

FARMS BENCHMARKING

Tom Paybody
Farms Consultant



A continued scenario of global over production, strong sterling and weaker consumer demand has led many farming businesses to question whether suppressed commodity prices will continue into the medium term.

If low prices are to be the norm for some time to come, the arable sector needs to follow the lead of the pig, poultry and more recently dairy sectors, and focus vigorously on reducing the cost of production.

Fisher German's Farms department have extracted data from their managed farms across the midlands to establish a cost of production for winter wheat. The 2015 figure of £91/t (before rent and finance) is a drop from the £98/t figure for the 2014 crop.

The 2015 analysis shows falls in seed, fertiliser and spray costs compared with 2014, explained by lower commodity prices, higher yields and lower disease pressure.

Adding in a typical rent figure of £370/ha pushes the 2015 cost of production to £132/t, the Agriculture and Horticulture Development Board (AHDB) weekly commodity price statistics show the average feed wheat sale price from August 2015 to May 2016 has been £114/t.

The yield sensitivity of cost of production data highlights the danger of cutting costs too far; half a tonne increase in yield per hectare lowers the cost of production by £5 per tonne. That said the latest Farm Business Survey data produced by Rural Business Research shows Power and Machinery contribute as much as 35% of the average UK arable farm's turnover, suggesting an imbalance in the cost structure of many businesses.

Having accepted that focusing on reducing the cost of production should be the key business objective, measuring it correctly must be the next.

Reducing the cost of production is not straight forward and some form of comparative analysis or benchmarking is invaluable if a business is going to effectively reduce costs and survive in the future.

We have real benchmarking analysis from businesses which have already made significant changes to their cost structures and are therefore, genuinely able to advise on optimum and target cost levels for farm businesses who wish to adapt and prosper.

Wheat Cost of Production for different rent scenarios

| £/t WW COP 2015 (pre rent) | 91.95 | Average yield: | 9.23 |
|----------------------------|-------|-------------------------|------|
| Land Rental Cost | | £/tonne WW COP inc rent | |
| £/Acre | £/Ha | | |
| 150 | 370 | 132.04 | |
| 170 | 420 | 137.46 | |
| 190 | 469 | 142.76 | |
| 200 | 494 | 145.47 | |

Winter Wheat Cost of Production 2014 & 2015 Harvest

