is the cheapest feed source any farm will grow but yet is a neglected aspect on many farms today. It is good to breed the best cows, have fancy sheds and machinery and be a top stockman but being able to manage grassland is an art in itself. Join a dairy focus group and go to grassland society farm walks to see how other farmers manage what they have. Agricultural advisers will help with techniques of measuring grass height, assessing swards and other useful advice.
The type of soil at Kidworth Farm allows for good grass growth, therefore a management plan for the land needs to be developed as soon as possible. All the fields on the farm should be profiled in the next 12 – 18 months. This will enable an adviser to provide a slurry, fertiliser and grass seed mix to suit each field depending on use. I would recommend the farm begin a reseeding plan as soon as possible with the aim of grass-based grazing system with minimal inputs. The farm plan should try to make best use of soil conditioners, G-lime, Low N fertiliser, high sugar grass varieties, clover and different stage heading grass.

Continue to bale any fields that have gets ahead of stock. This will be useful for feeding younger stock or selling later in the season. I would also look into the benefits of growing whole crop silage for winter feeding. Consider using a soil aerator on damper land and drainage for wetter fields. In the winter, consider renting the land for winter grazing for sheep if there is still a covering of grass. This would only be for a short period and not on the driest fields that could be used for early turnout. Silage fields and land used for younger stock would be ideal. Sheep should be removed by the 1st January or is ground starts to get poached. If summer or early autumn reseeding has been done, I would graze this. I would rent rather than buy as there is less financial risk involved. (Draw up a contact for who cares for sheep and when they will be removed. Get money up-front.)

- Reducing the production costs on Kidworth Farm

- **Feedstuffs -**
  Looking at the variable costs incurred by the farm, the meal bill seems high. It most likely has increased due to the beef cattle being kept to graze the extra land. By selling these cattle and all beef bred and dairy bull calves in the future will cut the costs.
  I would consider using a dairy nut specific to the need of the cows. Get silage analysis carried out for each pit and adjust compound accordingly. Identify needs of cows and add minerals etc. are needs be. Work with your feed merchant to develop a feed plan for your stock.
- **Fertiliser, seed and sprays -**
  My suggestion about focusing on grassland management may not cut this cost greatly but if carried out properly it should product more better quality grass. In turn the benefits should allow less fertilizer to be needed over time. I would try to rely less on sprays and focus more on topping paddocks and baling is grass gets ahead of stock. If grazed correctly there should be little need for topping well into the season. The use of the sheep will help too.
  By using specific types of fertilisers and soil conditioners will enhance the ability to grow grass and over time reduce costs but these benefits may take a while.
- **Veterinary & Artificial Insemination -**
  The Ai costs would be reduced over a period of time by buying a bull. The initial cost of buying the animal would soon be saved by reducing the cost of straws, better conception rates and hopefully the bull will last a few years.
  If the farm is not already doing its own Ai, I would suggest someone be trained.
  I would cull stock with persistent health problems and begin using the BVD tagging scheme to increase herd health status.
  Work with the farm's vet to design a health plan for the farm. The old saying prevention is better than cure is very true.
- **Auction mart commission -**
  Apart from the costs of selling the beef cattle currently on the farm, the cost of selling calves to the specialised calf rearing units would disappear. Calves would be collected in groups at farm or in certain collection points. Some dealers will buy batches of cull cows on farm; this is worth looking into as well.

The conclusion of my medium term plans for Kidworth Farm, focus is on Breeding, Grazing and Cutting Production costs. Like any plan this will take time but hopefully not too much money. Kidworth farm already has the ingredients, it just needs to fine tune what is available. It may take 12 to 24 months before the farm will start to benefit from my suggestions. Attention to detail and a focus on the end goal should see Kidworth Farm staying afloat.

As the medium term goals progress, a long term goal must be established. It is fine for Kidworth Farm to get through its short term problem until milk prices start to rise again and medium term plan to build up finances but there must be a long term plan for the farm which will see it pass to the next generations and be able to weather the next financial storm that may hit at any time.

Long Term plans for Kidworth Farm

- **Breeding Plan -**
  My aim would be to have the top 30 % of the cows to be bred to top dairy bulls and all replacement heifers bred to sexed dairy semen. This would provide enough replacement heifers to allow a gradual expansion of the herd and extra heifer to be sold.
  All other cows would continue to be bred to either Aberdeen Angus or Hereford bull with all calves leaving farm at 2-3 weeks old. This will include the dairy bull calves.
  The farm should aim for a February/March calving for all cows and heifers. This would allow cows to benefit for the grass based feed system and cows to be dry around Christmas. This plan may take a few years to happen but is achievable. I would go to once a day milking as cows get closer to drying off.

Maybe in the future the farm could consider using Jersey blood to produce a New Zealand type cow in the herd. This would produce a hardy, lower maintenance cow with good quality milk.

- **Grassland and soil management -**
  A management plan for the whole farm will have been made and a percentage of land will be soil sampled and reseeded each year. Top quality silage will be made each year either in the pit or in bales. Clover will become more important in the sward mixes with less nitrogen being needed. High sugar grass varieties will be used in silage and grazing swards. I would consider incorporating whole crop that is under sowed into my reseeding plan. This will provide good quality silage in winter and reduced overall reseeding cost.
  The need for spraying land would be eliminated because the fertility of the soil will not allow weeds to flourish. Swards grazed or cut at certain heights would not allow weeds like docks to get to seeding stage therefore breaking the cycle. Land should be topped as the need arises, not allowing any sward to go to seed.
  Groups of cows are out as early as possible using the system of few hours a day until out all day and night. Careful attention should be paid to sward height and poaching of land. Overtime and as finances allow, good hardcore laneway can be put into all land grazed for ease of cow mobility.
  Continue to use sheep to clean of the field in late autumn and early winter.

- **Production costs –**
  If all the other aspects of the breeding plan and the grassland management are followed the result should be reduced production costs. There are so many off farm factors which will influence the costs of production. The price of feed is influenced by the harvest in USA or China. The cost of fertiliser is influenced by the price of fuel. All these factors are out of the control of Kidworth Farm and every farmer in the county.

  What is important about production costs on any farm is the ability to absorb the increased cost into the overall farm operation plan. Low inputs result in less impact when prices change.
  Keeping animals healthy and well fed with good quality feed will reduce vet bills in turn increase fertility and milk production. Maintaining a good land management program will make good use of something we have an advantage over many other countries at doing.
  Factors like these can be influenced on farm, by individual farmers and not by global prices.

CONCLUSION

In its current financial position of Kidworth Farm cannot continue for another year. The change needs to begin now and by working with the bank manager, selling off the beef cattle on farm at present and improving the grassland management and the breeding program, it can start to improve.

In the medium term when things have stabilised and with a focus on breeding and grassland, over the next 2 years the farm should start to reduced production costs and maybe the milk price will have improved.
Will Kidworth Farm be milking cows in 5 plus years' time? With attention to detail and hard work, I think it will. Focusing on the grassland management of the farm and breeding a cow which will suit this type of system will help bring the farm back to a viable business. It will not be easy but then again if it was everyone would be a farmer!

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

Is Kidworth Farm the same as every other dairy farm in the UK?
On the surface – Yes. It is producing a product which is oversupplied in the UK at a price which is dictated by the processor and seller of that end product.

BUT

Kidworth Farm has been a profitable business until the past year. There are so many farms that have been running on overdrafts and banks loans for years and even a good year like 2013/2014, they could not change their fortune. Maybe it's because they have spent their money on buying expensive stock, machinery, modernising their farm, buying land or maybe it's as simple as being an inefficient farmer. Kidworth Farm can become a viable business again. They have had the fortune of being able to rent a good size farm very close to main farm. Expansion of the herd has been gradual by breeding their own stock. There is still room for more expansion should they choose to go that way but they must concentrate on efficiency. There are two sons who could take the business into the future. Kidworth Farm CAN get through this bad patch and if it undertakes the plan I have outlined earlier in the report, I feel it will able to get back on its feet and become profitable again but more importantly it will be able to withstand any future downturns in the industry. By specialising in grass based milk production, they will have an advantage over more intensive units.

What is fundamentally flawed with the structure of the British dairy industry and how can it be improved?

It is cheaper to buy bottled water per litre than it is to buy a litre of milk in some supermarkets! This statement speaks volumes for the problems faced by the dairy industry.

So who is really to blame for the current crisis in British dairy farming?

Farmers and those who support them have traditionally blamed the processers and supermarkets for taking the largest percentage of profits from British produced products. This is true for beef, sheep, pig poultry and dairy farmers alike. The farmer has always had to take the price is given at the farm gate. They are at the bottom of the supply chain in terms of money received for what they produce but they are the most important link in that chain because without them there would be a lot less food in our shops.

The processors blame the cost of processing the raw milk and the price they are paid by the supermarket for buying milk at low prices. Fair enough, it does cost to heat treat milk, buy the packaging and keep the processing plants clean but many of these processors are taking this raw milk and turning it into value added products like cheese, yoghurts and skimmed milk powder etc. They are getting extra money per litre of raw milk for these products.

Why is there such a variation in the price paid per litre for raw milk between the different processors? I can walk into any supermarket or corner shop and buy the same size carton of milk or well-known brand name of cheese or yoghurt at roughly the same price? These processors are supplying the same product to a number of different supermarkets who I would guess are all paying then different prices per unit. Are the processors calculating their base price on the cheapest price they will receive or an average price received over all their customers? I would guess the first. They tend to blame strong currency, oversupply of the market throughout Europe and difficult world trade conditions. Things will only get worse if the UK dairy farmer disappears and they have to compete to buy milk from other EU countries.

This is a link in the supply chain that is blamed by many for the problems faced by dairy farmers today. They are perceived as the big bad wolf causing all their problems. This perception is especially true for the 5 main retailers who would handle at least 70% of all liquid milk sold to consumers. They have been that target of protests by farmers all over the UK.

Since their arrival in this country on a large scale, they have been competing with each other to be top retailers at the expense of those who supply them. They are happy to sell milk as a loss leader to get customers through their doors. In recent years their profits have been in the millions of £, while their suppliers (processors and farmers) are forced to close their doors. In recent days, it has been highlighted that they were holding back payment to their suppliers in order to boost quarterly figures. Retailers will happily switch to any company that will provide a product cheaper than a current supplier at the drop of a hat. They do not show any loyalty to anyone especially not to the local dairy industry. Look at what is happening with Tesco changing supplier on this week.

Many farmers and those who want to buy British have also been concerned about the amount of dairy products from other EU countries and indeed further afield on the shelves of their local supermarkets. In many of these supermarkets, there is very little to promote products supplied by British farms. Cheese and butter are side by side under nice fancy Union Jack banners which give the impression everything is the same. Labelling of some products is very misleading too as it says a product was processed in the UK but it is NOT produced in the UK. BIG DIFFERENCE! (Sometimes the processors are to blame for this problem as well.)

Some farmers blame the government for not doing enough to protect British farming and food producers. They feel that they are not being appreciated for the work they do in keeping (as the words in Jerusalem say) England's green and pleasant land, the way it has been for hundreds of years. A Labour government has traditionally been perceived as doing little to help farmers whereas many Conservative peers were large land owners in past days and usually helped the farming community. But over the past few years this link to the land has become broken and agriculture is not seen as an important industry to any party.

Being a member of the EU has greatly influenced how governments help farmers. Many see the payments paid from Europe as a fair compensation for a poor price. But in reality it has brought more red tape and trade implications for trading within the EU. The decision by the UK not to join the Euro has impacted our import/export ability. The disappearing of milk quota over the union has led to increased production in many member countries.

If we wanted to get really deep into the government then sanctions against Russia have impacted on exports of butter, historic trade agreements with former colonies like New Zealand allow X tonnes of butter into the UK each year.
Climate change and other environmental concerns are also putting pressure on governments to cut their carbon footprints. The farmer has become a target for causing this pollution.

