

6 DYNAMIC ASPECTS OF FARM DIVERSIFICATION

6.1 Diversification as a process in agricultural adjustment

6.1.1 Although ‘farm diversification’ in the sense in which this study uses the term has had a wide currency in farming and policy circles for perhaps twenty years, it is well known that diversification is not, in fact, a recent phenomenon. Indeed, the very use of the term to mean the development of non-agricultural, commercially oriented activities on farms is far from being universally understood since the term has a much older use in farming to denote the development of more mixed farming (that is, *agricultural*) systems. In its current usage, of course, there is nothing new in the phenomenon of farmers and their families having multiple sources of income. In many parts of the country, and on many types of holding, an involvement with tourism and recreation, value adding processing activities, or the provision of services to others has long been a normal feature of the rural economy.

6.1.2 However, *farm diversification* became a popular catchphrase during the 1980s as incomes from farming came under pressure due to over-production, and as it became increasingly evident to all involved in the farming industry that unlimited expansion of food production under the Common Agricultural Policy was no longer a policy option. Government proposed that farmers could compensate for much of this decline by turning to a variety of ‘new’ activities which would generate substitute sources of income and, in tune with the times, policy measures in the form of grant aid were put in place to facilitate this new direction.

6.1.3 The merits of, and justification for, this form of farm diversification were widely discussed and disseminated in the farming media at the time, although there remained much uncertainty – and not a little scepticism - as to how important these accessory enterprises would be to the future prosperity of agriculture. Certainly some of the motivations behind the official encouragement of farm diversification were influenced by the need to reduce the level of agricultural output, though others were as much to do with the need to foster a wider economic base in rural areas as with simply augmenting farmers’ incomes¹.

6.1.4 It was against this background that the previous baseline study was commissioned and undertaken. One of the merits of that study was to emphasise the concept that in a market-oriented agriculture, diversification has economic validity only as a demand-led development. Its warning against policy-based attempts to encourage diversification in isolation from any existing or potential demand, whether as an alternative to surplus agricultural production or as a means of providing social support to the farming population, was founded on a recognition of the futility of commercial developments insulated from the market. This is not to deny, of course, that policy instruments designed to foster diversification may be justified on particular *social* grounds.

6.1.5 However, there can also be an economic case for policy intervention for reasons of market failure, where products and services that might be provided by farmers (particularly those of an environmental nature) may be non-market commodities. If there

¹ These issues are discussed more fully in Traill Thomson, 1995 and Howe et al, 1996, for example.

is evidence that farmers are not diverting resources into the alternative rural products and services that society is seeking, whether this occurs because of uncertainty, lack of awareness, inertia, unacceptance, an absence of market signals or whatever. In these circumstances there could be an economic inefficiency in that genuine social demands are not being met, and that there is no mechanism, other than might be provided by public policy, whereby resource owners can recognise and respond to those demands. This is the *economic* case for a specific policy to foster farm diversification.

6.1.6 To conclude this introductory discussion to a consideration of the study findings on the dynamic aspects of diversification, it is important to recognize two different images of farm diversification which are often confused:

- The first image gives rise to the question ‘What are the economic activities for which ‘agricultural’ resources are being used?’ Essentially this view stems from taking a *national farm* approach, identifying its resource base of land, labour and capital (in the agricultural sector of the economy) and then considering how it is allocated amongst a portfolio of agricultural and non-agricultural enterprises. **It is this concept on which both the present study and its predecessor have been based.**
- The second image of diversification takes the perspective of the individual farmer and gives rise to the question ‘What other commercial activities can my business undertake?’ In relating to the different sorts of things that farmers may do in addition to, or as an alternative to, producing agricultural products, this is a rather more restricted concept because its focus is the farm business rather than the national agricultural resource base.

6.2 Comparison with the original baseline study

6.2.1 The principal objective of the present study has been to update the 1989-1991 study to provide a new baseline from which one aspect of the structural adjustment of the agricultural sector over the next few years - the diversion of resources from food production towards alternative uses – can be judged. In this it has provided a valuable insight into a decade of change in English agriculture. In updating information on how widely accessible diversification opportunities are, their resource use implications, the nature of their integration within the farm business, farmers’ attitudes to the concept and practice of diversification, this study provides a valuable commentary on social and economic change in the farming sector.

6.2.2 The previous study found that six out of ten of diversified enterprises had been established before the mid-1980s, taken as the point when income pressures and the diversification ‘solution’ began to become more prominent. The study also found evidence of an accelerating rate of establishment of new enterprises during the second half of that decade, with widely varied motivations for expanding into non-farming ventures. The empirical findings suggested two sub-populations - a minority who see diversification as a commercial commitment occupying a substantial proportion of their business time and resources; and a more varied majority for whom it is a useful, but often not very profitable, sideline, even hobby. This understanding of two distinct approaches to diversification at farm level should be kept in mind in the following discussions.

6.2.3 It was noted that, notwithstanding the results from the financial accounting undertaken in the survey, four out of five diversified farmers considered their diversified enterprises to be successful in the context of their own particular objectives, and almost one third had intentions to expand or to introduce new ventures. This section, therefore, focusses on the directly comparable findings of the two studies to set the scene for a review of the dynamic aspects of farm diversification.

6.2.4 For a number of reasons direct comparisons with the 1989 postal survey are far from straightforward. A number of issues complicate drawing exact parallels:

- the national system of farm typology was changed in 1992;
- the basis on which farm business size was calculated has also changed;
- the published results from the 1989 study were unweighted;
- much of the data from the earlier study relates to England and Wales, while the current study relates to England alone;
- there are minor differences in the structure of the sample;
- although of similar scope, the style of postal questionnaire was different.

6.2.5 Several of these differences are insubstantial and, in any case, for the most part there is nothing that can be done about them anyhow. However, with respect to the differing structure of the two samples for this comparative exercise it is appropriate to weight the 2002 sample to resemble more closely its predecessor. In 1989 a modest restriction was placed on holdings recorded as having zero output², while in the current survey ‘very small’ holdings (which include those with no output) were sampled at a third of the rate used for the other holdings. This would not have been important had the earlier results been weighted to reflect the population, but to improve comparability the ‘very small’ holdings in the current sample have been weighted by a factor of three so that both *samples* more-or-less reflect their respective populations. Since in the published results of the 1989 study no adjustment was made for differences in the response rates *in this section only* the current results are calculated in the same way. **Because of these differences in methodology there are small variances between data presented in this section and certain corresponding figures found elsewhere in this report.**

Survey response

6.2.6 The usable response achieved in the 2002 survey is markedly lower than that of its predecessor, at 49.6 per cent compared to 69.2 per cent (England only). Probably the most important factor influencing the lower response rate was the timing of the postal survey mail-out, which coincided (late April) with a particularly busy time of year for livestock and crop farmers alike³. It thought likely that a number of other factors were also involved, the more significant of which include:

- a general ‘survey fatigue’;
- the depressed state of the industry;
- the higher proportion of holdings not farmed by the holder;
- the longer (by appearance) questionnaire;
- antipathy towards the subject;

² This group was sampled at 4.3 per cent compared to 5.4 per cent used for all other holdings.

³ A ‘wave analysis’ of postal respondents over time suggests that there is little evidence of any response bias in favour of diversified holdings.

- antipathy towards DEFRA⁴.

