

Two Poor Years – Where do we go from here?

Robert Sullivan

Partner, Farming Department - Morpeth

Two Poor Years – Where do we go from here?



Short Term Issues:

- Background
- Issues Created
- Immediate Options

Long Term Issues

- Background
- Issues Created
- Options to consider

- 2012 was the wettest year ever recorded in England
- The second wettest year ever recorded in the UK
- Highest Arable Commodity Prices (not in real terms)
- Volatile Lamb prices
- Reduced yields ➔ reduced income from Harvest 2012
- Autumn 2012 - Poorly established Winter Crops / Crop Failures
- Significant increase in Spring Crops
- Reduced grass growth/livestock growth in Spring 2013
- Reduced yields/prices ➔ reduced income from Harvest 2013

Tynegrain Tonnages – Meldon Grain Store



Year	Wheat (tonnes)	Barley (tonnes)	Oats (tonnes)	OSR (tonnes)	Beans (tonnes)	Total (tonnes)
2011	12,088	4,147	3,803	4,065	88	24,192
2012	11,116	3,561	2,371	2,822	60	19,929
2013	6,170	5,613	3,266	1,642	0	16,690

- Harvest 2012 18% less than 2011
- Harvest 2013 31% less than 2011

- 2012 – Cashflow pressure from reduced grain sales / delayed livestock sales (£100-£150 per acre below budget)
- 2013 – Cashflow pressure from reduced grain sales / delayed livestock sales (£50-£100 per acre below budget)
- Increased working capital requirements
- Is there sufficient security for your Bank?
- Can the business service the additional debt?

This is an Opportunity to take stock!

- Time to review your objectives – Personal, Financial, Business
- Where do you want your business to go?
- Have you got sufficient capital to achieve this?
- What level of risk are you (and your family) prepared to accept?
- Have you the enthusiasm to continue to drive the business forward?
- Are you looking to expand / retire?
- Does the next generation want to farm?

- Detailed Budgets / Cashflows need to be prepared to justify additional working capital requirements to the Bank Manager
- Do not think you are doing it just for the Bank Manager it is for your benefit too!
- Budgeting enables key questions to be asked and answered:
 - Is the Business Viable?
 - What is the cashflow funding requirement of the Business?
 - Where are the peak cashflow requirements? Can this be evened out?
 - What is the shortfall between what the business requires and what the Bank are prepared to fund?

- If there is a Shortfall:
 - Introducing capital from outside the business
 - Releasing capital from under-performing assets within the business
 - Restructuring of your Enterprise mix / Fixed Cost structure to release capital
- Which option is the most appropriate to you?

Positive:

- Demand for Grain increasing annually (not just Wheat)

Grain Supply & Demand (USDA)

Year	Open Stocks (m tonnes)	Output (m tonnes)	Total Supply (m tonnes)	Total Used (m tonnes)	Close Stocks (m tonnes)
2009/10	453	2,241	2,694	2,203	491
2010/11	491	2,199	2,692	2,231	461
2011/12	461	2,315	2,778	2,309	469
2012/13 Est	469	2,256	2,724	2,278	446