The gap between farmers and the end consumer is getting wider by the day. Only a few generations ago most people would have had a relation who worked on the land. Nowadays, there are children in big cities who do not know where milk comes from! This is a sad fact. This is the kind of consumer that the farmer is trying to convince to buy British produced food. It is a tough task. I was reared as a child on Jersey cow milk, straight from the cow (hand milked), I would still treat myself to the more expensive Gold Top milk that is available in most of the top retailers but I would be fussy what brand of milk I purchase. I do not like skimmed or semi – skimmed milk, its only whole milk for me. I think consumers have been brain-washed about the health benefits of the red or green top milks. They have no concept what proper milk tastes like! I remember during the horsemeat scandal saying to someone "Why would anyone want to eat burgers that cost £1 for 10?" His answer "Because they do not know what a good quality steak burger from the butcher tastes like" This is so true. Some consumers see farmers as whinging old men who drive their expensive tractors slowly along the roads, own lots of land and get loads of money from the EU to look after a few animals. I was at the supermarket one night when a farmer's protest was taking place. I sat down on the seats opposite the entrance of a major supermarket to listen to what those wandering around thought about what was happening outside. There was a wide range of views. Everything from 2 older gentlemen adding up the value of the tractors and jeeps outside to a couple of girls discussing a good looking young farmer that had caught their eye followed by a comment about the fact he couldn't wash and tidy himself up – was he that skint or just lazy? The range of comments was fascinating to listen too but what I noticed the most was although most people agreed that the farmer should get paid more for what they produced but they felt the farmers were wasting their time protesting outside a supermarket. Some were just interested in the free milk being given away.

Maybe this will be a strange person to blame. In reality some farmers are to blame for their current financial situations. Bit harsh maybe but so true. Most farmers like a nice tractor or to have new milking parlour or buy some more land but some in the past have not sat down and done their sums before doing so. The banks do not look as favourable on farmers today as they have in the past. Years ago lending to a farmer was seen as a sure bet but now a farm business is treated the same as any other business looking for a loan.

I recently heard of a dairy farmer who decided he wanted to buy some land next door. He went to the bank looking a loan but was told no. He decided to sell a parcel of land he owned a few miles down the road to raise some funds. The deal was done but he needed £25'000 to purchase the new bit. Went to the bank only to be told he still could not have the loan and better still the bank was keeping the money for the land he sold to pay of his debits AND his rather large EU payment as well. Was this need or greed on this farmer's behalf? Perception of all this man's neighbours is a greedy, grumpy wee man who would drive over you on the road and deserves all the trouble he gets! Farmers need to start thinking of their farm as a business not an inherited business that they will just keep going till the next generation or the bank takes it.

How can this problem be solved?

I am sure there are loads of other people who could be blamed along the way for the problems faced by farmers. Banks, media, Europe, the rest of the world, animal rights supporters, environmental campaigners, scientists or let's just blame the weather too. I feel all the above are to blame for the state of the dairy industry today. One thing that is certain, come the next agricultural census there will be less dairy farmers in the UK. The industry will go through drastic changes.

Solving this problem will not be done overnight. It will take years to rebuild the industry. Will the small farm disappear and will the big get bigger? Where to start is complicated too, each part of the chain must play its role. But one thing is, every part must move together as a team.

Farmers – Look at their own individual situations, do the sums and decide how to progress into the future. This could be go organic, make ice-cream or cheese, maybe downsize a little. Aim to produce the best quality milk possible. Operate in a manner which will make consumers proud to buy British by looking after the land, caring for your animals and the environment.

Processors – Pay the farmers a fair price and put pressure on the retailers to do the same. Go out and look for new markets all over world. Around Christmas, Canada ran low on butter, get British butter over there. Get skimmed milk powder into Asia and Africa, into countries which will never be able to produce enough to meet their own needs. Use milk produced locally, don't bring from other area's OR countries. Support local farmers. Be fair to British produce when labelling produce from other countries. Clearly show the consumer what they are buying.

Retailers – Support your local farmer. A plain and simple message. Pay a fair price out of your profits and not by putting the extra cost onto the consumer or processor. Clearly display which products are British and which are not. Let the consumer decide which they want to buy. Make *country of origin* clear by using a large flag, no matter if it is processed, packaged or passed through the UK.

Government – Put pressure on the retailers to pay fair prices. Put laws in place on accurate labelling to stop food products that are processed or packaged in UK being labelled as British. Cut red tape for farmers. Provide more funds for research projects and advisers to help farmers become better farmers. Invest in the food industry and rural countryside in general – encourage people to diversify into other areas that will allow them to stay on the land but make a living. Funding for ventures like Bed & Breakfasts or providing wildlife habitats for everyone to enjoy.

Consumers – Support your local food industry. Pay a few pence extra for your food and support British farmers. Buy from local farmers markets and shops. Less food miles and the money will stay in the local area. Make an effort to learn where the food you are eating comes from. Look out for food that has the Red tractor or says on the label it is British. Put pressure on the retailers to support local food producers. In general, give the farmer a break!

As mentioned before there are many people who could help the dairy industry. BUT - How can any country provide a level playing field for all its dairy farmers? Answer – it cannot be done. If a minimum milk price is set with processors and retailers what should this price be? Who gets to decide the price to be paid? Every farm's production costs per litre are different. There are some many factors which will influence what this price needs to be on each farm. I know dairy farmers at present who say they are not making a fortune but are doing fine and others who are finding times very difficult. The only difference between the farms that I notice is efficiency, size of business and planning. The smaller farm is surviving because his cost of production is controlled and he knows exactly what is going out and coming in. The larger farms seem to be focused on being bigger than the boy down the road and the costs of production are much harder to control and if things go wrong there is much more to stake. I know farmers who go to the bank every Friday to collect their wage from the bank manager and if there is a meal bill or any other bill to pay, the cheque is signed by the bank manager. This would not happen in other industry! In the real world any other business would be told to shut its doors.

Summary of Thoughts for Kidworth Farm

Kidworth Farm is competing in a very tough industry which is going to face big changes over the next few years. In order to survive these changes, Kidworth Farm must become more efficient and with Tom in charge this will be done. By moving the farm towards a grass-based production unit which is focused on a low inputs and a cow that suits this system, I feel gives the farm the option in the future to do for organic status or if bred towards channel island cows then for ice-cream or butter markets.

No matter what the farm plans to be doing in 5 or 10 years' time, the change must start NOW. If not it will have a For Sale sign at the bottom of the lane this time next year. As for the UK dairy industry – it is facing an uphill struggle. The government, processors and certainly not the retailors do not seem to be helping their cause in any way. Their only hope is to win over the consumer. By showing them that they aim to produce the highest quality product and look after the environment while doing so.

Sorry for writing such a lengthy answer to your questions, but I felt I could not attempt to solve the situation at Kidworth Farm in a few lines.

Thanks for taking the time to read this report. Now I have this finished I will go back to lambing my sheep.

Submission 22

What should this business look like to be competitive in a volatile global market?

This business would be able to break even in the worst downturn and would be in a robust position with plans in place to improve and grow the business during profitable times.

This farm would be bench marking against industry standards at home and worldwide throughout the business, from quality and cost of forage to litres of milk produced. There would be clear aims, ie. to achieve top milk yields of 11000/cow from costs of production up with the best of the industry.

John's financial abilities will have demonstrated that having got the business on a level keel , money could be borrowed against the real market value of the farm to drive spread sheet led expansion during profitable times. John would have a positive relationship with the bank and would negotiation better rates. He would be communicating with the farm accountant and have independent advisors on board.

Training would be part of the improvement plans. (ie. Tom would have been on an AI cause improving his skills set and saving the business AI fees.)

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

The parents need an Exit strategy for the next 10 years

The property and farm business can be separated.

a) The sons can be brought into a Business Partnership so they have a stake in the farm business, can share decision making and be given responsibility. If any partner dies, those remaining inherit that share.

The parents make a will. The farm land goes equally to the sons and any monies remaining in their estate after probate, goes to their daughter.

John can use the money from the sale of his house to build a new house on the farm.(It may be prudent for the plot to be 'sold' to him before planning permission is granted to avoid a large capital gain to the business)

b) The parents could sell the land to John and Tom at 5% per year over 10 years and build a retirement pot. They still retain their stake in the business partnership but would now be in a position to retire from farming.

With the lack of succession planning UK farms may be held back because the parents must remain active farmers and occupy the main farm house to receive full agricultural relief on the farm property upon their death or large sums are liable in death duties.

How can this business get through to the next upturn in prices and then how can it reorganize to have long term sustainability?

To get through to the next up turn this business must demonstrate that they have a handle on <u>all</u> its costs.
Bring John into a business partnership and use those financial skills. Possibly not great for him in the short term but savings on the wage bill and reduction in the national insurance bill will show a net gain against an increase in farm personal drawings and in the long term he will reap the rewards.

Reduce purchased feed but improve milk yields, by introducing paddock grazing and a plate meter to better utilize grass, and grow maize.

Really worth reducing bank loan interest

Renegotiate rate for rented land.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the UK dairy industry and how can that be improved?

Apart from the woeful lack of a succession plan, these businesses are failing to get the next generation into and involved in running the farm. There is a poor handle on financial matters and a lack of target setting compounded by an absence of business forward planning.

'Came to my arms my beamish boy' Farming must embrace the next generation with their drive and vitality if it is to be competitive. Life/work balance and reward are key parts to this. The industry can be improved by using targets and bench marking to compare one business with another so evaluation processes are in place to drive a farm forward. Constant monitoring of inputs and outputs with the help of accountants and advisors would provide practical and moral support.
Submission 23

SHAPE OF BUSINESS IN VOLATILE GLOBAL MARKET

This business must be PROFIT DRIVEN. Profits are the only thing that pays for drawings, capital investment & tax liability. Sacrificing profit for a particular way of life or tradition makes the business more exposed in times of low prices & less sustainable in the longer term.

To achieve this, the business must:

1. Be demand orientated
2. Be cost conscious
3. Embrace new technology
4. Be prepared to innovate & collaborate

ACTION ON FARM TO BECOME PROFITABLE & SUSTAINABLE

In light of the above criteria the business must:

1. Restrict milk output to A priced volume. B priced milk will not be profitable & with yields rising, cow numbers should be reduced accordingly. This will release some capital & take the pressure off building & slurry storage capacity.
2. If breeding policy is correct, the average breeding value of incoming heifers should be greater than that of the existing herd. Replacements should be bred by using sexed HF semen on bulling heifers & only on the very best cows. The majority of the cows should be put to a beef bull &this will enable the store cattle enterprise to be quickly expanded with the option of selling stirks or strong store cattle. Store cattle prices seem to be resilient certainly in the short & even medium term. Heifer replacement numbers should be carefully controlled as they constitute a major cost.
3. Emphasis should now be placed on milk & beef from forage to take advantage of the relatively low stocking rate & good grass growing area. No figures are quoted for “litres from forage” or indeed live weight gain. A grassland consultant should be retained to assist with this to optimise output from pasture. This would certainly reduce purchased feed costs (highest cost & doubled since 2010) & even fertilizer costs if slurry & FYM use is also optimised.
4. An attempt should be made to renegotiate the FBT from the current high level which is no longer sustainable. This might be possible by taking the cottage out of the tenancy & letting it separately.
5. A machinery audit should be regularly undertaken to ensure there is no unnecessary equipment kept & comparisons made with the use of contractors.
6. In view of the impending loss, advantage should be taken of tax averaging (5 year) if possible to provide some short term relief.
7. To ensure these changes are likely to be effective they could be bench marked against a switch to a low input/low output system based primarily on milk from grass. Similarly the effect of terminating the FBT should be looked at as the rent now equates to the anticipated loss to March 2016. In this scenario the beef enterprise would be based on the sale of an increased number of strong beef calves.

SUCCESSION

At present the owned land is inextricably linked to the business as its increasing value provides the security for the increasing level of borrowings necessary to allow the business to continue. This is in the face of the relatively weak earning capacity of the business a present. This would not be so much of a problem if there was only one heir who wished to continue the business. In such circumstances it may well be possible to trade out of the current problems. However there are three potential heirs in an environment where it is now less acceptable for non farming heirs to inherit very little in favour of an heir who wishes to continue farming on the basis of inheriting the major share. It is worth noting that Tom may well already have an equitable interest in the property as the farm has been his only home & he worked on the farm for eight years or so on a low wage.

A new business structure needs to be investigated based on an eventual three way split of the owned property (either by gift or inheritance). If John is to take over the business it should be on the basis of an FBT or share farming arrangement with his parents. He already has £100,000 to help finance this (purchase of stock etc.) & a long term option to buy or rent the land eventually held by his siblings could be built into this arrangement. John’s father might even become an employee of the business until retirement. It would be dangerous to comment further as this sort of thing requires a good deal of expert professional advice which should definitely be sought.