Within the overall response, however, the pattern found is broadly similar (Table 6.1), suggesting that it is the more general factors may be at work here.

Table 6.1 Analysis of the usable response, 2002 and 1989 postal surveys compared

	2002		1989
	England		England & Wales
Usable response	49.6%	Usable response	68.8%
<u>Divergence from overall percentage</u>			
<i>EU region</i>			
North	-1.9%	North	+0.5%
East	+1.5%	East	+3.5%
West	-0.3%	West	-1.2%
		Wales	-2.4%
<i>LFA status</i>			
LFA farms	-0.2%	LFA farms	-1.9%
Non-LFA farms	+0.0%	Non-LFA farms	+0.5%
<i>Farm type</i>			
Cereals	+3.2%	Crops	+4.6%
General Cropping	+0.9%	Horticulture	-2.0%
Horticulture	+1.0%	Pigs & poultry	-0.7%
Pig & poultry	-3.8%	Dairy	+4.3%
Dairy	+2.3%	LFA livestock	-2.7%
Cattle & sheep (LFA)	-1.4%	Lowland livestock	-0.6%
Cattle & sheep (lowland)	(+2.8%)	Grass only	-11.9%
Mixed	-1.0%		
Other	-3.5%		
<i>Farm business size</i>			
Less than 8 ESU	-2.3%	Less than 4 BSU	-5.6%
8 to less than 40 ESU	-1.1%	4 to less than 16 BSU	-1.2%
40 to less than 100 ESU	+2.9%	16 to less than 40 BSU	+4.7%
100 to less than 200 ESU	+6.3%	40 BSU and over	+9.6%
200 ESU and over	+9.0%		

Defining farm diversification

6.2.7 The earlier discussion (section 6.1) touched on the range of uses of the term 'diversification' and identified the conceptual approach used in both the present and the

⁴ Note similar reductions in comparable surveys [add detail].

previous surveys. However, although both surveys use a common basis there are necessarily certain differences of definition between the main analyses used for the 2002 survey and the 1989 report. In this section, therefore, the definition of diversification used for these comparisons has been adjusted to be the same as that used in the 1989 survey. It comprises all of the activities under the five broad enterprise groupings⁵ with organic production included under ‘speciality products’. It excludes participation in agri-environment schemes, new woodland planting and the leasing of farm resources to others for use in diversified activities.

6.2.8 It should be noted that this definition differs from that used in the main body of this report both by the inclusion of organic production as a diversified activity in itself⁶ and the exclusion of the leased farm resources. However, whilst the definition used for the analysis can be made to match that used in 1989 it is possible that *respondents’* perception of diversification may well have been rather different. As has been noted, the common understanding of the term ‘diversification’ has changed over time and this is bound to influence respondents approaches in completing a postal questionnaire.

6.2.9 For this reason, as well as to reduce the data handling problem to a manageable scale, the 2002 version of the questionnaire, while not ‘closed’, made greater use of pre-specified options⁷. It is possible that by providing what was in effect an almost complete listing of the activities understood by the study to constitute diversification respondents could have been prompted to record activities which they themselves may not otherwise have considered as diversification (and therefore might not have been recorded in 1989). Examples of activities likely to have been particularly affected in this way would include fuel wood and hay/straw sales⁸. However, experience with the interview sample suggests that this particular issue has not in fact made any significant difference to the overall results.

The incidence and structure of diversification

6.2.10 The data in Table 6.2 would appear to confirm anecdotal evidence suggesting a substantial increase in the proportion of holdings engaging in some sort of diversified activity between 1989 and 2002. At regional level⁹ farms in the North continue to be the least likely to be diversified and those in the East the most. Diversification in the West region has shifted from being below the England average to being slightly above.

⁵ See Appendix C.

⁶ With respect to the weightings used in this section the inclusion of organic production as a specific diversified activity raises the overall percentage diversified by 0.8%.

⁷ Although the two surveys aimed to collect exactly the same information, the earlier questionnaire was in an ‘open’ format. This is, of course, an interesting methodological issue in survey research.

⁸ A full listing of the incidence of all the activities in both study years can be found in Appendix C.

⁹ Although in the remainder of this report Go regions are used, this comparison has to be based on the EU regions used in 1989.

Table 6.2 Overall involvement in farm diversification, by EU region, 2002 and 1989 compared

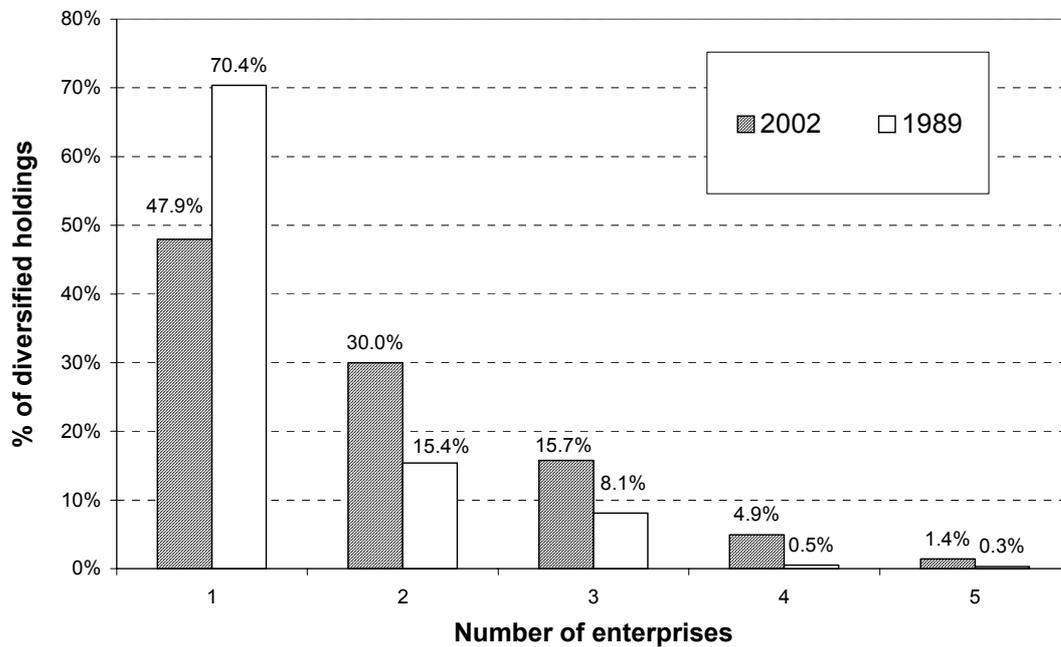
	2002	1989
	Per cent of responses	
England	57.3%	42.4%
	Divergence from the England proportion	
North	-4.3%	-4.0%
East	+2.0%	+4.5%
West	+1.0%	-1.6%

6.2.11 The incidence of the five broad ‘enterprises’ (Table 6.3) indicates some changes in the relative importance of the *types* of diversification. The proportion of all farms engaged in each of the enterprises has risen, but only marginally in the case of contracting. ‘Services’ remains comfortably the best-represented enterprise but the others now have a fairly similar level of incidence. This ‘deepening’ of diversification is confirmed by the marked increase in the proportion of diversified holdings engaged in two or more enterprises (Figure 6.1) rising from 29.6 per cent to 52.1 per cent.

