

ANDERSONS

BUSINESS MATTERS 2022

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FARM *business*
CONSULTANTS



Introduction
& Contents

Welcome to the second edition of *Andersons' Business Matters*. We introduced this publication last year to focus in detail on a selection of business topics at the farm level. It seems even more necessary at the current time, given the circumstances UK agriculture presently faces. If you would like to discuss any of the issues covered in *Business Matters* please do not hesitate to contact one of our consultants (listed at the back of the booklet).

*The Directors of Andersons
the Farm Business Consultants*

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Dealing with Input Price Rises

Inflation is one of the main topics of conversation both in agriculture and the general economy. The Government's preferred measure of inflation, the Consumer Price Index (CPI), after being close to the Bank of England's target of 2% for many years, looks set to exceed it by two or three-fold in the short term; forecasts of 8 – 10% currently abound. Recent events in Ukraine suggest that such high rates of inflation may not easily go away.

Andersons have calculated 'agflation' figures based on Defra price indices for agricultural inputs, weighted for their share of total spending by UK farmers. As can be seen from the graph over-leaf it is much more variable than general inflation due to linkages to commodity prices in areas such as fuel, fertiliser and animal feed. Fuel and fertiliser prices tend to grab the headlines, but animal feed makes up almost 25% of the index and is the largest input used by UK agriculture in terms of its value.

The graph in Figure 1 shows current agflation at eye-watering levels in excess of 25%.

One of the major effects will

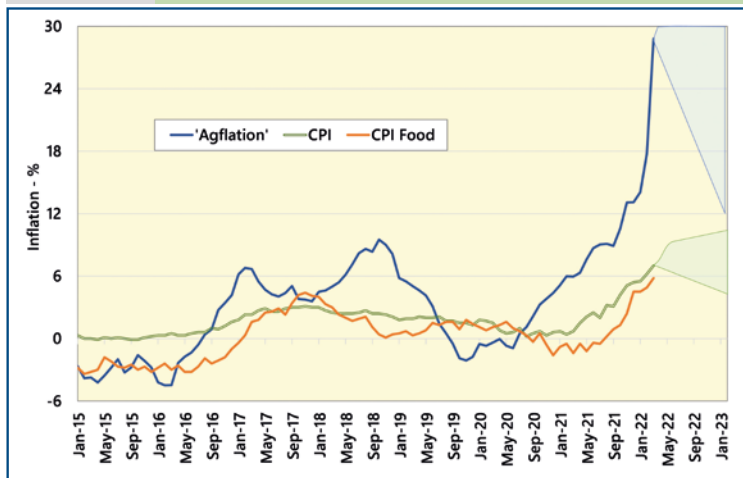
be the amount of working capital required to run farm businesses increasing substantially – be it the money invested to grow a hectare of wheat or funds required for a month's worth of feed for a livestock enterprise.

Price volatility and the risks of trading have gone up significantly, meaning accessing this extra funding, whether from additional Bank lending or merchant credit, may not be straightforward. Merchants' own credit terms are being squeezed, meaning they in turn may be much more cautious in what they are willing to lend to farmers and under what terms.

Farmers may well have to move quicker to secure available inputs at the best possible prices and the ability to pay for them there-and-then may also become more important. The phrase 'cash is king' should perhaps be at the forefront of our minds at this time. Early discussions with lenders are recommended.

We have tried to offer some thoughts below on how farmers might deal with three key inputs to the farming sector – feed, fertiliser and fuel.

Figure 1 'Agflation' - Price Changes 2015 to 2022



Source: Andersons

Feed

High feed prices have dramatically increased the pressure on producers across all sectors to maximise their efficiency of use.

In the ruminant livestock sector, sheep are perhaps the least effected and those producers who have developed largely forage-based systems look set to fare best. We still see high levels of concentrate use compensating for poor management and this looks set to become significantly more difficult to justify.

With regards to beef cattle, squeezing out concentrates to the same degree as for sheep is more difficult but, again, more concentrates, very often in the form of home-grown barley, are often fed as the easy option in many systems. Monitoring liveweight gains, improving feed conversion efficiencies and the

use of quality forages, whether grazed or conserved, continues to have great potential for many producers.