STRUCTURE OF BRITISH DAIRY INDUSTRY

The most important issue facing the industry is operating in a global market which is increasingly volatile & without any output restrictions at producer level. At present supply exceeds demand & so to return to more profitable conditions supply must be restricted (producers leaving the industry or keeping less cows) or demand must be created. The latter is preferable but requires considerable investment in new products & brand development etc. which will require amongst other things more collaboration along the supply chain. If this can return the industry to profitability then succession problems will be surmountable as there will be more accessible equity around to ease succession. The alternative would be that land ownership remains widely spread but its farming is concentrated in fewer hands resulting in mega dairy farming operations which so far have proved unacceptable to the general public who are the industry's customers. Creating profitable conditions remains key!

Submission 24

What should the business look like to be competitive in a volatile global market?

If they are on a First Milk contract they should give up, there recovery of First Milk will be a long time and this would just increase their debt and probably bankrupt them.

Expand the beef to spread the risk. They have the land so utilise it by stocking it more, either

- take stock for summer, therefore not using the buildings
- buy young stock and fatten them

Continue to steadily grow dairy numbers, closer to maximum capacity to ensure buildings aren't being wasted.

If it is possible to negotiate the land on a longer secure agreement it would give the opportunity to expand the beef numbers, using sex semen on fewer of the best cows and increasing the number of cows which are to beef.

They have the extra feed, land and buildings to do this.

Look over all their costs and look for better deals. Often with electricity if you do some research and phone them up and tell them you can get a better deal elsewhere then they will find you a better deal. This will be the same for other costs such as mechanics and fuel suppliers, look around a bit.

How does the business pass over from one generation to the next, is the burden of succession and land ownership holding dairy farming businesses back and why is this the case.

Farmers have run the farm there way for years and, for most, it has worked so someone who has new ideas and is coming in trying to change something they have worked at their whole life can cause tension if not approached correctly.

Land value has increased dramatically recently, making it very difficult for people to buy siblings out of the business.

Regards to passing over then the older son would have to prove the farm was what he wanted (invest his money in it!). Leaving it to all the children with a prearranged agreement of rent to be paid to the non-farm occupying, while remembering to consider previous investments by children (older one may invest his money, while the younger one worked on the farm since leaving school). This leaves the opportunity to buy siblings out of business when financially viable.

How can the business get through to the next upturn in price and then how can it reorganise to have long term stability.

Investment from the older son. Investment in the buildings, investment to improve system and therefore make it easier and hopefully increase profits.

Future

Investing in the farm would be costly but would pay itself off soon, leaving profit. A longer term secure lease of extra ground would ensure their business wasn't vulnerable to short term change, with the view to buy more land when suitable.

Look at diversifying. Depending on where they are they should use their location to their advantage. Maybe a campsite or small farm shop.

Once the industry starts to recover they need to deal with their debts, repay them so they no longer have any debt.

If this represents a typical UK family dairy farm then what is fundamentally flawed with the structure of the British industry and how can it be improved?

Retailers don't respect farmers/food producers. Their main focus is on profit as the public have lost interest in quality British produce as money is more important. Supermarkets and suppliers need to realise that if they don't look after their farmers now then they won't be there in the future which will affect their business even more (greater costs from importing). We need to educate consumers and retailers to create a viable future and explain to them how good fresh, local produce is.

Support from the government in the form or a minimum cost of production price would help as well.

Submission 25

What a difficult situation for the whole family.

Mum and Dad, Robert and Heather, have the worry of uncertainty and no-doubt fading hopes of passing on a successful dairy business to the next generation. They are yet too young to retire (we don't know if they have made any retirement plans, financially or otherwise). They will be conscious that whatever decisions they make, they will wish to be fair to their three children.

John will feel frustrated. Worried too, I suspect, but he does have an alternative career and skills to fall back on should that be necessary. He too will wish to see a successful business pass down the generations, but his hands are apparently tied when it comes to making big decisions, and in any case he would be gambling with money and assets that do not belong to him. If things go wrong, it will affect the inheritance of his siblings and the retirement funds of his parents. That is an unfair situation to be in.

Tom no doubt feels pretty peeved. Having been the one who committed to farming from the off, to be now pushed out by the return of the prodigal son will feel galling. Understandably so. Yet he has no more to lose than anyone else. He will have transferable skills and the fact he has decided to work elsewhere shows a level of independence for which he should be congratulated.

Alison will have mixed feelings. Ultimately, why should one or both of her brothers benefit from a legacy of the farm assets? Surely it is only fair that a third of the farm assets eventually pass to her and her future family? Yet, if by doing so it makes the farm unviable, the responsibility for breaking up the business will rest heavily on her shoulders.

What should this business look like to be competitive in a volatile global market?

Rough calculations estimate their current break-even milk price to be around 23ppl (respectable). At 21ppl, they are losing money - but who isn't at that price? So perhaps it's a case of holding tight and riding out the storm?

Yet, there are hints of inefficiency: the purchased feed rate is 13ppl (but includes youngstock feed); vet and AI costs are 1.7ppl (again, youngstock costs are not separated out); there is apparently no "system" for making the most of grazed forage; yields are modest for a composite-type system which is described. There is definite scope for a lower-cost, more efficient system which could capitalise on the natural assets of this ring-fenced grazing farm.

With only commodity-type contracts available to them in the area, a relatively early grazing season, land in a single block, and good grass-growing land, the farm would be ripe for a seasonal block-calving system maximising milk from grazed grass, probably with cross-breds. A lower cost of production would be expected and a much more competitive business making the most of its natural assets.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

No decision is worse than any decision. Robert and Heather must make a 5-year exit plan and convey this clearly to all children so they can all plan accordingly. The decision may be to sell lock-stock-and-barrel in 5 years to release equity which can be divided between themselves and the children, or a plan can be made for one or more sibling to buy out the parents. Whatever the decision, if any son wishes to carry on with their own dairy farm, they can begin to build equity in stock, arrange finance and pursue their options with clarity.

In any event, a son who does wish to continue farming will still be at a distinct advantage over any true new-comer as they will likely have access ultimately to around £700,000 equity as their share (assuming the entire assets are disbursed equally between the three children). We do not know financial plans for retirement of

Robert and Heather, and tax liabilities will need to be considered depending on how the legacy is disbursed. Professional advice needs to be sought to consider options.

The insecurities and indecision around succession of land ownership does hold back dairy businesses without a doubt. It is also true that for true new-entrants without family who already farm, getting on the ladder is even harder, and this is also not fair. John and Tom should recognise the opportunities which are afforded to them if they wish to pursue dairy farming. Robert and Heather need to put in place plans so that these opportunities are realisable.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

The farm has swapped around £100K equity into stock for increased debt in the past 5 years. This is presently making the business' cash flow poor which is likely to be crippling. Adult cow numbers can be maintained but selling non-replacement youngstock would release cash, which should be used in the first instance to reduce borrowing.

Whatever decision is made in part 2 will influence whether the rented land is given up or not. This is costing £28K per year and unless the farm is going to continue where it is (and unless the likelihood is that an extended tenancy is available after the 5-year term), this seems unnecessary. A modest down-sizing in stock will likely reduce other overhead costs and labour costs whilst keeping milk production static.

Or, a more radical but probably sustainable approach would be to sell the milking herd. Replace with 220 cross-bred heifers to serve in April and calve in January/February 2017 to begin a new Spring block-calving herd producing similar yields but with much lower costs. With forecast low milk prices over the next 12 months, this is the ideal time to do this, albeit the cow sell price will be relatively low.

The down-time whilst not milking should be used to upgrade housing facilities if required, create paddocks and lay water pipes, troughs and tracks. Every opportunity should be taken to learn new skills regarding grazing management of block-calving systems (e.g. join discussion groups; visit as many similar farms as possible).

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

This is not an unusual situation - though every farm has its own nuances. If there is a flaw in the British dairy industry, then it is "tradition". No business has things laid on a plate and no business can afford not to change with changing trends, markets and personnel. Dairy farming should be no different to other business.

The successful dairy farms of the future will be entrepreneurial - just like the successful manufacturing businesses in the UK have had to be to survive the post-industrial downturn of the 1970's onwards. Many dairy farm businesses will not continue as dairy producers and that will be necessary to create new opportunities (including economies of scale) for the inevitably smaller number of dairy producers which do succeed. Possibly, corporate dairy farms will emerge which are more vertically integrated (processor/producer businesses) and provide greater security for farming families who either rent out their land, produce forage under contract or contribute in some other way. Think fish, pig and poultry farming: no longer dominated by small family businesses trying to be all things to all men whilst competing in an ever more commercially competitive world with growing technologies and skills.

The situation of the family at Kidworth Dairy Farm is not enviable - they have difficult decisions to make. But, and it is a big but, what extended family in the UK wouldn't feel incredibly fortunate to be sitting on a £2.2 million disposable asset which could be used to kindle and then nurture all number of dreams?

Dreams don't have to be limited to farming: the asset could be used to kick-start Alison in her new home and family life, Tom in a new business of his own, foot-trimming, fencing or other land-based industry, and John with a tidy sum to either create any new business of his choice, or to begin his own career in dairy farming. And still leave enough for Robert and Heather to downsize and enjoy a happy retirement as they move to the next phase of their lives.

Identifying their individual goals and then talking about them with each other will help the family decide the path they should follow. There will be no wrong decision except indecision.

Submission 26

What should this business look like to be competitive in a volatile global market?

It needs to be secure, low cost and strong. To be able to work through volatility and come out a successful, sustainable profitable business into the future. Here's some of my ideas of how it might be able to do this;

It needs a clear strategy and long term plan for the future. Visions need to be discussed, goals need to be set to then monitor and measure progress.

Having an infrastructure and cost base that can carry the farm and business into the medium to long term. This should then consistently return a good income to those involved as well as competitive returns on capital invested. A target of getting their cost of production to a point that will reliably give acceptable levels of profit the majority of the time not just in years of "highs". This is needed to be able to cope with commodity volatility which will only get more extreme in the future.

It needs to assess its milk contract and work out what their buyers require, and what they can do to maximise returns from it.

To improve manageability and ability to monitor performance moving to block calving should be considered. This should also give improvements to lifestyle due to having set periods of focus, i.e Breeding and calving. This means things can be done better and also allows periods of quieter times of the year to allow for time off, or more planning type decisions to be made.

Profitability of dairy is proven to directly correlate to grass utilised, at present no form of management is applied to grass and grazing. It is noted the farm is in a good grass growing region, this needs to be capitalised on. Grass growth and utilisation needs to be focussed on, improved monitoring and utilisation of grass will be a big positive step. Fresh Grass is the lowest cost/ best value feed British farmers have. The current genetics of the herd may need to progress in a more grazing focussed direction fro now on, AI should be considered to help this as well as improve genetic value and get a more efficient grass converting herd.

Becoming a part of a buying group should improve buying power to reduce costs. Joining discussion groups will help to gain knowledge from learning and sharing from others, their methods, results and successes. Groups like these can also be used for monitoring, comparing and benchmarking results and figures to encourage continuous development and improvement.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

A watertight, well thought through and discussed succession plan needs to be put in place. One which leaves all family members and stakeholders in a clear unquestionable position both now and into the future of the farm, its business and its assets.

Robert and Heather need to also be happy with the resulting plan but need to accept that they need to step away/down from the lead management and controlling positions to allow the farm to progress and develop. They need to have confidence that the next generation can take the farm forward.

A family such as the Kidworths have a huge challenge of creating a succession plan that is satisfactory to all family members. Each child has different interests and attachments to the farm. I believe inheritance should also be discussed and considered during succession planning. The land and farm infrastructure is vital to the future of the business and needs to be set out in a way that doesn't damage the viability of the business. Getting in a professional facilitator may be a good consideration to help.

From the information given to us, I consider a plan that involves something like the following to happen,

John who has become used to a high salary career and having had minimal input into the business until recently, should maybe consider using some of his cash savings to buy into the business,and becoming a partner or entering into a share farming agreement. John could take on management with options to grow equity share gradually as the business improves in the future. This could be achieved through some type of profit share where Johns share goes to Robert and Heather but is used to buy equity in some of the important assets of the farm business. John seems to be well qualified and well positioned to take the business forward. He is in a strong position financially, as an initial step some or all of his savings could be used to buy a share into the business with the capital going into improving the farm.

Alison, In a position of wanting to buy a house, being able to withdraw or get forwarded a lump sum for deposit from the estate in the near future will probably be of great benefit for both now and long term future financial security. This needs to be worked out how it can be done without affecting day to day running of the farm. In terms of inheritance a share of land could be gifted to Alison with options of selling to the farm or earning a rental income from into the future.