6.2.12 The very steep rise in the proportion of holdings with a ‘miscellaneous’ enterprise is mainly due to the higher incidence of ‘hire of buildings’ recorded in the current survey compared to only a handful in 1989. It is possible that the degree of increase has been exaggerated because the earlier questionnaire did not directly prompt for this activity, while in both surveys there may have been some uncertainty over the distinction between the ‘hire of buildings’ as a diversified service and the leasing of buildings to others for the undertaking of diversified activities.

Table 6.3 The overall incidence of diversified ‘enterprises’, 2002 and 1989

	Services	Processing & sales	Miscellaneous	Contracting	Speciality products
<i>All farms</i>					
England 2002	30.5%	20.3%	19.3%	18.2%	16.0%
England 1989	19.8%	12.4%	5.4%	16.3%	8.4%
<i>Diversified farms</i>					
England 2002	53.2%	35.4%	33.6%	31.7%	27.9%
England 1989	46.7%	29.3%	12.8%	38.5%	19.8%

Figure 6.1 Multiple involvement in farm diversification, 2002 and 1989

6.2.13 The first thing to note about the levels of diversification of the different groupings in Table 6.4 is that the proportion of holdings that are diversified has risen right across the board, with no exceptions. This finding not only adds depth to the headline increase in the overall incidence of farm diversification but also clearly suggests that farm diversification is now a major development shaping farming with widespread implications for the rural economies of England, and important policy ramifications. The degree of increase in diversification, however, has not been evenly distributed, so that now there is clear pattern related to farm business size. Larger farms are more like to be diversified, and this tendency is much more pronounced now that it was in 1989.

Table 6.4 Incidence of farm diversification by LFA status, farm type and farm business size, 2002 and 1989

	2002		1989		
	England		England & Wales		
	% of holdings diversified	Divergence from national mean	% of holdings diversified	Divergence from national mean	
Overall	57.3		Overall	41.2	
<i>LFA status</i>					
LFA farms	49.3	-8.0	LFA farms	36.5	-4.7
Non-LFA farms	58.8	+1.5	Non-LFA farms	42.5	+1.3
<i>Farm type</i>					
Cereals	62.4	+5.1	Crops	49.0	+7.8
General Cropping	68.3	+11.0	Horticulture	44.9	+3.7
Horticulture	59.7	+2.4	Pigs & poultry	44.1	+2.9
Pig & poultry	51.8	-5.5	Dairy	35.2	-6.0
Dairy	51.4	-5.9	Lowland livestock	41.3	+0.1
Cattle & sheep (LFA)	50.4	-6.9	LFA livestock	33.8	-7.4
Cattle & sheep (lowland)	(62.0)	(+4.7)	Grass only	33.9	-7.3
Mixed	75.2	+17.9			
Other	47.8	-9.5			
<i>Farm business size</i>					
Less than 8 ESU	47.1	-10.2	Less than 4 BSU	39.9	-1.3
8 to less than 40 ESU	63.2	+5.9	4 to less than 16 BSU	39.1	-2.1
40 to less than 100 ESU	64.7	+7.4	16 to less than 40 BSU	41.1	-0.1
100 to less than 200 ESU	68.6	+11.3	40 BSU and over	47.5	+6.3
200 ESU and over	78.6	+21.3			

Spatial patterns of farm diversification

6.2.14 There have been interesting developments too in the regional patterns of diversification (Table 6.5) over the period from 1989 to 2002, with a wider variance evident now than hitherto. In 1989 the range of deviation from the national means was between -3.0 to +4.4 per cent, but in 2002 the range extends from -7.1 to +6.8 per cent away from the national mean. Moreover, the type of enterprise with the most variability has also changed: in 2002 it is 'contracting', whereas in 1989 it was 'services'. While it is difficult to draw too many conclusions from this analysis, not least because of the broadness of the regional groupings, it is clear that the *pattern* of development has been far from uniform.

Table 6.5 Distribution of diversified ‘enterprises’ by region, 2002 and 1989

	England	North	East	West
	<u>% of diversified holdings with the specified enterprises</u>			
	<u>Divergence from England mean</u>			
2002				
Services	53.2%	-3.4%	-0.7%	+2.8%
Processing & sales	35.4%	-3.4%	+4.1%	-2.1%
Miscellaneous	33.6%	-5.4%	+5.0%	-1.9%
Contracting	31.7%	-7.1%	+6.8%	-2.8%
Speciality products	27.9%	+1.8%	-4.4%	+3.6%
1989				
Services	46.7%	+1.8%	-4.7%	+4.4%
Processing & sales	29.3%	-0.4%	+2.3%	-2.6%
Miscellaneous	12.8%	-2.1%	+1.3%	+0.0%
Contracting	38.5%	-3.0%	+3.0%	-1.3%
Speciality products	19.8%	-2.3%	+3.0%	-2.3%

6.2.15 Comparisons of the changing incidence of diversification based on farm type, farm business size and LFA status are presented in Tables 6.6, 6.7 and 6.8 respectively. Taking each of these in order it will be seen first that, in the main, the patterns of enterprise types found on holdings of each type have been maintained. The principal changes in the pattern of diversification by farm type over the period are:

- Cereals/cropping farms: now have a higher than average incidence of ‘miscellaneous’ but a lower proportion of ‘speciality products’;
- Pigs & poultry farms: now have a markedly lower than average proportion of ‘contracting’ but higher ‘speciality products’;
- Dairy farms: no longer have a much lower than average incidence of ‘speciality products’.

6.2.16 When considered on the basis of farm business size, the pattern of diversified enterprises does not seem to have changed dramatically over the past decade or so. The main changes are:

- Very small farms (less than 8 ESU/4 BSU) are less likely to be involved in ‘contracting’, marginally more likely to have some form of ‘specialty product’;
- Medium, large and very large farms are more involved in contracting;
- Very large farms are also more involved in ‘services’ and ‘miscellaneous’.

Table 6.6 Distribution of diversified ‘enterprises’ by farm type, 2002 and 1989

	Services	Processing & sales	Miscellaneous	Contracting	Speciality products
<u>England 2002</u>	53.2%	35.4%	33.6%	31.7%	27.9%
Cereals	54.6%	38.9%	45.2%	47.0%	18.0%
General Cropping	45.6%	41.6%	31.4%	50.3%	26.5%
Horticulture	27.0%	54.0%	21.4%	7.0%	55.3%
Pig & poultry	37.9%	53.4%	35.3%	13.8%	44.0%
Dairy	45.6%	27.2%	19.3%	39.0%	23.7%
Cattle & sheep (LFA)	48.6%	29.3%	31.5%	24.3%	19.9%
Cattle & sheep (lowl'd)	55.1%	34.6%	28.4%	36.2%	27.2%
Mixed	55.8%	40.5%	40.5%	37.2%	35.8%
Other	72.4%	19.2%	35.1%	16.8%	23.8%
<u>England & Wales 1989</u>	47.4%	28.2%	12.9%	38.6%	19.0%
Crops	41.8%	25.7%	12.5%	54.4%	16.8%
Horticulture	24.3%	71.2%	17.0%	17.0%	35.6%
Pigs & poultry	41.5%	42.1%	10.5%	29.8%	17.0%
Dairy	47.8%	30.0%	7.1%	43.1%	7.9%
LFA livestock	59.6%	14.3%	10.4%	33.5%	12.6%
Lowland livestock	52.3%	24.5%	16.5%	31.4%	26.3%
Grass only	63.3%	16.1%	14.1%	22.1%	18.6%