In the dairy sector, high-input high-output systems, typically involving all year-round calving, are the most exposed to agflation. Efficiency of feed use, knowing the cost of feeding for marginal litres and a suitably responsive milk buyer will be crucial to the profitability of these systems.

Forage-based, typically block-calving systems, are less exposed to the current crisis and farmers, processors, and retailers all have much to gain from seeing how such systems might deliver an increasing share of UK milk production in the future.

In the intensive livestock sector, efficiency of feed use is even more important, being the major cost in these systems. If

UK production levels are to be maintained, increasing levels of vertical integration appear essential as, with production cycles being relatively short, if substantial losses are incurred, numbers are likely to fall very quickly.

Fertiliser

The UK currently uses approximately 1.5 million tonnes of chemical fertiliser per annum, around 1 million tonnes of which is nitrogen. Chemical fertilisers have generally proved an excellent investment for farmers to date, with the cost of such fertilisers recovered several times over by the additional yield generated. In addition, the product has come in a form that is easy to transport, store and apply.

At current prices, businesses will be forced to challenge these previous norms before making what looks likely to be a very substantial investment in chemical fertilisers.

As a first step re-visiting the recommendations in the Nutrient Management Guide (RB209) published by AHDB would seem essential. Other things to consider may be:

- ▶ Ensure soil pH, P, K and S levels are optimal; imbalances here will result in poor utilisation of nitrogen, big gains can be made here particularly in many grassland situations.
- ▶ Assess field drainage problems, wet soils with poor drainage result in high nitrogen losses from leaching.


- ▶ Re-appraise the inclusion of crops with a high nitrogen demand in the rotation, for example second wheats.
- ▶ Making better use of whatever slurries and manures are available, either home-produced or imported, analyse their content, understand their costs in terms of price per kg of nutrient applied as compared with chemical fertiliser.

- ▶ Consider the value of nitrogen fixing crops such as peas and beans across the whole rotation, despite their often-lower gross margins.

- ▶ Can agri-environmental schemes be used to advantage by helping with the costs of incorporating nitrogen fixing crops such as clover into rotations?

- ▶ In many ruminant livestock situations, much more grass can be grown and utilised per kg of fertiliser applied through better management, such as avoiding compaction and adopting rotational grazing techniques.

- ▶ The use of clovers and legumes in grassland swards can replace synthetic nitrogen requirements particularly in less intensive situations; a reappraisal of the intensity of use, whether for grazing or cutting, may create benefits.



Events in Ukraine suggest that high rates of inflation may not easily go away.

Fuel

Red diesel is the major fuel used by most UK farming businesses. Prices have generally been in the 45 to 65p per litre range over the last few years and whilst not insignificant, have not featured as one of the major costs for most farm businesses. However, the scale of recent price increases has changed this.

The amount of working capital required to run farm businesses will increase substantially.

Being aware of how much fuel is being used and what the cost price increase means to the bottom line is a good starting point for all farm business. If a combinable crop business uses 100 litres of fuel per hectare tilled, a

10p per litre increase in the fuel price results in a £10 per hectare increase in costs.

The solution remains the same as it has always been, which is to limit fuel consumption wherever possible. In arable situations, this means looking at what operations are being carried out; are they all essential?, how much fuel do they use?, what alternatives might be available? Ensuring tyre pressures are appropriate for the type of work being carried out and making sure tools are adjusted correctly will also result in savings. The fuel cost involved in road travel to outlying blocks of land is also often overlooked.

On the ruminant livestock side, taking animals to feed whether by grazing or self-feeding, rather than feed to animals will save fuel and often many other associated costs.

In summary, it seems likely that higher costs will be with us for some time and not merely be a 'blip' that can be ridden-out. Therefore, it is worth devoting management time to squeezing these costs as much as possible.



Economies of scale: Fact or Myth

Many farmers have expanded their businesses with the aim of reducing their costs of production through, what are believed to be, economies of scale – the often referred to ‘spreading of overhead costs’.

Yet the evidence shows that in many cases the anticipated additional profit either fails to materialize or is much less than expected. In some cases, business expansion actually leads to reduced profits – additional costs exceed the additional income. This article will explore whether economies of scale (‘EOS’) really exist and, if so, in what circumstances.

The gross margin system of farm accounting typically divides business expenses into two categories – variable (or direct) and fixed (or overhead) costs.