Tom, It needs to be made sure his time on the farm in the past is fairly and clearly been appreciated and remunerated. Tom has put significant input into the business up until recently, he is good with livestock and enjoys milking cows, he needs an income in the future, an opportunity to do his own thing, and have a non management input into the future of Kidworth if he so wishes. Done the right way Tom could have great value and importance in the progress of the farm.

I think the huge increase in land values, the often strong emotional attachments to land and farming then creates huge issues and challenges. In previous generations, succession of land and property were dramatically less significant due to there historic values.

Land ownership and farming aren't exclusive to each other. The security of land is important for the business, ownership by the people running the farm, isn't. The Land could be owned by a number of family members who then benefit from it returning a fair, competitive rent.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

Kidworth has reasonable borrowings, however the overdraft seems significant. Borrowing through an overdraft is expensive and they need to reorganise their borrowing to reduce costs. If they were to increase a loan with a lower interest rate than using the overdraft.

If the business loan is split it could help. If a proportion is put to an interest only loan which can get paid off in chunks in years of higher profits. With the rest on a fixed rate interest plus repayment to give a fixed monthly cost.

The huge cost of renting the neighbouring land needs to be looked at in detail. If possible, careful consideration needs to be taken to pull out of the rented land. If this is not possible, stocking rate could be increased to make better use of available land or let some of there own land to offset the cost. If the rental land can be released more focus should be put on the dairy side of the enterprise and reduce commitments to beef rearing.

House O isn't mentioned in the case study but appears to be on or surrounded by the kidworth land. This could mean potential for some of the land for further development. If planning could be gained then plots sold this could provide significant cash support at this difficult time.

Capital tied up in machinery is also another balance sheet item to consider, could reorganisation and reducing amount of capital help release cash for other more important areas in the business. Having essential lower value machinery only could help.

It needs to focus on COP and margin on litres. Every cost needs to be looked at in detail, and assess the best, most profitable system that suits the farm.

Expenditure needs to be on things that provide real cost savings and or with a good return or short paybacks. Improving cow tracks and sufficient water provision in paddocks would be my priorities. When there are profits to be reinvested winter housing would be a good area to invest in to improve welfare (and therefor productivity, lower health costs), and to reduce labour costs/requirements.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

I believe Kidworth is a very familiar story to many family dairying businesses across the UK with a lot of common issues. The current market climate will be bringing a lot of these issues to the surface at the moment which in better times were easier to avoid or ignore.

To a certain extent I feel family farms are often,wrongly, not always considered primarily a business. There is a lot of emotional and sentimental attachments and relationships that have a large influence on a huge number of decisions made on farm, both daily management and longer term planning.

There are often expectations and assumptions by all generations made without communications,systems or plans being made. There is often no clear direction or progress of the business. this then obviously holds the business back and can be a large factor for why it becomes uncompetitive with higher costs.

With many holdings being under staffed and under daily pressures, the day to day running are given priority without the bigger picture being considered and formally discussed.

The lack of pension provision by Robert and Heather is a worry. It could create an additional drain on a struggling business when they require support but unable to contribute.

A point mentioned during the Agrihive conference of having “champion farms” or local beacons to show case, and support others would be very valuable. Improving and increasing knowledge sharing and communications both between and within farming businesses could really help propel British dairying into a brighter future. Facilitators and mentors for both young farmers and older generations would help questions be answered and clarity, control and discipline for discussions and planning.

Submission 27

Really enjoyed your case study!

It definitely rings bells!

Just my quick thoughts under your headings;

The business to be competitive in a global market needs to be much more focused and without the growth potential due to the contract needs to retain a greater margin. Of course there is only one way to do this and a block calved herd of 300 grazing cows could be got going after investment in tracks water troughs parlour and of course cows. This will swallow up the £100K capital introduced by John and some!

Mark could work part time and the workman made redundant.

If Mum and Dad need to draw off the farm it will be very

If there is no pension provision for the senior partners they will really struggle to pass on the farm however they can extract some equity from their land value and John could use his financial skills to invest off the farm to provide for them.

I am reluctant to recommend marketing the farmhouse and redeveloping on a greenfield site as this would reduce the value of their asset and they would have to invest in another dwelling.

In the longer term if the two brothers are to farm in partnership then the business would be very unlikely to survive into another generation without significant expansion requiring a new milk contract. The burden of land ownership is in a way holding back the industry but then the tenant farmer is the most vulnerable at the moment and the owner occupier has the ability to raise funds to grow and restructure the business, at least this family does have some choices and to look at it strengths they are:

1. Skilled and enthusiastic sons wanting to make it work.
2. Equity to use to restucture the business.
3. A useful acreage within a ring fence.

In order for the family to get through the next few years they need to persuade Mum and Dad to stand back and let the next generation get on with it. Employ a legal team to put a proper partnership agreement in place and make sure that they have good enough financial provision.
In the longer term develop a grass focused system.

This seems pretty typical and the current economic climate is going to force the changes that are needed.
The current structure is not flawed it has merely been allowed to persist due to a period of benign trading,
This is coming to an end and when the going gets tough ....

Ever the optimist!

Submission 28

Firstly, we think it is important to secure a long term use of the rented 150 acres. Assuming this could be arranged – say for a further 10 years then a longer term management plan could be worked out. If it was only short term it is likely the business would be better off forgetting it.

With the land in place a larger herd would be the way to go – up to around 300 cows. This would need a good milker. I'm not sure John would want to stick at 7 days a week milking but would need to do the relief milking and be in charge of the management. He has the head for business and finance, it seems and should concentrate on this.

Dad is still able to fill in and work, maybe a few less hours.

If John wanted to be part of the business apart from the management he should consider buying the extra cows and become a shareholder.

Now although Tom and Alison have no interest in the farm now you can bet if the farm was sold they would be interested in the proceeds. They of course would need their share and this should be spoken about sooner rather than later.

The herd may be better on spring calving. Litres per cow would be down but the bottom line could well be up. Dry cows could be kept out longer, maybe until December and this could take the pressure off the struggling slurry system.

One of the first things to organise would be a fertiliser plan with soil tests to be taken over the whole property.

Probably the beef side of the business would have to go as more heifers would need to be reared, around 20-25% so 70 replacements, set to calve as two year olds if fed well.

The cow numbers need to be increased straight away, not ten or a dozen per year.

With the milk price ppl at a four year low and potential to go even lower, grass & silage must be the main feed for all cattle. Less bought in feed and more money spent on fertiliser, not just Nitrogen but balanced with P&K and requirements as outlined in the soil tests results.

What should the business look like to be competitive in a volatile global market?

- It needs to be a profitable business.
- Low input and low cost structure are essential to the profit and ability to cope with volatile prices.
- In a higher payout year then some additional feed could be put in the system to maximise returns.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

- Succession is a major issue in many farming businesses.
- Start with what Robert and Heather want and then expand from there.
- Discussions to be held with all parties to find out everyone’s goals and plans.
- Could engage outside party for discussions, including professional advisors of accountants, solicitors and bank manager.
- The lack of profit in the business is a limitation for succession – with profit comes options.
- With the proposed plan of expansion and change there is potentially options for everyone within the business. John will have a management role, in the future it is possible Tom may be able to return and take over the key milker role and also eventually replace Robert.
- Partners/ wives to work off farm to provide income to cover personal drawings.
- If good farm profit is generated then some money can be directed to off farm investments.
- Good equity in the farm property, could be used to provide security by way of guarantee to assist Alison with a house purchase.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

- Key system changes to be made now to improve scale and profitability.
- Engage key advisors – low input farm advisor.
- Secure long term lease of 150 acres.
- John to invest 100K and borrow additional money for increasing stock numbers and carrying out any crucial upgrades.
- Restructure of debt –core overdraft debt to be placed on term loan.
- Increase stocking rate, purchase additional 120 cows, phase out beef, change to spring calving, focus on low input, pasture based system, only use bought in feed for true deficits.
- Soil tests and new fertiliser plan. Should not be selling surplus feed and the also purchasing in supplement.
- John to enhance pasture management skills, farm and financial monitoring and reporting, this will be a key requirement in the success of the plan.
- In a low payout year additional focus around cost control.
- In a higher payout year term debt is repaid and profit banked to provide buffer for lower payout years.
- Even in the high payout season of 2015 the Farm working expenses (excluding depreciation) were 71% of the GFI. This should be more like 55% consistently. For 2016 they are forecast at 91%, which suggests they have not made any changes at all to adapt to the lower milk price environment.
- Avoid investing in machinery and using HPs. Recognise that paying tax is a good thing – it means they are making money.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

- The high input and high cost structure is not profitable
- The subsidy/ grant system encourages investment in building infrastructure which in turn leads to bought in feed / higher input systems that are not necessarily profitable and would not be the chosen option if the farmer was having to borrow 100% to invest in the new buildings/ infrastructure.
- Focus needs to be on growing and utilising the cheapest form of feed – pasture.

All decisions need to be focussed on generating profit and returns to shareholders as is the case for any business.

Submission 29

What should this business look like to be competitive in a volatile global market?

- Low production costs that are closely managed
- Focus on the one key enterprise 'dairying' and get rid of the beef store cattle
- Move to once a day milking and increase cow numbers to 400
- Review the model of renting land through the FBT – is it worth doing based on current milk price?
- Setting and achieving relevant performance targets

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

- Need round the table discussion with all siblings and parents present, with an independent person chairing the meeting and take appropriate specialist advice
- Need clear roles and responsibilities for everyone working in/running the business (need to work out first how many labour units are needed to run the business). Parents can still be involved but need to step away from the management.
- New business structure and consideration of a 'share farming' type agreement (where people can buy in and out of a share of the capital value). Could be a sharing of the trading business and the farm could be rented by the parents to the new business structure or it could be a 'share' within the whole set up (ie. Including capital assets).
- An agreed plan which is 'fair' needs to be identified and agreed for the daughter if she doesn't want to be involved.
- Many of the traditional challenges remain – 'head in sand', daughter in law might run off, lack of retirement provision and interests for the older generation, land and house values are not in correlation to its income earning potential, no agreed succession plan in place. Lack of progression and decision making means the business goes backwards (not abreast/ahead of market changes, lack of investment, lack of understanding customer needs, becomes unviable)

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

In the short term:

- John should work off farm part-time as he has the highest income earning potential – and undertakes more of a management function and supports Tom with hands-on work as needed (directed by Tom for this element). John lives at the cottage on the other land to give everyone living space and takes in a lodger.
- Tom comes back to the farm and is in charge of meeting livestock production targets and acts as herds person (clear roles for both)
- Get rid of any other external staff

- Parents start to draw any pensions and reduce drawings from the farm
- Sell the store cattle (and not increase cow numbers at this stage)
- Use excess grass in the short term to make high quality small bale haylage or hay and sell to horse owners/pet owners
- Make better use of forage and cut concentrate costs
- Review all costs and cut wherever possible
- Use farmers averaging to reduce forward tax bills
- If eligible claim working tax credits
- Consolidate overdraft and existing loan onto a longer term loan to help cashflow

Reorganise for long term sustainability:

- Increase cow numbers and maximise returns from forage
- Implement succession points addressed above
- Arrange FBT over longer term
- Implement the points covered in question one
- Increase on-farm skills ie. AI, management to be competitive

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

Flaws:

- Lack of pro-active succession planning
- Land – is asset rich – need tax breaks/incentives for long term rental/share farming arrangements to create availability for new entrants or expansion
- Lack of management and cost control through every stage of the production process
- We operate in a global market – the laws of supply and demand are now influenced by world wide changes – ie. Quotas, emerging markets (Chinese), oversupply but on the plus side there is a world-wide growing population,
- Not using the futures markets enough
- Supply chain needs to be more joined up
- Need to keep closer to our customers
- Postcode lottery for milk contracts - fragmentation

How can it be improved:

- Non profitable producers exit the industry
- Regain domestic shelf space from imports
- Identify and access new export markets
- Take advantage of technological and animal health improvements
- Try new things and share knowledge, especially driving down production costs

Submission 30

What should this business look like to be competitive in a volatile global market?

Impossible to be competitive in a volatile global market whilst 4 main supermarkets take 85% of milk produced, whilst they hold power and grocery adjudicator is weak there is no hope of improvement in the near future. Rented land is too expensive in current climate.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

Land prices are at a plateau according to many experts. Should Britain vote for BREXIT in referendum, subsidies could disappear and land prices fall 33%.

Farm should therefore, be sold now. 2 sons cannot work in partnership for personal reasons. Daughter not interested

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

Livestock and machinery should be sold, hopefully to clear bank borrowings.