Table 6.7 Distribution of diversified ‘enterprises by farm business size, 2002 and 1989

	Services	Processing & sales	Miscellaneous	Contracting	Speciality products
<u>England 2002</u>	53.2%	35.4%	33.6%	31.7%	27.9%
Less than 8 ESU	51.8%	34.9%	34.2%	15.8%	33.1%
8 to less than 40 ESU	54.6%	40.7%	31.8%	33.3%	28.9%
40 to less than 100 ESU	48.0%	34.0%	31.0%	44.3%	22.9%
100 to less than 200 ESU	57.0%	29.9%	34.7%	45.0%	20.3%
200 ESU and over	66.9%	31.6%	44.9%	55.9%	22.8%
<u>England & Wales 1989</u>	47.4%	28.2%	12.9%	38.6%	19.0%
Less than 4 BSU	50.5%	30.2%	16.0%	22.9%	28.8%
4 to less than 16 BSU	46.1%	32.3%	12.6%	38.7%	17.1%
16 to less than 40 BSU	47.4%	25.0%	9.2%	48.3%	10.7%
40 BSU and over	43.4%	23.4%	12.4%	54.8%	14.5%

Table 6.8 Distribution of diversified ‘enterprises’ by LFA status, 2002 and 1989

	Services	Processing & sales	Miscellaneous	Contracting	Speciality products
<u>England 2002</u>	53.2%	35.4%	33.6%	31.7%	27.9%
LFA farms	50.0%	30.4%	27.2%	24.0%	27.9%
Non-LFA farms	53.7%	36.2%	34.6%	32.9%	27.9%
<u>England & Wales 1989</u>	47.4%	28.2%	12.9%	38.6%	19.0%
LFA farms	58.0%	18.5%	12.7%	37.3%	14.3%
Non-LFA farms	44.8%	30.6%	12.9%	38.9%	20.2%

6.2.17 Finally, some caution must be exercised in relation to the observed changes in the distribution of diversified enterprises on LFA and non-LFA holdings (Table 6.8) since these may be an artefact due to the inclusion of results for Wales in the earlier figures. As the figures stand, there have been relative falls in ‘services’ and ‘contracting’ on LFA farms, in favour of (relative increases in) ‘processing and sales’, ‘miscellaneous’ and ‘speciality products’.

Activities within diversified enterprises

6.2.18 In the 1989 study each of the five ‘enterprises’ was broken down into a number of sub-groups and Table 6.9 shows the changing percentages of activities occurring within each named sub-group¹⁰. In this analysis the relative frequency of organic products within ‘speciality products’ has increased, as have marketing (within ‘processing and sales’) and buildings/machinery (within ‘miscellaneous’).

¹⁰ Note that the activities are not grouped at holding level in this calculation so where activities within the same sub-group occur together each is counted towards the percentages of activities in that sub-group.

Table 6.9 Classification of diversified activities within enterprises, 1989 and 2002

	2002 England	1989 E & W		2002 England	1989 E & W
Speciality products			Services		
Livestock products	40.0%	44.1%	Accommodation/ catering	37.2%	48.2%
Crop products	26.8%	31.4%	Horse-related	28.6%	24.2%
Organic products	21.9%	12.1%	Leisure	19.6%	18.4%
Other products	11.4%	12.4%	Sport	14.6%	9.2%
<u>Contracting</u>			<u>Processing & sales</u>		
Agricultural	75.2%	70.5%	Marketing	77.8%	60.8%
Non-agricultural	24.8%	29.5%	Processing	12.0%	19.9%
<u>Miscellaneous</u>			Preparation/ packing	10.2%	19.3%
Buildings/ machinery	54.1%	14.4%			
Other	20.7%	30.2%			
Timber & fuel	20.5%	41.7%			
Crafts	4.6%	13.7%			

Diversified activities undertaken by others

6.2.19 The 1989 survey excluded ‘the sale or leasing out of farm resources to other for use in non-agricultural activities’ but states that this restriction was to enable comparisons between countries in the UK on a consistent basis¹¹. The leased out resources are covered very briefly in the report, giving the incidence as ‘some 5 per cent’ of holdings. However, in the majority of cases the respondent was also engaged in other diversified activities so that had these leased out resources been included in the 1989 definition the total percentage diversified would have been increased by only one per cent. In the current survey the comparable figures would be 9.4 per cent leasing out resources and, as before, one per cent doing this but having no other diversified activities. In both surveys the leasing out of buildings accounted for the majority of this resource use transfer from agriculture.

*Length of time in operation*¹²

6.2.20 There are three aspects of this particular area of the surveys that make comparisons less straightforward. Firstly, in the current survey organic production was not included in the lists of diversified activities offered and therefore should not have been covered by the section on recent changes which referred specifically to those activities ticked. This creates a small difference in the basis for the figures for the length of time in operation in the two surveys. Secondly the data in the 1989 survey is presented at ‘enterprise’ level but it is not totally clear how these figures were derived and, in particular, how cases where the respondent was engaged in more than one activity within an ‘enterprise’ were treated. The presumption is that unless all of the activities were ‘recent’ then an enterprise would have been

¹¹ 1989 report p. 12 paragraph 1

¹² Although ‘recently given up’ was covered in the postal questionnaire, the results were not published.

deemed ‘established’. Lastly, although the ‘recent changes’ question in the 1989 survey specifically included the leased out resources figures for these are not reported and are not included in the overall figure.

6.2.21 Bearing these comments in mind, Table 6.10 indicates a significant reduction in the proportion of recent ‘enterprises’ that is, those less than five years old, compared with the 1989 findings. Given the slight uncertainty about how the 1989 figures were calculated it is worth noting that 83.5 per cent of the enterprises in 2002 had none of their component activities starting in the previous five years. One important conclusion from this is that the policy impetus given to farm diversification in the second half of the 1980s did ‘kick-start’ a significant increase in the numbers of farmers engaged in some form of diversification, and that this pattern was reflected in the 1989 findings.

Table 6.10 Recent and established diversified ‘enterprises, 2002 and 1989

	2002		1989	
	England		England & Wales	
	Established	Recent	Established	Recent
Services	88.2%	11.8%	69.3%	30.7%
Processing & sales	91.5%	8.5%	82.7%	17.3%
Miscellaneous	90.5%	9.5%	85.5%	14.5%
Contracting	94.2%	5.8%	81.1%	18.9%
Speciality products ^a	86.3%	13.7%	57.5%	42.5%
All enterprises	90.1%	9.9%	74.9%	25.1%

^aSpeciality products do not include organic production in the 2002 figures

Prospective developments

6.2.22 Perhaps surprisingly, respondents’ future expectations with regard to diversification seem to have been broadly similar in 2002 to those recorded in 1989 (Table 6.11). Even though the current level of diversification is considerably higher than it had been at the time of the earlier survey a similar number of respondents indicated that they were ‘definitely’ going to introduce a new activity. The activities cited were concentrated in both years in the ‘services’ and ‘miscellaneous’ categories. In 2002 slightly fewer already diversified holdings than previously were planning to expand an existing activity, but in both years only a very small proportion were planning to give one up.