Variable costs are specific to, and vary directly with the scale of, farm enterprises. They include categories such as seeds, fertilisers, sprays, animal feeds and veterinary costs. Growing the business is unlikely to reduce these costs on a ‘per unit’ basis – beyond, perhaps,

being able to negotiate better terms for larger order sizes.

Overhead costs are generally not specific to (or do not vary directly with the scale of) an enterprise, and might typically be organized under five main headings:

- 1. Labour**
- 2. Power and Machinery**
- 3. Administration**
- 4. Property**
- 5. Rent and Finance**

However, in practice there are a number of so-called fixed costs which change with farm output in the same way as variable costs – machinery, fuel and finance of working capital would be examples.

Our experience, through working with a wide range of both crop and livestock businesses, shows that there are few fixed costs that remain the same with increasing business turnover, with most varying (to a greater or lesser extent) with business expansion.

To understand where possible EOS may exist, let us briefly consider each of the main fixed cost categories, in turn.

Labour

With salaried employees (e.g. farm manager, herdsman) there may be some opportunity for

EOS, although this assumes that there is spare time for the additional work, which is not always the case. For those paid on hourly rates, additional work will directly increase expenditure (sometimes at higher average wage rates if the new tasks are paid as overtime). Probably the greatest contributor to EOS in this category is family

labour; particularly if it is not fully employed – which is often a key reason for business expansion (but what happens to drawings?).

Power and Machinery

Principal costs include fuel, maintenance & repairs, tax & insurance and machinery

depreciation. In certain cases, machines may be hired rather than owned (particularly those with engines). This category is frequently perceived as that which gives the greatest EOS, yet experience shows that this is not the case. Whilst the smaller cost of tax & insurance may alter little, fuel and maintenance/repairs increase directly with more production. Indeed, if expansion involves the farming of additional land at distance (not uncommon in UK agriculture) the additional travelling will generate higher fuel costs than those incurred on existing land.

If a machine is hired (and there is no supplementary charge for additional use), then there are genuine EOS. However, this will not be so with owned machinery, where additional use ('wear and tear') increases depreciation. As was noted in last year's article on depreciation, the difficulty for farmers is that the depreciation figure in their

This category [power and machinery] is frequently perceived as that which gives the greatest economies of scale, yet experience shows that this is not the case.



financial accounts (often the only source of depreciation information in a farm business) is based only on the machine's age, and not on how much it is used. The accounts method suggests no extra cost for additional use, which is not seen until the machine is subsequently sold for a lesser value.

Administration

This is the category where most EOS opportunities can occur including, for example, administration and accountancy fees. However, despite the potential EOS in this area, the savings involved are relatively small.

Property

Many property costs are directly related to the area farmed (e.g. hedging, ditching), providing limited opportunities for EOS. Some opportunities may arise with property depreciation (e.g. use of spare grain store capacity).

Rent and Finance

This area provides few opportunities for EOS, with rents and working capital finance directly related to area farmed. In fact, this is a category where unit costs may increase, with the paying of above average rents (or rent equivalents in contract farming) for additional land.

In summary, the main opportunities for EOS are likely to be in either management or administration, or possibly with machinery hire charges. In practice, however, these



economies may be partially or completely offset by increases in other fixed costs such as land rents or additional travel costs. Our experience suggests that the latter is one of the least understood and most under-estimated costs associated with increases in scale.

The real issue for farm businesses is not EOS, but 'scale matching', whereby business overhead costs are designed to leave as little unused spare capacity as possible. This may be achieved in a range of ways and, importantly, includes collaboration between businesses – quite frequently a feature of those with the lowest costs of production. Other approaches might include the use of machinery hire, third party contractors or shared administration.

So, beware the siren call of economies of scale – which is more often myth than reality – and be sure that expansion does genuinely add to business profit.

The real issue for farm businesses is not economies of scale, but 'scale matching', whereby business overhead costs are designed to leave as little unused spare capacity as possible. for EOS .

Successful Succession



Planning for succession is crucial for any family business. With complex issues surrounding the nature of family-controlled enterprises, it is important that businesses plan for the future, have a succession plan in place and address the way both the assets and management responsibilities are passed on to the next generation.

Vague promises of 'one day all this will be yours' no longer suffice.

It allows all parties involved to have a clear understanding of the future of the business and their position within it. Vague promises of 'one day all this will be yours' no longer suffice.