Farm should be sold for £2.2 million and entrepreneurs relief taken to reduce C.G. tax. Lump sum can be given to each child to buy a property (parents to live 7 years to reduce inheritance tax). Retirement property purchased for parents and money safely invested for their retirement. Financial advisors to be avoided.

Will to be made leaving parents estate to their children in equal shares.

When there are 3 children and only 1 farm this is the only option.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

The only hope is to break power of supermarkets. They are in a race to the bottom and will take agriculture with them.

Submission 31

What should this business look like to be competitive in a volatile global market?

If you want to continue to farm then I suggest a suckler beef herd producing finished beef at 18 – 20 months.

The economics – the national beef suckler herd is contracting. Demand for high quality local beef is increasing, therefore prices will rise. However for it to be economic forage production will have to be intensified. 100 suckler cows should be possible on the 220 acres. Offspring must be sold finished – not as stores.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

One man should be able to run this suckler operation with a lot of work contracted out. You MUST stop what you are doing now before you run up more debt. Accept the reality and go out of milk.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

Sell all the cows. Go out of milk.

Give up rented land.

Robert and Heather should retire.

Tom should pursue a career away from the farm.

Opportunities to rent the land and maybe some of the buildings to neighbours should be investigated.

Maybe the farm should be sold and the proceeds split between the family members.

Opportunities to sell small pieces of land for development – housing – should be assessed.

John should look at opportunities outside the farm.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

Milk supply exceeds milk demand so price has dropped.

UK production is still increasing – continuing soff prices
Yields are relatively low and forage production is inefficient.

250 – 300 cows would be the ideal for this farm including the rented ground but yields need to increase, grass production reeds to increase and the low milk prices needs to improve.
It's not going to happen so exiting milk – seems is the first priority.

Submission 32

What should this business look like to be competitive in a volatile global market?

This business should sell from the 220 acres of owned land:

Milk 180 x 7000 litres
Cull Cows 45
Beef stores 90 (6 to 9 months old)
Holstein bull calves 45 or if sexed semen can be relied upon, then up to 135 beef stores
+ singles from payment on 220 acres
45 Heifer calves retained

And sell from the 150 acres of rented land:

Wheat 263 tonnes (75 acres @ 3 ½ tonnes/acre)
Oilseed Rape 57 tonnes (37 ½ acres @ 1 1/3 tonnes/acre)
Maize for an AD Plant – 37 1/5 acres @ £180 per acre or alternative high value crop
+ single farm payment on 150 acres

NB Arable rotation – work done by contractor

+ rent from the small cottage £400 per month

The labour force should be 2 full time workers. Robert and John, with the possibility of some office work being done by Heather. John should be employed at a fair wage, because he had no collateral in the land, although one third of the farm may one day be his. The borrowings are secured by the farm which belongs to Robert and Heather. They should only give daughter Alison enough for a deposit on a house. She could possibly borrow the rest at a lower rate than their overdraft.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

If Robert has a retirement income then a second person can take his place in the work force, possibly Tom? How could the other farmer afford to pay him more than Robert and Heather could? Could the two sons work together well? For succession the farm could be left equally to the three children. Whoever farms it after Robert and Heather are no longer about would need to rent the land from the owners separating the land ownership from the farming business. Eg If the two sons pay their sister a rent equivalent to her third of the land; or they might be able to take out a mortgage for third of the value and buy her out. It would then belong to them in equal shares, and they would have a mortgage rather than rent. They could secure an overdraft with the security of the farm, which they may not be able to do as tenants

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

To get through to the next upturn in process, borrowings must not be increased by the purchase of machinery, vehicles, equipment or buildings. Only purchase equipment that is used 365 days per year. Otherwise hire or use contractors. Remember the most efficient forage harvester is a milking cow. Conserving forage costs a lot of money, using machinery and materials without adding to the feed value.

The loss, March '16 accounts, can be carried forward to offset any future tax liability.

There is no need to use expensive machinery and use litres and litres of diesel to chop long forage. Cows enjoy it and it aids butterfat production and rumen function. Use nutritional experts to help with the formulations of all rations.

Get good free advice from agronomists for seed, fertiliser and sprays for the arable crops on the rented land as well as the grassland. Have all the arable work done by contractors.

John needs to use his degree in maths and interest in finance to analyse every cost, prepare budgets, set targets to achieve best yields and margins.

If the other workers forte is livestock husbandry then he must set targets and use his skills to achieve them eg calving interval 365 days, age at 1st calving 24 months, numbers of live calves, growth rates, condition scoring and maintenance of health etc.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

Use the home farm 220 acres for the 180 cow dairy herd. Allow ½ acre per cow for grazing and ½ acre for winter forage.

Divide the 90 acre grazing area into 15 x 6 acre – 2 day paddocks. Work on a 30 day rotation. Use aftermath's later in season when grass growth slows.
Apply fertiliser and lime as necessary to give this level of production. Make sure drinking water is freely available. Control weeds by spot treatment using a knapsack sprayer. Use contractors for silage making.

If there is going to be a shortage of winter feed, some whole crop wheat can be taken from the arable land.
25 acres should be sufficient for 45 in calf heifers, leaving 15 acres as a safety net/insurance.
Get the calving interval down to 365 days and calve heifers at 24 months. (own experience:- heifers calved 22 to 24 months and last 3 years calving intervals 356, 354 & 358 days – yield 6956 kgs)

As genetic improvements have already been made, one assumes by using "+" bulls, then the maiden heifers should have higher potential genetic merit than their dams and should be bred to "+" dairy bulls.

Make a list of all females to be bred each year in order of their genetic merit, and serve with a dairy "+" bull from the top downwards with many as necessary to provide heifers to maintain herd size. Make this list well in advance of the service period and plan the matings. Numbers may vary from year to year depending on the ratio of bull to heifer calves and number of cows culled.

Keep all youngstock destined for beef inside until big enough to be sold to graziers. (You can't afford to graze store cattle on land at £190 per acre with borrowed money). Replacement heifers keep in for their first summer and feed to grow well and serve at 14 to 15 months. They then go out to grass so early in calf heifers. Many will produce 2 calves and a lactation of milk by age 3, and keep growing up to 3rd calf.

The British dairy industry is constrained by the burden of mortgage or high rent payments. By the high cost of machinery purchase operate and maintain. By the need to provide winter housing and feed for 4 – 6 months and the cost of slurry storage and other waste disposal. By keeping too many unproductive stock ie heifers over 24 months not milking, cows dry too long with calving intervals over 365 days.

By not exploiting the full genetic merit eg heifers by "+" bulls out of good cows bred to beef bulls because its easier to "turn in the bull" then service to another "+" bull.

If you have a 25% replacement rate and 50% bull/heifer calf ratio, to maintain 180 cow herd, serve 45 heifers and 45 top cows pure and 90 cows to beef bulls. If sexed semen was reliable you could push your genetic base higher and breed more than 90% to beef, giving more high value calves and less Holstein bull calves.

Other Possibilities

Use the cow manure on the arable land to benefit organic matter and soil structure and save fertiliser cost. Straw from the arable land could be used by the livestock farm.

You may be able to obtain free poultry manure, wood chipping type broiler muck, and apply to grassland coming for silage next spring, saving on fertiliser cost.

Somebody may pay a few pounds to run sheep over your grassland in December. This would remove any coarse material and grass comes away well in the spring after the sheep.

Consider collecting rainwater from building roofs and use for washing down, cattle in yards to drink or for crop spraying. If you have a well, you could install a “well booster pump” and use the water as above.

You may be able to get somebody to install solar panels on your building roofs at their expense and you get from free electricity. Also the same with small wind turbines, with no capital outlay for you.

A shooting syndicate may pay you to shoot over your land, although the landlord may retain this right in the rented acreage.

Submission 33

What should this business look like to be competitive in a volatile global market?

The business now has good cost control and makes excellent use of its own resources, but using contractors as necessary. To save costs, it is predominantly running a spring calving system, grazing on forage crops like kale in the autumn to prolong the season. The seasonal nature of production is suited to cheese production.
It has recently moved into selling its own produce. Richard has set up a cheese factory to use some of the farms own milk and this is proving successful. The Holsteins have been crossed to produce a better grazing animal, and the resultant calves are either sold finished under contract, sold to local butchers as a premium product or sold to local consumers under a box scheme. These alternative enterprises are managed by John, his commercial experience proving invaluable.

Although milk sold to the wholesale buyer is not attracting a premium price, milk can be sold under contract, as well as producing the farms own cheese. With the new emphasis on localism, the farm is gradually becoming protected from exposure to the world market.

How does this business pass from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

This farm calls for three incomes, an enormous challenge under the circumstances. Richard agreed to use his own money to develop the new cheese enterprise, which also attracted grant. Using his commercial experience he was also able to source a profitable contract with the nearby service station, which uses local food. The beef enterprise has also been developed, so sales are local and attract a premium.

The extra income meant that Tom could return home to run the dairy enterprise.

The long term loan on the farm was extended to provide help with a new home for Alison.

The two brothers are now in full partnership with the parents which would pass to the two brothers in the event of both parents death.

Nationally, the process of succession can be fraught, even where there is a willing successor. The value of land is now so high that parents are afraid that a marriage break up might jeopardize the future of the business. This caution generally leads to procrastination; children are brought into the financial side of the business too late to be able to make changes while they are young and fit enough to carry them out.

How can this business get through to the next upturn in prices and how can it reorganise to have long term stability?

Although this business is well served by acreage, its feed costs are very high compared to yield. It needs to make more use of its own resources; a spring calving system would help maximise grass use, and better use could be made of home grown cereals, providing home grown straw as well as corn; forage crops like kale could be used to extend the grazing season. Richard could embrace localism, by moving into producer retailing, his commercial experience helping with research, development and marketing. He would agree to use his own resources to set this up, in return for future land ownership.

This business suffers greatly from adverse cash flow in the current period. Borrowing should be restructured, so that there is less strain on the current account, possibly using a secure lender like AMC, as there is plenty of land for collateral. This would also free some capital to help buy out the sister. The extra land with its high rent has been a drain, leading to understocking on the home unit. It might be wise not to renew the rental agreement

Tom would come back to manage the dairy herd with the agreement that he would be have a quarter share in the family partnership, as he would then have a future and secure place in the business. This would economise on hired in wages. Long term agreement on housing for Tom and Richard would also have to be thought out. An extra farm enterprise would make a new dwelling more feasible.

IF this is representative of a typical family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can it be improved?

The family farm structure has been very resilient over the centuries, its continuation due to the individual's love of his land, stock and independent way of life, together with a dogged determination to remain farming at all costs.

There is now extreme price pressure in the dairy industry, farmers are buckling down and hanging on leaching cash. The squeeze on milk prices may be too drawn out for some; unable to pay bills or get merchants credit, they will be forced from their farms, or at least from the industry.

The industry was very static under the Milk Marketing Board, and there was little incentive for market development, but the industry was very stable. Now, the co-op principle has been undermined and processing is largely in the hands of foreign buyers.

We have a market of 70 million people in the UK, and we need to sell to them, with as much premium produce as possible. Where farmers have diversified into premium produce, as in the South West, Government support to provide capital grants together with promotion of the regions' produce would be very welcome. If the concept of localism, restriction of food miles and unique products becomes increasingly popular, this can only help UK farmers by taking off the pressure and insecurity that comes from supplying a global market.

Submission 34

What should this business look like to be competitive in a volatile global market?

1. History

- Proportional Analysis indicates a consistent over spend in variable costs, with an average spend of over 50% (Target 30%).
- Included in this is an average spend on feed of 12 ppl. Combined with poor forage utilisation (less than 2,000 litres from forage).

	2010	2011	2012	2013	2014	2015	2016	Target
	%	%	%	%	%	%	%	%
Output	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Variable Costs	48	48	49	54	44	46	61	**30**
Gross Margin	**52**	**52**	**51**	**46**	**56**	**54**	**39**	**70**
Labour, Power & Machinery	30	28	29	27	23	23	27	**34**
Administration	7	6	6	5	5	5	6	**6**
Rent & Finance	14	6	5	4	10	9	11	**15**
Profit/Loss	**2**	**12**	**12**	**10**	**18**	**17**	**-6**	**15**

- The farm has historically employed three people producing an average of 348k litres per man, a Key Performance Indicator for dairy farms is 600k litres produced per labour unit

2. Current

- Rearing the beef stock has failed to increase profits, but increased demand on labour.
- The business has only reached profit targets in the two years of high milk price.
- The last three years has seen a net cash decrease of £110,860. If this is repeated in the following three years the bank overdraft will be circa £250k in 2019 and the balance sheet would be considerably weaker.