Table 6.11 Prospective developments in farm diversification, 2002 and 1989

	2002 England	1989 England & Wales
<i>Introduce a new activity</i>		
All respondents	7.6%	7.0%
Already diversified	10.8%	n/a
New to diversification	3.3%	n/a
<i>Enterprises as percent of total new ventures</i>		
Services	52.8%	44.8%
Processing & sales	7.9%	6.7%
Miscellaneous	28.7%	32.7%
Contracting	1.7%	
Speciality products ^a	8.9%	15.8%
<i>Expand an existing activity</i>		
Already diversified	18.3%	24.4%
<i>Enterprises as percent of total to be expanded</i>		
Services	46.3%	33%
Processing & sales	19.6%	13%
Miscellaneous	12.9%	27%
Contracting	9.3%	13%
Speciality products ^a	11.9%	13%
<i>Give up an existing activity</i>		
Already diversified	1.5%	2.4%

Baseline studies of diversification: a summary

6.2.23 Despite the methodological difficulties in comparing detailed results from the 1989 and 2002 studies of farm diversification, the findings in this section have identified some fascinating developments in the incidence and patterns of this form of business growth. Some of these have very obvious implications for rural policy, while others confirm both the pace and, in this area at least, the direction of change in the nation's farming sector. During the intervening period between the two studies farming has experienced both 'the best of times' (the unpredicted boom in farm incomes between 1992 and 1997 following sterling's ejection from the Exchange Rate Mechanism) and 'the worst of times' (the multi-faceted farming recession since about 1998). Whatever the pattern of establishment of new diversification enterprises during the 1990s, careful comparison between the updated baseline study and its 1989 predecessor has identified:

- diversification has increased substantially both in terms of the proportion of holdings reporting some diversified activity and in terms of the number of diversified 'enterprises' that the diversified holdings are engaged in;

- The one area of diversification that has seen relatively little growth is machinery contracting;
- The widening of diversification has encompassed all groups of holdings: LFA and non-LFA, all farm types and all farm sizes;
- The greatest increase in the proportion of holdings with some diversified activity has been in the larger holdings;
- The number of enterprises established for more than five years has shown a significant increase;
- The proportion of respondents planning to introduce new activities has remained about the same, while those planning to expand existing activities has fallen.

6.3 Drivers of business and income diversification

6.3.1 A very wide range of factors are involved in the evolutionary development of a more diverse, less agriculturally focussed, farming sector in England. The extensive discussion of policy issues in farm diversification in Chapter 2 approaches the question ‘What initiates farm diversification?’ from the standpoint of the comprehensive literature on diversification which has contributed a great deal to a more informed understanding of the process. In particular, it is concluded that the reason why some farm families diversify (in this context, their businesses) while others do not is ‘embedded in the relations of the farm household’. In other words, that there is an inherent, internal characteristic of the farm family which is a significant determinant of the decision to diversify, in addition to factors related to the economic environment in which the family’s businesses operates.

6.3.2 This chapter begins (Section 6.1) with a brief overview of diversification as a process in agricultural adjustment and identifies the changing economic environment of agriculture, coupled with sporadic policy initiatives, as an important driver of diversifying farm businesses. The 1989/91 baseline study identified three key reasons for diversification:

- The financial need to find an alternative, supplementary source of income;
- The recognition of exploitable opportunities for diversification;
- The inclination to broaden the economic base of the farm business.

Clearly in any individual case there could be one or more supplementary factors, while the relative importance of each of these key factors will vary quite widely, both between farms and in a temporal sense when a second or subsequent diversified enterprise is introduced to an already diversified farm.

6.3.3 Much subsequent empirical work has provided further evidence to support these initial conclusions and, again, the extensive review of the literature in Chapter 2 makes reference to the more notable insights. A survey in the late 1990s, for example, found that although 45 per cent of farmers diversified to compensate for reasons of falling farm incomes, the majority cited more positive reasons associated with taking advantage of new business opportunities (NFU, 1999). More recently, and probably reflecting the continuance of widespread economic recession in the farming industry, a study found that a quarter of farmers ‘felt that they need to diversify’ because of low levels of profitability in agriculture (ADAS, 2002), suggesting that the ‘income push’ factor may currently be even more important than previously.

Motivations for starting diversified enterprises

6.3.4 In the interview survey respondents were asked about the reasons why they had started diversification on their farms, and the findings are summarized in Table 6.12. The present study identifies the income factor as quite clearly the most important motivation behind the establishment of a diversified enterprise, with six out of ten listing 'increase family income' and more than four out of ten citing 'maintain family income' principal causal factors. However, a wide range of forces are involved in the diversifying of English agriculture, many of which are associated with the opportunity afforded by the development of a new, non-agricultural enterprise to make better use of existing farm resources. Thus 'buildings' (27 per cent), 'family labour' (23 per cent), 'spare land' (17 per cent), 'spare machinery' (14 per cent) and 'hired labour' (7 per cent).

Table 6.12 Principal motivations for starting a diversified enterprise

	AS	TE	AC	EE	RL	UC	UL	MS	All
	Per cent of enterprises								
Increase family income	68	57	63	56	53	49	46	68	60
Maintain family income	53	49	50	28	22	39	29	39	43
Utilise spare buildings	6	22	45	45	14	28	11	44	27
Utilise existing family labour	39	26	17	29	10	11	17	12	23
Add value to farm (investment)	16	13	34	19	30	11	26	25	22
Developed from an informal activity	8	25	3	19	28	21	27	25	17
Utilise spare land	4	23	12	36	31	24	0	24	17
Indulge an interest/hobby	6	23	3	32	26	11	38	15	16
Utilise spare machinery	53	1	0	0	0	13	0	15	14
Utilise existing hired labour	20	8	2	0	2	6	2	8	7
Create new family employment	4	7	2	9	2	11	8	6	5

Key: AS = Agricultural services
 TE = Trading enterprises
 AC = Accommodation and catering
 EE = Equine enterprises
 RL = Recreation and leisure
 UC = Unconventional crops and crop-based processing
 UL = Unconventional livestock and livestock-based processing
 MS = Miscellaneous services

6.3.5 Other important motivations lend further emphasis to the attitude of mind which many identify as a central element in successful diversification. More than a fifth considered that the diversification would enhance the asset value of their farm, an interesting observation which suggests that at least some diversifiers may have an eye on their ultimate retirement or, at least, the sale of their present holding. An element of serendipity is introduced by the finding that 17 per cent of diversified respondents had grown their enterprise from what was originally an informal hobby while, in keeping with the small scale of many such enterprises, 16 per cent still regarded their diversification as little more than indulging an interest or hobby. Overall five per cent had established a new, diversified enterprise in order to create employment for family members.

6.3.6 As would be expected these general findings vary very substantially according to the type of enterprise involved. Although those who diversify primarily for income reasons are very well represented in all forms of diversification ‘agricultural services’, ‘accommodation and catering’, ‘miscellaneous services’ and ‘trading enterprises’ were rather more likely to be chosen than others. ‘Unconventional livestock’ is the enterprise most likely to be associated with a continuing hobby status, and ‘utilise spare machinery’ most likely to precipitate a move into ‘agricultural services’.

6.4 Establishment of diversified activities

Recent changes in diversified enterprises

6.4.1 The postal survey explored the nature of recent changes affecting one or more of a respondent’s diversified activities, providing a number of alternatives to obtain a broad indication of change in the diversified sector. The options were to record whether any enterprises had been started, expanded or improved (and whether these were established or new activities), or whether any activities had been given up in the five years prior to the survey in 2002 (Table 6.13).