So what are the key elements to a succession plan?

► **Timing** – starting early gives the opportunity for family members to discuss their personal ambitions and whether their long-term plan even includes the family farm.

► **Advice** – given the sensitive nature of the process, and potential tax consequences of getting it wrong, it is

recommended the client's advisory team (which is likely to comprise some or all of the following: Accountant, Solicitor, Land Agent, Consultant) is engaged at an early stage:

- Ensure that any plans do not create tax problems which could be mitigated. Planning in advance of any generational change can often be the difference between having to dispose of assets, or being able to continue the planned business development with little change.
- An external advisor should help facilitate the discussion, and provide an impartial view. They should offer recommendations and experience of dealing with these challenges.
- Where tenanted land forms part of the business, and there is a possibility for succession to a tenancy, this should also be considered as part of a plan.
- **Communication** – clear, concise communication between those involved (family members and advisers) is crucial to successful succession. Even difficult messages are best faced head on. A lack of

communication can lead to individuals assuming one direction, when the reality is quite different.

► **Understand the objectives (both short and long term) of each of those involved** – this includes both the current and future generation. All members of the family need to be clear on their own objectives. This allows the proper management of expectations for all concerned, avoiding future conflict. Whilst these may not always be wholly compatible, it is important to understand their 'ideal'. If an adviser is involved, it is likely that individual meetings between parties will promote open discussion, the details of which can be used to create a proposed plan. Once this has been prepared, a family meeting with all parties present is essential to ensure common understanding.

► **Equality** – it is not always possible to treat individuals equally, but it is still possible to be fair. The return on capital of many agricultural assets may be relatively low, and releasing some cash for those members of the family who do not wish, or are unable, to succeed to the farm, could be a significant benefit during their lifetime. This might avoid the need for a mortgage or provide the necessary capital to start a new business and create financial independence. Mechanisms such as the use of overage clauses can address the issue of uncertainty about future uplifts in asset values.

It is important to identify, clearly, the full income requirement from the business. In addition to the cash drawings, the amounts required to run the house(s) and vehicles, and identifying the income foregone on residential properties has to be examined. The total figure may come as a surprise. The ability to fund those who are not directly involved with the day-to-day operation and management of the business may now be less affordable; it may help to encourage them to review opportunities to contribute more to the business.

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The practical steps when working on a succession plan could include the following:

► **Understand who owns what, and how this is occupied** – whilst sounding obvious, this is often not as individuals believe the position to be, and therefore a clear schedule of ownership is crucial.

► **Land Registration** – consider registering land with the Land Registry if currently unregistered.

► **Obtain a valuation of assets** – it will often be useful to obtain a Red Book Valuation of the asset base, to give a clear benchmark against which all plans are developed.

► **Undertake a SWOT analysis of the business** – this helps to understand the future viability of the business covering Strengths,

Weaknesses, Opportunities and Threats.

► **Consider a Family Constitution** – not as grand as it sounds, this document attempts to provide a non-legal framework for the governance of the business, and can record the agreed treatment of items including decision making, disputes, the roles and responsibilities of each member of the family, and exit strategies.

Finally, once a plan has been prepared, it is not always necessary to enact it. The discussions involved in the succession planning process can result in a plan which in some circumstances can be confined to the shelf until such time as it is necessary to proceed with it.



Labour: Finding and Keeping Good Staff

Good people are key to a profitable agricultural business, and recruiting and retaining them is an increasing challenge. In order to maintain a successful workforce, businesses need to review their approach to finding staff, and rethink attitudes to rota, pay, and working conditions.

Finding People Advertising

With industries across the board struggling to find staff, agriculture needs to sell itself to recruit the best candidates. Word of mouth and adverts in farming press and websites may work for experienced staff members or those already working in agriculture, but a more open-minded approach is needed to attract those from outside of the industry.

Prospective new entrants are put off agriculture by perceptions of long hours and poor pay, and stereotypes about the type of person working on a farm. Any advertisement for farm work must therefore highlight a fair rota and amount of paid leave. Agriculture is one of few industries where

there are opportunities to progress to a significant salary with minimal or no formal qualifications, and where careers can be fast tracked for those with ambition and drive. Adverts need to focus on these positive features, and be open to taking on candidates with transferable, rather than direct skills.