	2010	2011	2012	2013	2014	2015	2016	2019
Net Worth (£'000)	840	846	848	849	893	920	854	794
Business Equity (%)	74	74	74	73	76	75	69	64
Gearing (%)	31	30	28	27	24	22	22	19
Current Ratio	5.07	5.29	3.58	2.68	4.04	2.86	1.63	1.05

3. Future

- This business does have strengths and opportunities to which can be seen in a SWOT analysis in appendix 1. These include
  - The opportunity for change
  - Increasing the technical performance of farm
  - Consistence profits above the convention target of 15%
- The family needs to quantify what they want out of the business and put in a system that provides it. Opposed to no plan and just taking what is left at the end of year.
- Implementing grazing management and increasing forage utilisation to achieve a benchmark of 3,500-4,000 litres from forage (dependant on system), will decrease the requirement on purchased feed saving upwards of £90k per year (Based on 1.9t per cow at £200/t).
- A block calving system would naturally help improve forage utilisation, and contribute to decreasing other variable costs. Spring, autumn or a split block will depend on environmental and marketing factors in the area.
- The right system that controls costs at 30% of turnover will increase profits to an average of 29% (Based on current overhead cost). Providing the cash to cover the business's requirements for drawings, tax and returns on capital/capital repayments.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding the British dairy farming business back and why is that the case?

- Land ownership itself is not holding back British dairy farming, the idea of entitlement and inheritance.
- The business structure can be set up to help pass it from one generation to the next. What structure it takes will depend on the financial investment and involvement from parties, including other family members.
- Succession planning needs to be discussed prior to its implementation. The thoughts and wishes of all those who are to be involved need to be understood, so appropriate measures and structures can be put in place.

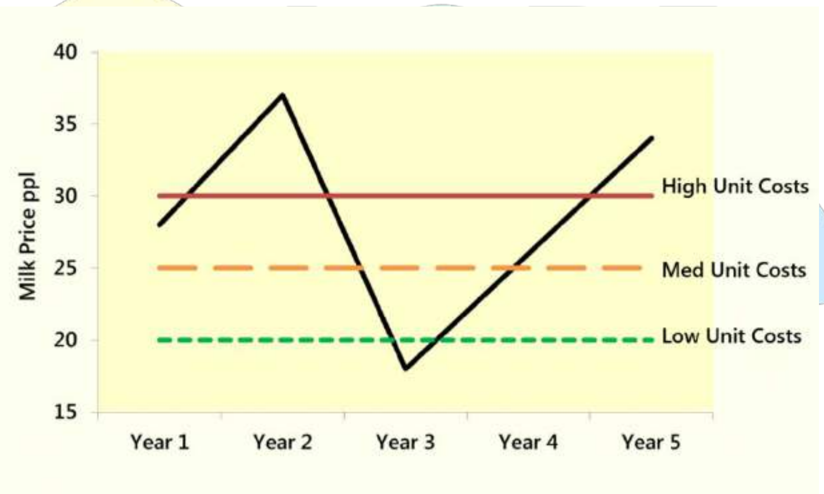
- Provisions should be in place for the parents' retirement as they could sell off the land and use the money as their pension fund. As seen in other countries.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

- Move to a lower cost system, where by the variable costs can be controlled.
- A block calving system will simplify the business. Focusing the labour on one objective at a time .e.g. calving, serving etc.
- Focusing on dairy production and dropping the beef enterprise will help the labour requirement of the business.
- In the short term selling off the beef stock will provide cash to modernise the farm house and contribute to the daughter's new home.
- It is important that the ethos of the business is about generating profits rather than yields.
- This business needs to ensure it is producing a commodity that the local processors require. As the industry shifts towards solids based contracts this business must be in a position to service this.
- A low cost grazing system will be better place to provide this profitably.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

- In the dairy industry there still exists a mind-set of chasing yield and output opposed to profit. This has to change.
- A lot of farms are unsure of their systems, whether they are high input/high output or low cost.
- The composite systems in the middle end up being high input without the high output, which in the volatile market place, is a very high risk position to be in.
- Lower cost systems will always be more resilient in a volatile environment as the graph below demonstrates.



- Where there are significant resource constraints, (land, location, etc.) alternative systems need to be considered. Such as milking once a day, significantly reducing the cost base, and family members taking on part-time or even full time work off the farm.
- The UK dairy industry has a number of milk processors some with stronger business models than others.
- Moving milk around the country from areas of over supply to areas of under supply, suggests the structure and organisation of the dairy sector has flaws, as milk travelling excess miles adds costs to the process.
- The industry may be better off if there was just a couple big processors remaining, such as Arla and Müller-Wiseman, alongside the specialist/added value processors.
- This could potentially create a more consistent, stable and efficient UK dairy industry.
-

Appendix 1 - SWOT Analysis

Strengths	**Weaknesses**
- 200 ac of owned ring fences land - Son with good head for figures and another that is good with livestock - Modern buildings - History of profits - Rented land next door - Lower overhead costs	- Layout of buildings/cow flow - Lack of field infrastructure - High feed costs - Labour efficiency - No pasture management - Technical performance - Beef not generating profit - Limited slurry storage - A weakening balance sheet - Low returns for investment
Opportunities	**Threats**
- Growth of dairy herd - Lower variable costs - Higher returns for investment - Increase forage efficiency - Grazing platform for 275 cows plus replacement	- No change - Longevity of FBT - Commodity contract - Sustained period of lower milk prices - Limited slurry storage - Relationship between brothers

Submission 35

What should this business look like to be competitive in a volatile global market?

At the present time the business is concentrating on increasing size & yield of the herd. However the farm is in area where the milk is going on the commodity market. The forecast for commodity prices is not good next couple of years. The farm farm needs to look at its costs and make best use of the land. Is the beef enterprise really a sensible add on to the main business since there seems to be a lack of farm buildings?

I would suggest changing from all the year round calving to two split herds, autumn & spring herd to make better use of forage. Steps need to be taken to improve grassland managements. Eg. Paddock grazing system. Could a high energy silage, such as wholecrop wheat and a high protein silage, such as red clover be made. The silage advisory centre has lots of information. For example “The cost saving per ha/annum of a red clover silage sward - compared to a perennial ryegrass sward with 200kg of N fertilizer applied - is in the region of £103, with no reduction in forage yield.”

Are they really breeding replacements from the best cows? Cows which calve regularly without health issues may be more profitable than high yielding cows. The AI budget could be better controlled by using a mixture of young unproven bulls & old high reliability bulls. Supplying milk to the commodity market, would suggest that higher milk solids would be desirable. Cross breeding might be considered. Eg. Using a mix of Holstein Friesian Genetics e.g. New Zealand Friesian, British Friesians & Holsteins, or Holstein, Brown Swiss, Scandinavian Reds & Jersey.

They should think about what beef breeds to use on their cows. A wise neighbouring farmer when Continental beef breeds were becoming popular in the UK said “You don't something for nothing”. Easy calving Herefords such as from the Ervie herd or Beef Shorthorn.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

The parents lack of trust in their sons is a problem. If they are not going to trust their sons, the only solution is to sell the farm, the parents take what they need then give the rest equally to their sons and daughter. However I hope they would be trust both sons and make them partners in the farm business. The partnership agreement would make it it clear of the responsibilities of all the partners in the business. This would give them more incentive to run the business in a profitable way. Would Tom come back & work on the farm replacing the employed staff if he was involved in the management? It would seem that John would be best suited to managing the finances of the business & Tom to management of the dairy herd.

The next step would be to hand over some of the ownership of the land to the sons. This would mean if the parents retired and left the business partnership they could still have an income from their share of the farm, from rent from their sons. The parents wish to help their daughter purchase a house. John has £100,000 if the parents sold some equity in the business to John giving them some cash to pass to their daughter to use as a deposit on a house. They could then pay a yearly sum to the daughter to help pay the mortgage

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

The farm is in need of extra cashflow and John is in need of more farming experience. I would suggest he does some work for a local contractor and or some relief milking, giving him extra income, he would also experience of a range of different farms. This should help provide ideas for improving the set of the farm.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?
There are several flaws in the Dairy industry.

1. The lack of trust in offspring, with a reluctance to hand over control or partial ownership for fear of divorce etc.
2. The only way to make more money is to increase herd size and/or cow milk yield.
3. Poorly designed housing & milking facilities increase stress on cows & staff.
4. Maize Silage is overrated. It is grown on unsuitable land, it encourages rodents, badgers & birds which can be health risks. This winter tonnes of top soil has been washed away from maize fields.
5. Farmers don't work together. For example neighbouring dairy farms supplying different dairies. Also lack of effort to work together to improve health of cattle. e.g. by getting rid of BVD.
6. Make rash purchases to reduce tax liability, instead of planning for the future.

I would like to see a major reorganisation of how farms supply milk to dairies. This would group farms situated closer to dairies cutting down on transport costs. If farmers produce more milk than forecast, marginal litres should only paid for at the end of the year at the market rate.

Farmers should choose Accountants, Bank managers, Vets etc more carefully and make sure they are providing value for money and are providing suitable advice for their situation.

Submission 36

How can this dairy business better handle volatility?

Consider diversifying into Renewables e.g. borehole with ground source heat to reduce overheads or value added project for milk or meat or if in suitable are cafe/farm shop.

A grazing system needs to be established and they need to consider their climate and if Holstein Frisians are the best breed for this system? It might improve the length of grazing if they cross breed to montbeliarde or fleckvieh maybe and improve butter fat and protein if their milk contract pays on them, along with adding value to calves.

How does this business improve performance long term to accommodate the next generation?

They must sit down and discuss the options and a partnership agreement asap. I think Mum & Dad should hold 50% share of partnership and all ownership for now with a view to gifting ownership to sons in due course but this must be reviewed at least yearly. Tom and John 25% share in partnership only for first 5 years then reviewed on merit.

Each son should look at which area of the business they can best manage eg John Business management and tractor/land work and Tom manage the stock and dairy herd and make themselves sit down every week for a business meeting with Mm & Dad to review how things are going and any changes ideas be shared
I think Mum & Dad need to arrange to help Alison purchase a house as her pay out of the farm.

What is fundamental flawed with the UK Dairy Industry and how can we fix it?

In my view our milk contracts are not fit for purpose and the supply chain is not functioning in a sustainable way. Dairy Farmers are very resilient and resourceful and this is being tested to the extreme in the current market.

We need a government who full understands how our industry works and respects what we do, feed the nation and beyond, manage the environment including flood prevention and supporting a rural economy.
With the removal of milk quotas we need some form of supply and demand monitor to create a sustainable market place, a cap on Dairy imports would be worth exploring too. Its crazy to import what we can produce, most Dairy companies demand an upfront production profile and there are penalties in place for some if they don't produce to these profiles and I think the same dairies have let producers down by not managing the predicted supply efficiently and turning to producers and telling them they are over producing!!

Its time Dairy Farmers had some control over the price they sell their milk at, I am not sure how this can evolve but it must if UK wants to have fresh quality milk and a thriving rural community we are all proud of.

Why are the UK not working with European Dairy Board they have a supply and demand monitoring system they are trying to launch which we should be looking at.

Submission 37

What should this business look like to be competitive in a volatile global market?

In the continuing absence of a Milk Marketing Board with statutory backing to price milk fairly between all the supply chain parties on a cost – plus basis for all producers, large or small, the sensible business family decision should be to quit dairy farming, get rid of all debt, stop buying fertiliser and use or let out the land to be farmed well, all grass but at a low level of intensity. Producing more increases losses.

The long and short of it is that selling at wholesale prices, so – called commercial farming in Britain is unviable and without SFP is a guaranteed loss maker. Unavoidable fixed costs make so – called commercial farming in Britain at world prices completely unviable. Cheap food comes at a price. Consumers have been subsidised by farmers for far too long. The solution is political, not economics, but don't hold your breath!

Submission 38

Sell all the cows – 180 at £1,000 each	£180,000
Sell all the followers - 90 at £700 each	£63,000
Sell all machinery & dairy equipment	£50,000
Pay off the bank and start afresh	
Now borrow £150,000	
Buy 1,300 ewes at £110 each	£143,000
Buy small tractor, fertiliser spinner and transport box	£7,000
1,300 ewes at 140% lambing	£1,820
1,820 lamb at £65.00 per lamb	£118,300
Single Farm Payment	£30,000?
Take in 4 horses for livery	£4,000
Let out spare buildings for storage if possible, Total sales	£152,300

Put in planning permission for a bungalow for Mum and Dad to live in when they retire in three years.