Table 6.13 Recent changes in the incidence and size of diversified activities

	All holdings	Holdings currently diversified	Holdings not currently diversified
Started any diversified activities	16%	28%	
Expanded or improved any activities	16%	27%	
Expanded or improved any established activities	11%	19%	
Expanded or improved any new activities	6%	10%	
Given up any activities	4%	6%	2%

6.4.2 The postal survey results give an interesting overview of recent change in farm diversification, suggesting that 16 per cent of all holdings started, and a similar proportion expanded, a diversified enterprise during the past five years. For already diversified holdings, however, the equivalent proportion is about 27 per cent. Although there may be a little ambiguity over the point at which the *starting* of an activity ends and *expansion or improvement* begins, separate figures for ‘recently started’ and ‘established’ activities have been shown. While in theory it would have been quite possible to have started and subsequently closed a diversified enterprise in the five years prior to 2002, no instances of this were reported. There were a small number¹³ of cases, however, where it was recorded that a diversified activity had been given up (and no current activity was recorded), indicating that the holding had moved out of diversification.

6.4.3 Given the nature of diversification as an economic activity, the core skills and experience of those farmer-entrepreneurs who initiate such activity, and the uncertainties involved in the establishment of any new business, a certain proportion of ‘failed diversifications’ must be expected. Even when the overall trend in farm diversification is

¹³ Eighteen responses in total.

towards expansion, individual farmers may choose to ‘pull the plug’ on enterprises which they judge to be unsuccessful, or in response to changing market conditions.

Recently started diversified enterprises

6.4.4 Turning now to look at those diversified enterprises recently started, Table 6.14 summarises¹⁴ the incidence and distribution of activities started in the five years prior to the survey. This gives an indication both of the relative concentrations of new business ventures by diversified activity¹⁵, and of the rate of new activity formation within each enterprise grouping, relative to the total number of existing enterprises. The data show that the largest concentration of new activity has been in ‘miscellaneous services’ (at 23 per cent of all new business activities), followed by ‘trading’ and ‘accommodation and catering’ activities (both at 16 per cent). Relative to the total number of activities in each category, however, a slightly different picture emerges. Although total new provision is slightly more evenly distributed than the foregoing analysis, the largest expansion has been in the ‘accommodation and catering’ group, closely followed by the ‘equine’ and ‘miscellaneous services’ groups.

Table 6.14 Diversified activity started within the last five years, by enterprise group

	Survey totals	Of which, recently established	As per cent of recently established	Recent as per cent of survey totals
Agricultural service activities	32975	2610	8%	8%
Trading enterprise activities	35800	5313	16%	15%
Accomm. and catering activities	25865	5496	16%	21%
Equine enterprise activities	22387	4221	13%	19%
Recreation and leisure activities	25548	3193	9%	12%
Crop-based activities	20492	2948	9%	14%
Livestock-based activities	16619	2126	6%	13%
Miscellaneous service activities	42275	7579	23%	18%
All activities	221962	33486	100%	15%

6.4.5 The difficulty of considering diversified *enterprises* in this way is that a significant proportion consist of two or more activities which may have been started at different times. Indeed, adding an activity to an existing enterprise might be considered in many cases to be a form of expansion rather than initiation. The only practical approach is to consider an enterprise to have been ‘started’ recently only if *all* of its components were recorded as having been started in the five years running up to the survey. The resulting analysis, Table 6.15, shows a lower level of inception than the corresponding activities-based information in Table 6.14. One of the conclusions from this analysis is that farmers are less likely to initiate new business activities in types of diversification of which they have no experience than they are in areas (that is, types of diversified enterprise) in which they are already active.

¹⁴ Detailed tables giving figures for each activity can be found in Appendices D and E.

¹⁵ Note that in this report ‘activity’ refers to a separately-identifiable diversified venture, ‘enterprise’ to a grouping of (possibly) several activities which are closely associated in a generic sense.

Table 6.15 Diversified enterprises started within the last five years, by enterprise group

	Survey total	Recently established	As per cent of recently established	Recent as per cent of survey totals
Agricultural services	26959	1516	8%	6%
Trading enterprises	24973	2278	12%	9%
Accommodation and catering	18311	3463	19%	19%
Equine enterprises	18092	2578	14%	14%
Recreation and leisure	17417	2290	13%	13%
Crop-based	16920	1980	11%	12%
Livestock based	11960	1177	6%	10%
Miscellaneous services	26251	2991	16%	11%
All enterprises	160884	18273	100%	11%

6.4.6 This dual approach, identifying both *activities* and *enterprises*, is used again in Tables 6.16 and 6.17 which consider the proportions of diversified holdings with no recent new ventures, some recent new ventures and all recent diversification, alongside those non-diversified holdings. The latter two categories are, of course, the same whether approached from an ‘activities’ or ‘enterprises’ perspective. Overall, more than a quarter of diversified holdings have established at least one diversified activity during the last five years. Considered in terms of diversified enterprises, nearly one in five of all holdings have recently established a new diversified venture. These are key findings which highlight the continuing dynamics of farm diversification in England.

6.4.7 In section 6.2 of this chapter the comparison between this study and its 1989 forerunner suggested that some 15 per cent of all holdings may have become diversified over the thirteen years between the two studies. In this case, the finding that only an additional three per cent of holdings have diversified for the first time over the past five years could be taken to suggest that there has been a significant slowing in the pace of change, but care is necessary in interpreting this information. If it is assumed that diversified farm businesses are likely to have a markedly higher survival rate because of the augmentation of their income from agriculture which diversification typically represents (see analyses and discussion in Chapter 5) then, as the total number of farm businesses shrinks¹⁶, the overall proportion of the farms diversified will inevitably rise even without any of them newly embracing diversification¹⁷. In practice, clearly, the rise in the overall proportion of diversified farms will be result from a combination of two factors, namely the rate at which new diversifications are established and the likelihood of higher than average business failure rates among the non-diversified farms.

¹⁶ There is a long-established trend to fewer full-time farm holdings.

¹⁷ Although it is also true that this general condition will be mitigated to the extent that existing diversified enterprises fail, thus resulting in some holdings moving from the ‘diversified’ to ‘non-diversified’ categories.

Table 6.16 Patterns in farm diversification: proportions of holdings by length of time diversified, ‘activities’ basis

	Per cent of all holdings	Per cent of diversified holdings
Diversified		
All activities established	47%	73%
Some activities recent	13%	22%
All activities recent	3%	5%
Total diversified	58%	
Not diversified	42%	

Note: ‘recent’ means less than five years old

Table 6.17 Patterns in farm diversification: proportions of holdings by length of time diversified, ‘enterprises’ basis

	Per cent of all holdings	Per cent of diversified holdings
Diversified		
All enterprises established	47%	81%
Some enterprises recent	8%	14%
All enterprises recent	3%	5%
Total diversified	58%	
Not diversified	42%	

Note: ‘recent’ means less than five years old

6.4.8 The survey findings on the patterns of diversified enterprise formation over the last five years, by farm business size, by farm type and by GO region, are presented in Table 6.18. Perhaps the most striking finding from this analysis is the remarkably widespread pattern of continuing diversification, with substantial proportions of each of the sub-groups examined recording recent diversified activity. These data provide an unequivocal indication of the strength of this movement towards more diverse farm businesses, and may also be read as evidence of a broad-based and fundamental shift in the outlooks and expectations of the farming community

6.4.9 Even so, there are distinctive differences in the incidence of new diversification between some of the sub-groups among the most notable of which relates to the regional analyses which suggest that more than a third of recent diversification has occurred in the South West. The next most active region for the establishment of new diversifications was the South East. Other interesting findings in relation to *farm business size* include the evidence that, although less diversified as a group, ‘small’ and ‘very small’ holdings have nevertheless seen significant developments in diversification over recent years. The *farm type* analyses show that arable systems have accounted for relatively larger proportions of recent diversifications, as have ‘other types’ (these are part of the ‘very small’ category).