Working every day in that environment, farmers can sometimes overlook the less tangible benefits of working in agriculture – such as being outside, access to the countryside, house with the job, no commute, few Zoom calls, and even the prospect of local amenities such as small village schools. Adverts need to ‘sell’ the job to the candidate, rather than just being a list of things the employer is looking for.

We all must become the agriculture champion for our village and advocate and shout about the benefits of working in agriculture. Something as simple as a Facebook page is a great way of showing many people easily what it’s actually like to work on your farm.

Students and Apprentices

Students and apprentices are often thought of as a cheap labour source, but the time needed to give adequate support and training shouldn't be underestimated. Employing them can be rewarding for those who value giving opportunities, and short-term placements can be useful for filling seasonal labour demands.

The timing of vet student placements can fit in on livestock farms. On arable farms, the peak summer workload can be partly filled by university students on summer holidays. Sandwich year placement students from agricultural colleges offer a longer-term solution, and a good placement provider may build a reputation and take on students every year. A good placement student may even be an option to take on as a staff member post-graduation.

An important part of appraisals and communicating with your staff is to find out their motivations and tailor their package to meet those.

Apprenticeships last for a minimum of one year and up to five years, and can be offered to new or existing staff members. They must be paid at least the minimum wage. Businesses with a labour bill of less than £3 million are exempt from the Apprentice Levy

and are expected to pay 5% of the apprentice's training and assessment costs. There are also incentive payments of £3,000 for

employers who choose to take on an apprentice. At least 20% of normal working hours must be spent training, and the employer is expected to pay the apprentice for this time.

Keeping People Motivation

Not all staff members want the same things from their job. An important part of appraisals and communicating with your staff is to find out their motivations and tailor their package to meet those. Different motivations include;

► **Earning Potential:** These staff members may be driven by money, or have a lifestyle or be in a stage of life where their personal cash needs are high. Cash bonuses, regular pay reviews, and even the ability to sell annual leave to other staff members may motivate these people.

► **Time Off:** Staff members who value having time to spend on hobbies, with friends and family, or need time away from physically challenging work may appreciate additional paid leave or a less strenuous rota.

► **Flexibility:** This is increasingly important as the industry looks to be more inclusive. Flexibility can include allowing staff to swap days on the rota, working longer hours in fewer days, shorter hours in extra days, or adapting the farm routine to suit desired start and finish times.

► **Career Progression:** Team members who aspire to manage



farms or take on tenancies or contract farming agreements have a very different perspective than those who are content to be employed as second-in-command or lower grade positions. These may be prepared to work long hours or accept a lower salary in return for training, opportunities, and an employer who is open minded about them leaving the farm if the business is not at a scale to offer them this progression internally.

Rota

A traditional 12-on 2-off rota is looking increasingly archaic in the modern agricultural workforce. A rota that more accurately reflects a working week outside of the industry may be more attractive. In practical terms, this may mean adapting to having fewer staff on certain days (and planning routine tasks accordingly) or taking on additional part-time staff to

cover gaps in the rota. Where a harsher rota has to be used for seasonal work such as calving or harvest, staff should be offered an easier rota immediately after, or presented with other incentives. For arable staff, this means in the winter making sure they have enough shorter days / days off, as for 4-6 months of the year there may be few opportunities for days off other than when the weather allows.

Farm staff are often expected to work weekends as part of their rota, and may be given a weekday off in lieu. Where this is the case, wherever possible discuss with staff if they have a preference for a specific day, as this may fit better with caring responsibilities or their lifestyle.

When setting the rota farm managers should also ensure that they are scheduling adequate time off for themselves.

Pay

Salaries for farm workers, especially when housing is also taken into account, are generally competitive with roles outside of the industry. This is especially apparent when an entry level position on a farm is compared to the job prospects for someone without industry-specific qualifications or experience in other sectors.

There are however certain points that employers should consider;

- ▶ When hours worked are taken into account, does the salary for junior staff meet or exceed the minimum or living wage?
- ▶ Are men and women with similar levels of responsibility remunerated equally?
- ▶ Are staff expected to pay for their own protective clothing?
- ▶ For those working split shifts (e.g. milking staff) are they taking extra drives during the day to and from home to work?