Take out a mortgage for - £100,000.

The Dad and two sons can build the bungalow with the help of a good tradesman, in between their farm work. Then give the bungalow with 10 acres to the sister after Dad passes away, that will be her share.

One son can work on a sheep farm for three months – even if the pay isn't good – it will give him some knowledge, you boys will be left with 210 acres plus the farmhouse valued at 2.5 million.

Give up renting the land – you are better off owing a fowls house of your own than a mansion of someone eles, you shouldn't have any borrowing from the bank in three years and mortgage won't be a lot by then, if you can't manage now THEN SELL UP!

Submission 39

What should this business look like to be competitive in a volatile global market?

Self sufficient and not reliant on a single buyer! They need a broad base of buyers of their product (milk)

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

They must hold onto their assets – they are extremely vulnerable to losing them at present. You could take the view that the bank has to protect investors funds or that they are circling like vultures waiting for a chance to home in on them! Either way it does not look good for next year for this family.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

This farm is essentially in dire straits with financial commitments and a hard core 100k overdraft there is a danger their bank could pull the rug from under their feet and plunder their assets which they must realise will be targeted without mercy! I suggest they diversify ASAP! My suggestion is they start an ice cream business.

Taylors produce good ice cream making equipment and there are Italian suppliers too. The potential profits are huge. They should get Tom back to milk the cows and produce raw product (milk) for John to produce into ice cream and market and sell locally, then nationally as the product grows. Robert and Heather can help the project up and running. John has capital he could invest. They should look at selling some of their land to their pension fund if they need more capital and bank will not help. Robert and Heather should provide land for Alison and partner to build a home. Likewise homes on the farm for John, Robert, Heather and Tom could take over the farmhouse. John could pay Tom a fair price for the milk he produces.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

What is flawed uis that British supermarkets are not prepared to pay for their loss leader products! Nothing will change until Aldi and Lidl became big enough to take over the supermarket leaders. This could take years. This family will busy way before then. They need to create their own market for the product they produce. Cheese takes months to prepare. Ice cream takes a morning! Air whipped into the product will extend the milk and help pay for the coconut/carmalised roast peanuts etc to be added. They need to set up a facebook page (free), go into town with some freed samples and get the public to write reviews on facebook. Enter some competitions. Attend agricultural and other shows. If they rise to the challenge they turn their lives around.

Submission 40

What should this business look like to be competitive in a volatile global market?

Over the past few decades the Kidworths' appear to have consolidated their dairy business, only increasing the herd when there was a need to support an additional family member (initially Tom, now John) and this did not increase cashflow due to the decrease in stock value, however they have modernised their buildings. As Robert inherited the farm and has not bought further land, he has not had to focus on profitability which may have led to a degree of complacency and the question arises as to why there is a bank loan.

Things may change now that John is influencing decisions. If he is dedicated to the future of the farm he needs to be made a partner and invest his £100k in the farm. This could be used to increase the milking herd, which will in turn increase revenue - all businesses need to be progressive. Kidworth Dairy has good buildings to accommodate an increase and plenty of forage but they will have to consider how they manage their pastureland. Also they will need to consider their slurry storage capacity if the herd increases.
The only way to be competitive is to be efficient and well managed by someone with a keen business brain, analysing their margins, yields and expenditure and making changes where required. They must find out about changes in the industry, attending meetings and training and they need to keep on top of their record keeping and profiling. Also there is need for good negotiation skills to ensure the best deals from suppliers and they need to discuss dairy concentrates, other feeds and rations with their feed rep. with a view to increasing yield.
In this business John is the person with the skills required, however the business also needs someone who really knows and understands the stock, ensuring the animals are healthy, keeping on top of lameness and mastitis; this mightn't be John's forte. Tom may need to be employed as a dairyman/stockman.

How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

Succession and land ownership is holding British dairy farming back because it is a business which relies on production from the land. Owning your own land, rather than renting, gives security for the future. The problem is the extortionate value of land and consequently succession planning is incredibly difficult. In the past, farms were passed on to the child who worked on the farm (usually the eldest son), with very little given to their siblings. Nowadays, as the value of farmland is so high and children who are not on the farm needing financial help to get on the property ladder, inheritance needs to be looked at differently.

With this business, as John effectively manages the farm, he needs to inherit it to encourage his ambitions for the farm and this is the only way to ensure 'succession'. However a clause would be advisable of a 3 way division of sale price, if he sold the farm within 5 years. As long as it wasn't financially crippling, a sum equal to a small property should be given to Tom and Alison. This may seem hard on Tom, as he used to work on the farm, however he hasn't got the business acumen to run the farm and although it may not be the case, he should be earning a decent wage working on another farm. It would also be prudent to 'pay off' Alison at an earlier point when she needs help purchasing a property. This arrangement may also be useful to Tom at a future date.
It's good that Robert is in the position that his inheritance from his parents is sorted. His parents generation did things differently, often passing the farm to the farming child and purchasing a home to retire in, which in turn would be inherited by other children. This may be where Robert's bank loan stems from.

How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

Hopefully John's drive will help the business get through the current unsettled period. It is a shame that his interest until latterly was purely academic. If he had done an agriculturally related degree it would have been far more advantageous as farming is very different from any other 'business'. The farm may have to look at diversifying, possibly looking at making dairy products e.g. yogurt or ice-cream or as they are not heavily stocked find room for caravans, camping or even building yurts. John is well equipped to work out the finances involved.

If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?

This farm is representative of a typical UK family dairy farm but it doesn't follow that the industry is necessarily flawed. The structure of society has changed. Although traditional family farms with low stocking rates may seem idyllic, this is no more than sentimental nostalgia. Some older farmers see their farm and associated property as a burden and feel sorry for themselves. This attitude must seem unreasonable to those wishing to start in farming and/or needing to purchase land. As with all businesses success comes down to making the right decisions, not being sentimental and valuing what you have including your land, stock and your most important asset, your workforce.

Some Feedback on the Case Study

Mole Valley Farmers, a farmer owned business has been delighted to support the Agrihive initiative Utilising the fictional Kidworth Dairy Farm as a case study to identify the challenges and opportunities facing the family was a unique way of approaching a situation many farmers are facing currently.

The case study generated a huge amount of interest & resonated with many in the agricultural sector, with entrants having to consider cash flow & successional issues. Whilst change is inevitable in any business, it can cause considerable anxiety for those having to face changes to their business.

The Agrihive initiative enabled people to review the farm business and propose alternative business propositions and directions to maximise the farm's opportunities, with many entrants stating that it was easier to suggest changes to someone else's business rather than their own!

Congratulations to the winner and to the Agrihive team for taking such a refreshing & proactive approach on such an important issue-the future of UK Agriculture!
(Andrew Jackson CEO Mole Valley Farmers)

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William Duncan & co is a firm of Chartered Accountants specialising in Agriculture. The team at William Duncan & Co is lead by Directors and managers "born and Bred" in farming who have a real passion for the industry. It is vital that we understand our clients' needs today to prepare them for the challenges of tomorrow and the future. Our farming clients can rely upon us for specialist knowledge and in-depth understanding of the industry, markets and volatility.

The firm was delighted to sponsor the Agrihive project. The Agrihive initiative was based on a fictional case study which encompassed so many issues challenging the farming industry in the UK today. I am sure everyone reading the case study would identify with many aspects affecting them directly in real life. We are engaged with our clients day to day assisting them to work through the short, medium and long term strategies to help achieve their long term goals and create a reasonable and aspirational day to day existence – not always easy particularly at the moment.

Congratulations to the winners for developing options and suggestions which covered the issues faced by the Kidworth family and for thinking "Out of the Box" which is vital in todays world.

- -

"Good Evening, I've been following the UK Agrihive project over the last few months with interest. Here is my entry. I'm a farmers son working on the family dairy farm with a number of similar issues to Kidworth. I look forward to reading the winning entries, particularly those from individuals not directly involved with the industry".
(Young Scottish Dairy Farmer)

- -

"Really enjoyed your case study! It definitely rings bells!"
(Midlands Dairy Farmer)

- -

"Can I just say how much debate this has stimulated. My wife went to skittles on Monday night, the day the newsletter arrived and it was the hot topic. There then followed an in depth reading and analysis of the study by both of us.(It's easier to look at someone else's problems!) I hope it generates some useful output. The trick then of course is to be able to put this into action. I would like to say am a bit disappointed that suggested running a competition along similar lines at dairy board but didn't get any traction. So best of luck and I will make sure submit ours and look forward to the feedback!"

(Southern British Dairy Farmer)

'This is a great initiative with so much mileage – people are beginning to ask what are the proposed next steps." - (Farm Consultancy Firm)

- -

"I ran a workshop this morning with the Marketing team (many have little or no agri background) but they reviewed the Kidworth case study, completed a SWOT on the business and then in teams of 5 produced a range of proposals/ideas on how the farm could move forward. There were some great suggestions – ranging from having a formal business structure in place, diversification, change in focus, to selling the whole thing and realising the value (£2.2m)!!!"
(Large Corporate Firm)

- -

I found the above most entertaining and it's just what I need at the moment.
(Dairy Farmer Cumbria)

- -

This has had me thinking all weekend and I don't have the financial expertise at all to tackle the conundrum in any depth. But I have had a stab at it…

Can't wait to see what other people come up with!
(UK Dairy Farmer)

- -

"Please find my completed comments and thoughts on the challenges facing KIDWORTH DAIRY FARM. I was from outside farming; became a tenant dairy farmer then an Owner Occupier; Now I'm semi-retired"
(Dairy Farmer, Eastern UK)

James Walker – Founder Agrihive
@jamesjumbuck

In summary the UK Kidworth Dairy initiative was bought about to create real impact on the financial situation surrounding Dairy Farmers in the UK. Through empathy and understanding of the grass roots issues this is only when we truly can help one another deal with 'crisis points' in food and farming around the World. The Kidworth Case Study has been the focal point for this and I am humbled by and applaud everyone for their efforts in contributing to solve this crisis point in UK farming. The committee has been flawless in their intent and individually they contribute to the UK Dairy industry with the weight of giants.

The core issue in an array of issues raised was cost of production. Those that understand their costs understand their business. These farmers are then accountable in their activities – they make decision to pursue revenue generating activities for the profitability of their Farm. Once the cost of production was raised as the issue I wanted to share the following to reveal some effects of spending habits from an Australian perspective.

"Running on the Smell of an Oily Rag"

If a car or tractor runs on the smell of an oily rag' it means it is very efficient, requiring a minimum amount of fuel. In agriculture if we are not aspiring to; we often know of friends or neighbours running their businesses on the smell of an oily rag. This translates to having the lowest possible input and maintenance costs. Tom Brinkworth is synonymous with this and the most well-known example of this is Sir Sidney Kidman who pioneered an Australian pastoral empire in the early 1900's and to today is still the largest land holding for agriculture in the world. This is where the name 'Kidworth' originates from - the success of these two pastoralists in the most climatic variable continent in the world. Tom and Sydney's mastery came from having a complete control and understanding of their expenses whilst they pursued increased production.

So with great interest I want to explore this approach with you and I have done some background research to whether this way of operating a farming business is sustainable, with repeatable profits?

The Kidworth Case Study is designed to explore new possibilities for primary food production as we need to explode new ideas into Agriculture if we are to reverse the declining terms of trade for farmers.

So what does that oily rag look like? And if profitable where does it apply and how do we pursue or acknowledge it?

Well to get started let's look squarely at cash flow. The simple theory of free operating cash flow in Agricultural production is converting available resources to saleable product in the cheapest possible manner.

Remember there are three major mechanisms to adjust operating cash flow:

1. Sell More
2. Spend Less and
3. Penetrate the Value chain

So if we target spending less excessively, let's look at the habits of one of the world's greatest ever investors; Warren Buffet.

"If you buy things that you don't need, you will soon sell things that you need". - Warren Buffett

Warren creates a true and very real distinction in decision making on expenditure.

He is often referred to as one of the world's most prudential business minds and conservatively lives in the same house in Omaha, Nebraska, that he bought in 1958 for $31,500(USD). Buffets company, Berkshaw Hathaway, is estimated to be worth $200 billion dollars and employs over 260000 people.