Table 6.18 Patterns in farm diversification: holdings recently starting a new diversified activity, by farm business size, robust farm type and GO Region

	Per cent of holdings in group with new diversified activity	Per cent of diversified holdings in group	Group as per cent of total <i>starting</i> diversification
All holdings	16%	28%	
Very small	12%	26%	31%
Small	19%	31%	32%
Medium	17%	26%	20%
Large	19%	28%	11%
Very large	27%	33%	7%
			100%
Cereals	20%	29%	20%
General cropping	21%	30%	10%
Horticulture	18%	29%	7%
Pigs & poultry	22%	35%	5%
Dairy	12%	23%	8%
Cattle & sheep (LFA)	12%	24%	5%
Cattle & Sheep (Lowland)	19%	32%	11%
Mixed	24%	33%	12%
Other types	12%	24%	22%
			100%
North West	16%	32%	5%
North East	12%	24%	10%
Yorkshire & the Humber	10%	21%	4%
East Midlands	10%	18%	7%
West Midlands	15%	29%	9%
East of England	16%	24%	13%
South East	23%	31%	16%
South West	20%	34%	35%
			100%

Expanded or improved diversified enterprises

6.4.10 Further insights into the nature of the trend towards farm diversification can be gained from the analyses given in Tables 6.19 and 6.20, which relate to the recent expansion or improvement of diversified activities. From the former table it can be seen that ‘miscellaneous services’ activities represent the category of diversification most likely to have been improved over the last five years, followed by ‘accommodation and catering’. The latter finding probably reflects, at least to some extent, the market requirement for improved quality in such ventures. Again, though, it is clear that there is an across-the-board pattern in the *expansion and improvement* of diversified activities, much as was seen in terms of newly established ventures.

6.4.11 It was found that typically, a third or more of recently established activities were also expanded or improved, reinforcing the picture of a vibrant, expanding business sector. While it is likely that many of these expansions and improvements form part of an original business plan, this finding does suggest that a significant proportion of new diversified activities perform well enough in the early years to encourage further investment. Overall, 14 per cent of all diversified activities have been expanded or improved over the last five years.

Table 6.19 Expanded or improved diversified activities, by enterprise group

	As per cent of all expanded/ improved activities	As per cent of all activities in group	As per cent of established activities in group	As per cent of recently established activities in group
Agricultural service activities	11%	10%	8%	44%
Trading enterprise activities	13%	11%	7%	33%
Accomm./catering activities	17%	19%	15%	33%
Equine enterprise activities	13%	18%	12%	42%
Recreation/leisure activities	10%	12%	10%	26%
Crop-based etc. activities	7%	10%	10%	14%
Livestock based etc. activities	7%	13%	10%	34%
Misc. service activities	22%	15%	12%	33%
	100%			
All activities		14%	10%	33%

6.4.12 Looking now at diversified *enterprises*, it will be understood that adding a new activity to an established enterprise may be one way of expanding the enterprise. Taking the numbers of holdings on which this occurred, and including these with the identified ‘expanding and improving’ respondents with established (that is, more than five years old) diversified activities, the results are presented in Table 6.20. This information may be regarded as providing broad estimates of the composite expansion and improvement of established enterprises during the last few years. Again, ‘miscellaneous services’ and ‘accommodation and catering’ are the two groups which show the most dynamic pattern of change. Overall 18 per cent, or nearly one in five, of all established diversified enterprises have been expanded or improved during the last five years.

Table 6.20 Expanded or improved established diversified enterprises, by enterprise group

	Total number of established enterprises	Expanded/ improved (including additional activities)	As per cent of total expanded/ improved	Expanded/ improved as per cent of survey total
Agricultural services	25443	2923	12%	11%
Trading enterprises	22695	3156	13%	14%
Accommodation and catering	14848	3712	15%	25%
Equine enterprises	15514	2633	11%	17%
Recreation and leisure	15127	1855	7%	12%
Crop-based etc.	14940	2148	9%	14%
Livestock based etc.	10783	2077	8%	19%
Miscellaneous services	23260	6515	26%	28%
			100%	
All enterprises	142611	25020		18%

Problems in establishing and operating diversified enterprises

6.4.13 Clearly the setting up and operation of any business venture will never be without problems and, as has been discussed elsewhere, it might be expected that diversifying farmers could find the going particularly difficult where the skills and information necessary to success are very different from those required in agriculture. While the issue of success and failure in diversification is explored in more detail in the following section, it is important to look specifically at the incidence and nature of problems associated both with establishing and operating in farm diversification as a business venture (Tables 6.21 and 6.22 respectively). The information in this section is drawn from the interview survey.

6.4.14 From the information in Table 6.21, the first notable finding is that more than six out of ten diversified enterprises were apparently set up without any real degree of difficulty – certainly nothing that, in retrospect, stood out as a major problem at the time the operator completed the questionnaire. Notwithstanding this broad generalization, it is also clear that many new to diversification can expect to encounter a wide range of problems. These range from such fundamentals as the nature and strength of market demand for the product or service (which may be broadly grouped under market research), through aspects of the business background and personal skills of the entrepreneur (including marketing and managerial competencies, and knowledge of sources of funding) to regulatory issues (including planning consent). No single problem area stands out as of universal applicability, indeed the finding is that there is a wide range of problems potentially associated with the establishment of a diversified enterprise. The highest incidence of problems, in fact, was for *other regulations and licences* related to ‘unconventional livestock and livestock-based processing’, possibly reflecting strict hygiene and public health regulations associated with these activities.

Table 6.21 The incidence and nature of the problems experienced in establishing diversified enterprises

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
No problems	81	66	55	63	75	49	30	59	62
Uncertain/changing demand for service or product	11	11	16	6	14	25	11	14	13
Other regulations or licences	4	10	11	14	20	5	30	12	12
Planning permission	0	6	15	2	12	0	10	22	9
Raising the necessary finance (private)	5	11	9	0	10	3	11	12	8
Finding information	0	2	6	2	10	18	31	3	6
Lack of marketing skills	0	6	6	5	9	18	8	10	6
Lack of managerial experience	1	6	2	3	10	18	8	3	5
Accessing of appropriate public support (grants etc)	3	2	5	0	8	5	8	8	5
Did not establish this enterprise	2	1	5	9	6	0	0	0	3
Lack of appropriately skilled labour	0	4	0	3	2	11	3	1	2

Key: AS = Agricultural services
TE = Trading enterprises
AC = Accommodation and catering
EE = Equine enterprises
RL = Recreation and leisure
UC = Unconventional crops and crop-based processing
UL = Unconventional livestock and livestock-based processing
MS = Miscellaneous services

6.4.15 In broad terms, and for the sample as a whole, the incidence and nature of the problems associated with operating a diversified enterprise correspond closely with those noted in connection with their establishment (Table 6.22). While almost two thirds (64 per cent) had experienced no problems, the remaining third identified a similarly broad range of issues. Comparison with the information relating to the *establishment* of these enterprises provides some revealing insights. If anything, market research issues became more significant after establishment, at least for some; this was particularly true for those operating 'trading', 'equine', 'unconventional crops etc.' and 'unconventional livestock etc.' enterprises. Regulatory issues tend to become of less importance once a new enterprise is established, as do a range of other problems associated with managerial competence and experience. However, for a substantial number of these diversified entrepreneurs, funding and financing problems continued and, importantly, the recruitment and retention of labour with the necessary skills has been a problem in some instances.