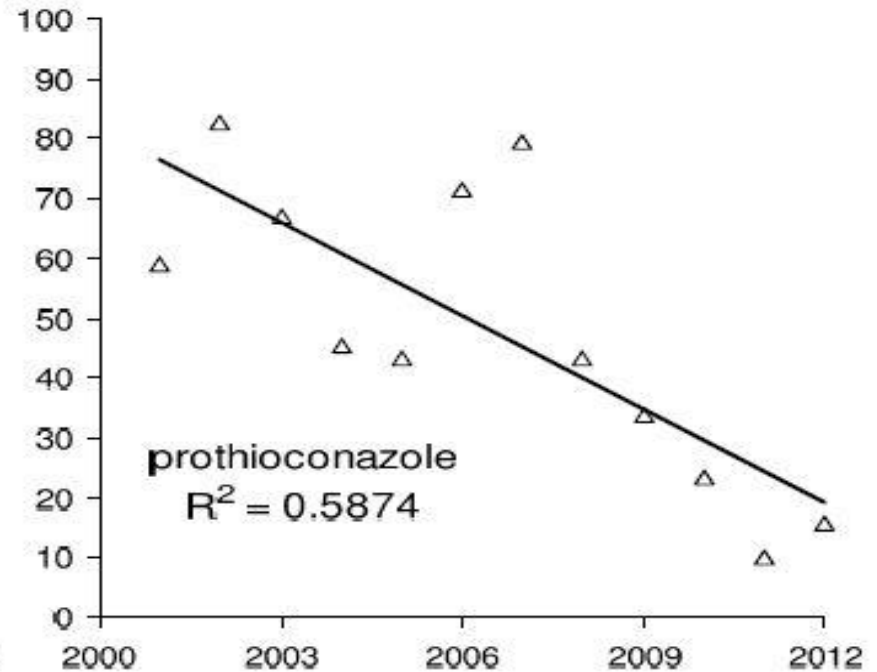
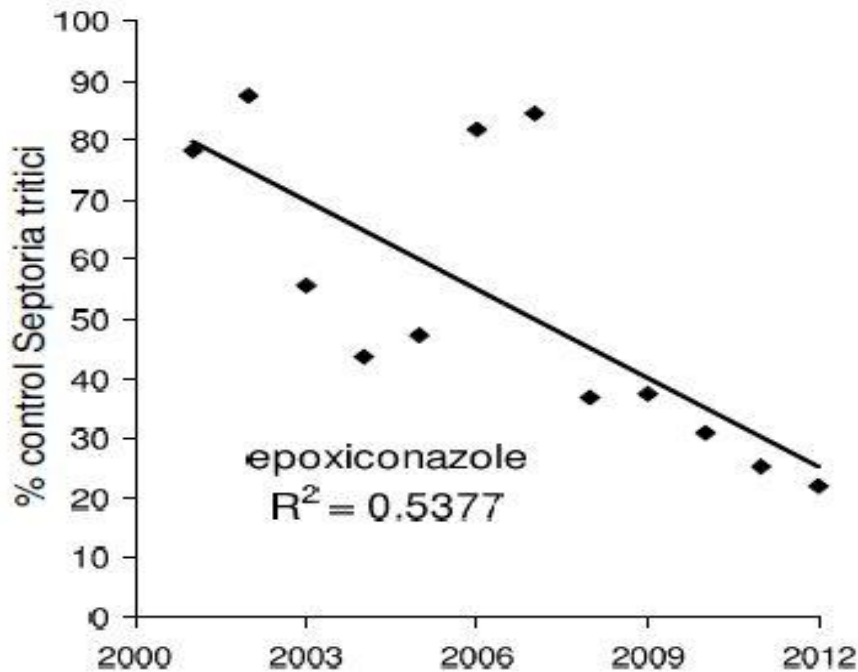
Positive:

- Demand for Grain increasing annually (not just wheat)
- Consumption increasing by 30-40 million tonnes per annum on average (depending on which figures are believed!)
- Increased demand for red meat
- Increased demand for white meat
- Fertiliser prices reduced by circa £50 per tonne (will this last)
- Low Interest Rates still likely for a while yet.

Negative:

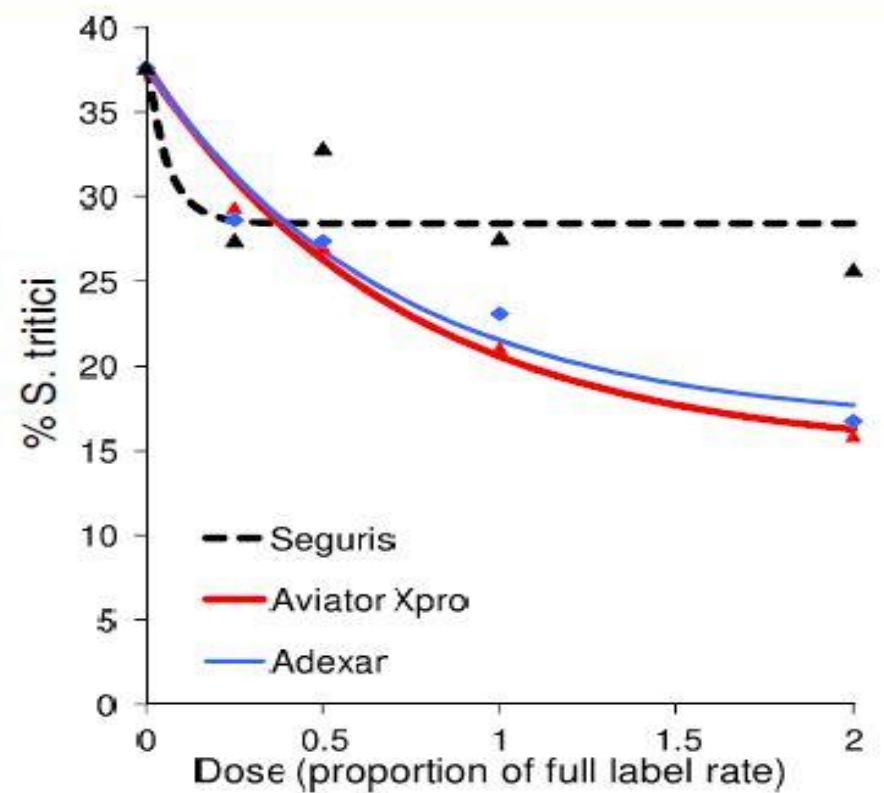
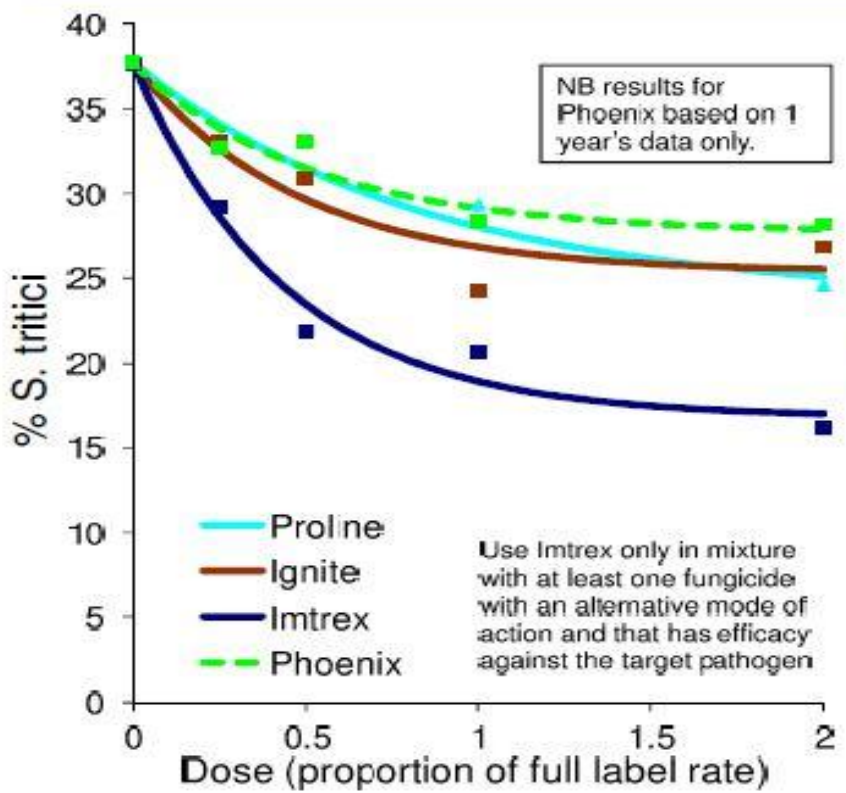
- Yield potential of existing crops are plateauing
- Number of new Agrochemicals coming onto the market has fallen to a trickle
- Those that do make it to market do not work as well as in the past
- Many existing Agrochemicals are not being re-registered
- Livestock productivity also plateauing
- Rental costs continue to increase
- New blood continue to struggle to enter the industry