It was once reported that whilst playing golf with a major banking executive from New York, Mr Buffett was asked on a par three;

"Mr Buffett, I will give you $5000 dollars if you get a hole in one on this short par three….. the bet is if you miss you give me $5".

Stepping away from the ball, Warren thought for a brief moment and responded; "If you make your wager $250,000 you have a deal!"

"Why $250,000?" The banker exclaimed.

"Well I believe I have a 1 in 50000 chance, not a 1 in 1000 chance of getting a hole in one, so they are the odds I'm willing to bet". The banker a bit thrown back said "what does $5 matter, you have billions of them?"

Warren simply replied **"If you are Dumb Small……….You are Dumb Big**" and the banking executive withdrew the offer. Meaning if you don't spend small amounts of money wisely you will never spend large amounts wisely.

This statement echoes through all personal habits and business cultures that exist around Berkshaw Hathaway and is greatly encouraged for creating a sustainable and profitable business.

To compete in the global marketplace it is important in farming to be well placed with low cost of production. This is why in Agriculture we need to form habits around our spending – not our personal spending which is the instant focus but our business spending.

Where Buffet's spending behaviour; like Kidman's, has yielded great wealth is through an effect called 'compounding'. This effect of accumulated unspent money accruing continually will convert to quite considerable wealth.

Let's look at the phenomenon "Coffee" that is sweeping the world at the moment and what it is costing in potential wealth to the individual.

In the following tables I can only speak from an Australian perspective but this is some of the effects of initially a personal spending habit followed by two business habits. Let's assume an individual buys two Coffees at $5.00 per coffee which is $10 per day, $50 dollars per week not including weekends and $2500 dollars per year and two weeks holiday. What is that actually going to cost over 25 years compounding?

Coffee Expenditure Table

Year	Year Deposits	Year Interest	Total Deposits	Total Interest	Balance
1	$ 2,499.60	$ 196.65	$ 4,999.60	$ 196.65	$ 5,196.25
2	$ 2,574.60	$ 336.66	$ 7,574.20	$ 533.30	$ 8,107.50
3	$ 2,651.88	$ 487.73	$ 10,226.08	$ 1,021.03	$ 11,247.11
4	$ 2,731.44	$ 650.54	$ 12,957.52	$ 1,671.57	$ 14,629.09
5	$ 2,813.40	$ 825.82	$ 15,770.92	$ 2,497.39	$ 18,268.31
6	$ 2,897.76	$ 1,014.33	$ 18,668.68	$ 3,511.73	$ 22,180.41
7	$ 2,984.64	$ 1,216.87	$ 21,653.32	$ 4,728.60	$ 26,381.92
8	$ 3,074.16	$ 1,434.29	$ 24,727.48	$ 6,162.90	$ 30,890.38
9	$ 3,166.44	$ 1,667.49	$ 27,893.92	$ 7,830.39	$ 35,724.31
10	$ 3,261.48	$ 1,917.42	$ 31,155.40	$ 9,747.81	$ 40,903.21
11	$ 3,359.28	$ 2,185.07	$ 34,514.68	$ 11,932.88	$ 46,447.56
12	$ 3,460.08	$ 2,471.50	$ 37,974.76	$ 14,404.38	$ 52,379.14
13	$ 3,563.88	$ 2,777.83	$ 41,538.64	$ 17,182.21	$ 58,720.85
14	$ 3,670.80	$ 3,105.22	$ 45,209.44	$ 20,287.43	$ 65,496.87
15	$ 3,780.96	$ 3,454.93	$ 48,990.40	$ 23,742.36	$ 72,732.76
16	$ 3,894.36	$ 3,828.25	$ 52,884.76	$ 27,570.60	$ 80,455.36
17	$ 4,011.24	$ 4,226.56	$ 56,896.00	$ 31,797.17	$ 88,693.17
18	$ 4,131.60	$ 4,651.34	$ 61,027.60	$ 36,448.50	$ 97,476.10
19	$ 4,255.56	$ 5,104.10	$ 65,283.16	$ 41,552.60	$ 106,835.76
20	$ 4,383.24	$ 5,586.47	$ 69,666.40	$ 47,139.06	$ 116,805.46
21	$ 4,514.76	$ 6,100.15	$ 74,181.16	$ 53,239.22	$ 127,420.38
22	$ 4,650.24	$ 6,646.96	$ 78,831.40	$ 59,886.17	$ 138,717.57
23	$ 4,789.80	$ 7,228.78	$ 83,621.20	$ 67,114.95	$ 150,736.15
24	$ 4,933.44	$ 7,847.62	$ 88,554.64	$ 74,962.58	$ 163,517.22
25	$ 5,081.40	$ 8,505.60	$ 93,636.04	$ 83,468.17	$ 177,104.21

Regular Deposit Calculation   Effective Annual Rate: 5.12%
Base amount: $2,500.00   Calculation period: 25 years
Interest Rate: 5%   Yearly deposit inflation increase: 3% (Interest compounded **monthly**)

Now we can take a look to the cattle industry on a small scale

NLIS TAGS 500/year SAVING 50 CENTS PER TAG

(interest compounded **monthly** - added at the end of each month)

Year	Year Deposits	Year Interest	Total Deposits	Total Interest	Balance
1	$ 250.00	$ 19.67	$ 500.00	$ 19.67	$ 519.67
2	$ 257.52	$ 33.67	$ 757.52	$ 53.34	$ 810.86
3	$ 265.20	$ 48.78	$ 1,022.72	$ 102.11	$ 1,124.83
4	$ 273.12	$ 65.06	$ 1,295.84	$ 167.17	$ 1,463.01
5	$ 281.28	$ 82.59	$ 1,577.12	$ 249.76	$ 1,826.88
6	$ 289.68	$ 101.43	$ 1,866.80	$ 351.19	$ 2,217.99
7	$ 298.32	$ 121.68	$ 2,165.12	$ 472.87	$ 2,637.99
8	$ 307.32	$ 143.42	$ 2,472.44	$ 616.29	$ 3,088.73
9	$ 316.56	$ 166.73	$ 2,789.00	$ 783.02	$ 3,572.02
10	$ 326.04	$ 191.72	$ 3,115.04	$ 974.74	$ 4,089.78
11	$ 335.88	$ 218.48	$ 3,450.92	$ 1,193.22	$ 4,644.14
12	$ 345.96	$ 247.12	$ 3,796.88	$ 1,440.33	$ 5,237.21
13	$ 356.28	$ 277.74	$ 4,153.16	$ 1,718.08	$ 5,871.24
14	$ 366.96	$ 310.48	$ 4,520.12	$ 2,028.55	$ 6,548.67
15	$ 378.00	$ 345.44	$ 4,898.12	$ 2,373.99	$ 7,272.11
16	$ 389.40	$ 382.76	$ 5,287.52	$ 2,756.76	$ 8,044.28
17	$ 401.04	$ 422.59	$ 5,688.56	$ 3,179.35	$ 8,867.91
18	$ 413.04	$ 465.06	$ 6,101.60	$ 3,644.40	$ 9,746.00
19	$ 425.40	$ 510.32	$ 6,527.00	$ 4,154.73	$ 10,681.73
20	$ 438.12	$ 558.55	$ 6,965.12	$ 4,713.27	$ 11,678.39
21	$ 451.32	$ 609.90	$ 7,416.44	$ 5,323.17	$ 12,739.61
22	$ 464.88	$ 664.57	$ 7,881.32	$ 5,987.74	$ 13,869.06
23	$ 478.80	$ 722.74	$ 8,360.12	$ 6,710.48	$ 15,070.60
24	$ 493.20	$ 784.60	$ 8,853.32	$ 7,495.08	$ 16,348.40
25	$ 507.96	$ 850.38	$ 9,361.28	$ 8,345.47	$ 17,706.75

Regular Deposit Calculation
Base amount: $250.00
Interest Rate: 5%

Effective Annual Rate: 5.12%
Calculation period: 25 years
Yearly deposit inflation increase: 3%

OVERDRAFT 1.5% VARIANCE BETWEEN BANKS on $500,000
(interest compounded **monthly** - added at the end of each month)

Year	Year Deposits	Year Interest	Total Deposits	Total Interest	Balance
1	$ 7,500.00	$ 589.98	$ 15,000.00	$ 589.98	$ 15,589.98
2	$ 7,725.00	$ 1,010.06	$ 22,725.00	$ 1,600.04	$ 24,325.04
3	$ 7,956.72	$ 1,463.34	$ 30,681.72	$ 3,063.37	$ 33,745.09
4	$ 8,195.40	$ 1,951.85	$ 38,877.12	$ 5,015.22	$ 43,892.34
5	$ 8,441.28	$ 2,477.76	$ 47,318.40	$ 7,492.98	$ 54,811.38
6	$ 8,694.48	$ 3,043.37	$ 56,012.88	$ 10,536.35	$ 66,549.23
7	$ 8,955.36	$ 3,651.07	$ 64,968.24	$ 14,187.42	$ 79,155.66
8	$ 9,224.04	$ 4,303.43	$ 74,192.28	$ 18,490.85	$ 92,683.13
9	$ 9,500.76	$ 5,003.13	$ 83,693.04	$ 23,493.98	$ 107,187.02
10	$ 9,785.76	$ 5,753.01	$ 93,478.80	$ 29,246.99	$ 122,725.79
11	$ 10,079.28	$ 6,556.08	$ 103,558.08	$ 35,803.07	$ 139,361.15
12	$ 10,381.68	$ 7,415.49	$ 113,939.76	$ 43,218.56	$ 157,158.32
13	$ 10,693.08	$ 8,334.59	$ 124,632.84	$ 51,553.16	$ 176,186.00
14	$ 11,013.84	$ 9,316.91	$ 135,646.68	$ 60,870.06	$ 196,516.74
15	$ 11,344.20	$ 10,366.15	$ 146,990.88	$ 71,236.21	$ 218,227.09
16	$ 11,684.52	$ 11,486.25	$ 158,675.40	$ 82,722.47	$ 241,397.87
17	$ 12,035.04	$ 12,681.35	$ 170,710.44	$ 95,403.82	$ 266,114.26
18	$ 12,396.12	$ 13,955.82	$ 183,106.56	$ 109,359.64	$ 292,466.20
19	$ 12,768.00	$ 15,314.26	$ 195,874.56	$ 124,673.91	$ 320,548.47
20	$ 13,151.04	$ 16,761.54	$ 209,025.60	$ 141,435.45	$ 350,461.05
21	$ 13,545.60	$ 18,302.78	$ 222,571.20	$ 159,738.22	$ 382,309.42
22	$ 13,951.92	$ 19,943.37	$ 236,523.12	$ 179,681.60	$ 416,204.72
23	$ 14,370.48	$ 21,689.03	$ 250,893.60	$ 201,370.63	$ 452,264.23
24	$ 14,801.64	$ 23,545.76	$ 265,695.24	$ 224,916.39	$ 490,611.63
25	$ 15,245.64	$ 25,519.90	$ 280,940.88	$ 250,436.29	$ 531,377.17

Regular Deposit Calculation
Base amount: $7,500.00
Interest Rate: 5%

Effective Annual Rate: 5.12%
Calculation period: 25 years
Yearly deposit inflation increase: 3%

As you can see there is some significant costs in our habits once compounded, however if we were prudent 25 years ago it would be nice to pick that amount up as a buffer during droughts or times of high price volatility. It is important to consider these habits in farm inputs to ensure we capture as much profits as possible. If this exercise is cast throughout the business it would yield some significant savings.

*"**Chains of habit are too light to be felt until they are too heavy to be broken**".* – Warren Buffett

With business people like Buffet, Kidman and Brinkworth; every potential transaction is met with a frugal and prudent analysis. So the thought process for any expenditure or spending has a real discipline; that ultimately forms habit.

Although there are more ways to affect the profitability of an agricultural enterprise than saving, it is vitally important to monitor spending. Spending has many manageable layers and due to Agriculture having many inputs that contribute to production the only way expenditure can be monitored is due diligence. The next step is to analyse each physical transaction thoroughly before spending, these three questions will help your final decision;

1. Do I really need this?
2. Am I overspending?
3. Can I save some money without compromising on the value I want from this particular product/service?

If you would like to analyse your business performance and review costs please get in touch james@agrihive.com I can share some tips or please get in touch with one of your professional advisors or consultants; there are some extreme skills in the committee that surround this initiative.

Thank you for the opportunity from sponsors and farmers to create new initiatives for food and farming,

James Walker
+61(0)428583336