▶ Have your rates of pay risen to match the increase in cost of living? With inflation as it stands, a 10% pay rise may not leave your staff members any better off, but a stagnant wage will effectively be a cut in pay in real terms.

▶ Are your expectations for experience and skill set reflected in the salary and package you are able to offer?

Work Conditions

Retaining staff is about more than just working hours and pay. Open lines of communication and having a supportive team will keep morale high, but physical work conditions can often be overlooked, when small changes can make a big difference. A staff room or area set up with space to leave wet workwear, a fridge, sink, and kettle, internet connection, and comfortable chairs will go far to keep staff happy. This can also mean that staff don't need to drive home for lunch, and can be



used as a space for staff meetings, thus keeping farm business out of the house. Farms also need to provide toilet and handwashing facilities. These, as well as any other communal areas, should be regularly cleaned.

Benefits and Incentives

Benefits and incentives need to be tailored to match the motivations of your staff; improperly managed can actually have a negative impact. Benefits are part of the package offered and are not dependent on performance, whereas incentives are offered to reward achieving certain targets. Where performance is incentivised the outcome assessed should be relevant to the person's role and something that they have control over. Benefits can include;

- ▶ Accommodation as part of the package or extra pay to cover rent
- ▶ Paid holiday leave beyond statutory requirements
- ▶ An attractive maternity/ paternity leave package
- ▶ Flexibility in hours or rota
- ▶ Pension contributions beyond statutory requirements
- ▶ Opportunities for paid training and professional qualifications
- ▶ For bigger businesses structured progression and opportunities to learn from staff in different segments of the business

Incentives may look like;

- ▶ A profit share for senior staff

- ▶ Financial bonuses for reaching certain job-specific targets

- ▶ Offer of extra paid leave

- ▶ Paying for a course or training opportunity

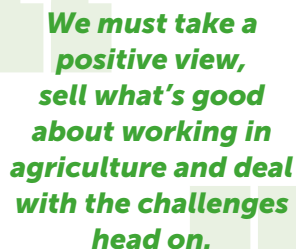
- ▶ Attendance of a discussion group if annual objectives are met

- ▶ Team meals or activities at the end of busy periods such as calving or harvest

The Future

We live in changing times. We have come through rising wages for low skilled jobs as Brexit shut the door on low-skilled migrant workforce. Covid meant that people could sit at home and earn furlough money for not a lot! Many took the break to think 'what do I want in life'? The economy re-booted and many chose more time over money. We now move into inflationary times with a real

squeeze on family budgets. Maybe jobs with high relative pay, perks that include housing, and low fuel bills to commute to work will seem attractive to some. We must take a positive view, sell what's good about working in agriculture and deal with the challenges head on. The alternative option is shrink the business and do it all yourself!



We must take a positive view, sell what's good about working in agriculture and deal with the challenges head on.

Regenerative Agriculture: Business Issues



There has been huge interest in regenerative agriculture over the last few years. It is, however, difficult to find good empirical financial data regarding the performance of regenerative farming versus more conventional approaches. In the absence of such figures, this article looks at some of the broader financial issues that should be considered by those considering a move into regenerative agriculture.

Firstly, however, it is worth recapping some of the key features of regenerative systems (also known as conservation agriculture). These cover four main areas;

- ▶ Minimising soil disturbance (physically and chemically),
- ▶ Rotation of crops and wide diversity of plant species,
- ▶ Avoiding bare soils (use of cover/catch crops) and
- ▶ Integrating animals into the arable rotation

One point to highlight is that regenerative farming operates on a continuum. Many farmers will be using some of the practices above, to a greater or lesser degree. A lot

of them will probably not consider themselves to be 'regenerative'. For most farmers, it will be about adopting the regenerative practices that work for their farm – perhaps going a bit further each year as confidence and knowledge improves. As in most areas of life, dogma and inflexibility does not work.

The decision to adopt more regenerative practices may be made for a number of reasons. For many the key driver for adopting the principles of regenerative agriculture is an innate concern that without doing so, the health of soils will not improve (and indeed may decline) and as a result, so too may the underlying performance of the business over the long term. There may be a desire to farm in a way that is more 'sustainable' and relies less on purchased inputs and large amounts of horsepower. Others will see it as a 'silver bullet' to address existing poor financial results. They are likely to be disappointed. Regenerative systems usually require a higher level of management ability; if you are not making profit under the existing system then 'ditching the

plough' is unlikely to be enough, in itself, to turn things around.