Epoxiconazole and prothioconazole declining the same (eradicator control, half rates, 2001-12)





Septoria tritici eradicator 2012 (N=4)



- Key Questions Remain:
 - Will the Business be Viable?
 - Will the Business work without SPS or reduced BPS?
 - What is my “Unit Cost of Production”?
 - What can I do to lower this?

Benchmarking:

- How well are you doing against comparable businesses?
- Appraising Enterprise Performance / Business Performance
- SWOT analysis
- Identify where improvements can be made (with help if necessary):
 - Technical Performance
 - Labour & Machinery Costs
 - Finance Costs

Technical Performance:

- Seed – Home Saving; Need for Seed Dressing
- PK Fertiliser – Better use of FYM; GPS Mapping
- N Fertiliser – Source of N; NS Fertiliser; N Sensing
- Sprays – Cost Effective; Appropriate Doses/Timings
- Feed Costs – more reliance on grass/clover; buy feed/sell earlier?
- Stocking Rates – make use of early season growth; buffer feeding

Labour & Machinery Costs:

- What is the true cost of each operation? Do you know?
- In-house vs Sharing Machinery vs Contracting
- What opportunities are there to pull costs out of your business?
- Benchmarking Group ⇨ Cost/hour – 180 HP Tractor & Man:
 - Lowest £27.59/hr
 - Highest £42.71/hr
 - Average £34.51/hr

Finance Costs:

- Base Rates at lowest ever levels – cheap borrowing
- AMC 10 year Fixed Rate is 2.02% before Bank Margin (11th Nov)
- Business Cashflow still must be able to meet the repayments
- Hire Purchase vs Finance Lease vs Contract Hire
 - Can it be justified in the first place?
 - Potentially similar impact on cashflow
 - Different tax treatment
 - Contract Hire – more certainty of costs – worth considering

- Harvest 2012 and 2013 have had a big impact on farming businesses in the North of England
- This is an opportunity to take stock of where you and your business are heading
- Short-term Decisions:
 - Be clear on your objectives (personal, financial, business)
 - A Professional approach to Budget/Cashflow preparation required both for the Bank and also your decision making
 - Do not do something for the short-term that you would not do for the long-term
 - If more time is needed to make the right decision – ask for it

- Long-term Decisions:
 - Be clear on your objectives (personal, financial, business)
 - Benchmark your business against comparable businesses – SWOT analysis
 - Identify where improvements can be made
 - Involve external people where necessary – get the right advice
 - Make the right decision, not the easy decision
 - Manage the risks to the business
 - Implement – Monitor – Review – Identify.....