The impact of regenerative practices will vary significantly by region, soil type and climate. However, one thing is almost certain, a move away from reliance on agrochemicals and synthetic fertilisers is likely to drive a reduction in output – in the short term at least. The convention of measuring financial returns over a year, despite the alignment with many plant and animal production cycles, is that twelve months is too short a period for a meaningful assessment. Given that the underlying requirement is to change soil biology and ecology, there is merit in making an assessment over a period of between 5 and 15 years, depending upon the investment, in order to properly understand the 'yield'.

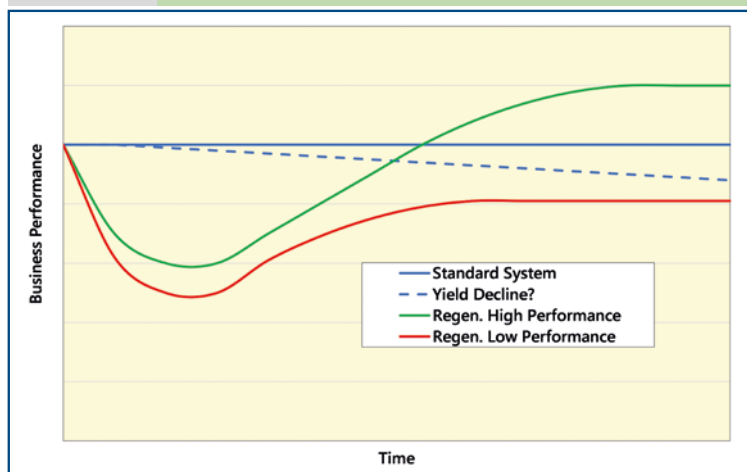
Figure 2 below shows an illustration for a cropping business.

Its current performance is shown by the blue line. It might be able to sustain this for the foreseeable future, but also shown is a long-term decline in output – possibly as soil health issues become more problematic.

During the regenerative transition period, yields are likely to drop quite markedly. *There is considerable debate on this point – some proponents of regenerative agriculture state that the drop is minimal, others have seen significant initial drops.* With improvements in soil biology and organic matter, output then recovers. Introducing cover crops and moving away from intensive use of agrochemicals

It is difficult to find good empirical financial data regarding the performance of regenerative farming versus more conventional approaches.

Figure 2 **Regenerative Farming - Conversion Process**



and synthetic fertilisers is also likely to offer advantages in terms of reduced variable costs. In the current climate, the high cost of inputs will challenge even the best businesses, with the working capital of farms being put under serious pressure.

If the regenerative approach can be made to work successfully on the specific farm, then business

performance may end up higher than continuing with established practices. In other circumstances, there may never be a full recovery. But there may be other benefits that are not fully quantified in the bottom-line such as a more resilient business less affected by cost volatility, or one that is better placed

to pick up payments from non-farming sources such as public goods or carbon credits. The farmer may simply appreciate the environmental improvement they see on the farm or the challenge of farming in a different way.

A shift to regenerative methods can be seen like a long-term investment. Determining whether to adopt regenerative techniques and at what speed and level should, ideally, include an assessment of the investment required and the likely 'yield'. The investment may well include

foregone annual profit during any transition period as well as capital expenditure on a new drill and / or other equipment.

Of course, the current challenge is how to forecast farm performance under a regenerative approach when the available data is so limited. Typically, an initial assessment will involve several hypothetical assumptions based on the past results of the farm, combined with the available data (albeit limited) and experience of

A shift to regenerative methods can be seen like a long-term investment. [It] should, ideally, include an assessment of the investment required and the likely 'yield'.



others who are further ahead in the process. Ideally both optimistic and pessimistic scenarios should be projected to try and expose the likely range, which may, even straddle the performance of the farm if left unchanged (as shown in the above illustration). This approach will not only provide an opportunity to compare against the farm without change, but also provide a comparison with alternative uses of the proposed investment, given that often there

are so many competing demands for any available business capital. Crucially this type of approach will help to avoid the risks associated with the convention of a single, harvest year assessment.

Any change in farming system involves risk. It is important to understand the current efficiency of the business and to assess what future performance will have to be to cover investment in the change.



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