Table 6.22 The incidence and nature of the problems experienced in operating diversified enterprises

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
No problems	63	63	67	66	80	42	60	66	64
Uncertain/changing demand for service or product	13	16	12	10	15	37	17	11	15
Other regulations or licences	0	4	8	5	8	21	21	10	8
Maintaining the necessary level of investment	14	4	2	0	10	3	19	3	7
Cash flow problems	5	6	4	5	12	5	8	2	5
Accessing appropriate public support (grants etc)	4	2	6	0	8	11	8	5	5
Lack of managerial experience	2	8	1	0	8	13	8	2	4
Finding information	0	1	6	0	10	18	8	3	4
Lack of marketing skills	0	6	3	1	10	13	8	0	4
Lack of appropriately skilled labour	2	3	2	3	1	3	14	3	3
Retaining skilled labour	1	4	2	0	8	0	10	0	2
Planning permission	0	2	3	4	0	0	0	8	2
Family changes	2	1	1	2	0	0	3	0	1

Key: AS = Agricultural services
 TE = Trading enterprises
 AC = Accommodation and catering
 EE = Equine enterprises
 RL = Recreation and leisure
 UC = Unconventional crops and crop-based processing
 UL = Unconventional livestock and livestock-based processing
 MS = Miscellaneous services

6.5 Success and failure in diversification

Changes to diversified enterprises since establishment

6.5.1 The issue of the respective success and failure rates of new diversified enterprises has important implications for agricultural and rural policy. One way of taking a first look at the survey results of relevance here is to consider the nature of significant changes over time. Based on the findings of the interview survey, Table 6.23 summarises the incidence and nature of the changes to diversified enterprises which have taken place since their establishment. Overall, just more than half reported 'no change' in terms of either scale or quality, while just 8 per cent had been reduced in scale. However, a substantial proportion had been expanded (28 per cent) or upgraded (14 per cent), or both. The broad conclusion, therefore, is that of about one in three of those respondents with diversified enterprises the owner has been sufficiently confident of its business potential to invest further in either expansion or improvement subsequent to its establishment.

Table 6.23 The development of diversified enterprises: changes since establishment

	AS	TE	AC	EE	RL	UC	UL	MS	All
	Per cent of all enterprises								
Expanded	37	24	17	27	24	44	21	39	28
Upgraded	8	6	33	17	16	8	27	3	14
Reduced in scale	11	<i>11</i>	4	<i>11</i>	0	8	8	5	8
No change	51	60	57	61	64	46	48	53	55

Key: AS = Agricultural services
 TE = Trading enterprises
 AC = Accommodation and catering
 EE = Equine enterprises
 RL = Recreation and leisure
 UC = Unconventional crops and crop-based processing
 UL = Unconventional livestock and livestock-based processing
 MS = Miscellaneous services

Note: There is clearly a problem in the analysis of sub-groups when cell sizes become very small, and in this table analyses of cells which contain less than ten observations have been shown in italics.

6.5.2 Since the interview survey provided an opportunity for the in-depth investigation of the pattern of development of diversified enterprises over time, these general findings are considered in more detail in Tables 6.24 to 6.28 following. Table 6.24 presents an overview of the degree and type of changes experienced on diversified farms, and an insight into those planned for the future. There is a degree of solid continuity provided by the 47 per cent who had not changed their current enterprises since establishment, and the 44 per cent who do not envisage changing their enterprises over the next five years.

6.5.3 The overlap between these two groups - farms with no *history* of changes to their current enterprises, and farms with no *plans* for such changes - was about one in three (31 per cent) of the farms surveyed. When allowance is made for (a) enterprises already given up and (b) possible new enterprises, that figure reduces to 25 per cent. One general conclusion, therefore, is that only a quarter of diversified farms appear to be absolutely static in terms of business development in that sector, with three out of four expanding, upgrading or otherwise adjusting to market conditions. The analysis by farm business size does not reveal any very clear correlations with diversified enterprise development. While there is an indication that the likelihood of past change increases with business size, the picture is less clear in relation to future plans. Interestingly, the dynamics of both 'very small' and the 'very large' farms appear to be different from others, in that they are seen to be more likely both to have given up a diversified enterprise and to be considering a new one.

Table 6.24 Detailed analysis of changes on diversified farms over time, by farm business size

	Very small	Small	Medium	Large	Very large	All ESU size groups
<i>Changes to current enterprises since establishment</i>						
Expanded	23%	33%	43%	48%	68%	35%
Upgraded	16%	19%	22%	38%	41%	22%
Reduced in scale	19%	7%	15%	17%	5%	14%
No changes to any	52%	53%	48%	31%	14%	47%
Enterprises given up in past five years	19%	9%	14%	15%	32%	15%
<i>Planned changes to current enterprises</i>						
Increase in scale	45%	22%	34%	42%	59%	37%
Upgraded	13%	12%	25%	21%	45%	18%
Reduced in scale	6%	10%	8%	6%	0%	7%
Any to be stopped	13%	5%	9%	8%	9%	9%
No planned changes	35%	59%	45%	44%	18%	44%
New enterprises being considered	45%	14%	23%	35%	55%	31%

Failed diversification: activities and enterprises given up

6.5.4 The overall percentage of holdings having given up at least one diversified activity in the five years prior to the survey was 4.1 per cent, comprising 6.0 per cent of those still diversified and 1.5 per cent of those not currently diversified. The small number of cases involved does not permit any further analysis of the latter group but it should be noted that this figure refers only to those cases where the farm itself has remained in business: what cannot be known from a survey of this type is neither the number and type of diversified activities that have closed together with the parent farm business on which they were situated, nor the connection between (nor the nature of causality) these two events.

6.5.5 It will be seen from Table 6.25 that although there have been ‘failed’ activities across the spectrum of diversified enterprises, the distribution is not absolutely even. The highest proportion of activities given up, as a percentage of all such activities, was in ‘unconventional livestock and livestock-based’ activities, closely followed by ‘agricultural services’ and ‘unconventional crops etc’ activities. The ‘recreation and leisure’ category accounted for the smallest proportion of failures.

Table 6.25 Diversified activities given up, by enterprise group

	As per cent of total activities given up
Agricultural service activities	16
Trading enterprise activities	12
Accommodation/catering activities	14
Equine enterprise activities	11
Recreation/leisure activities	5
Unconventional crops etc. activities	16
Unconventional livestock etc. activities	18
Miscellaneous service activities	9
All diversified activities	100

6.5.6 The principal reasons for giving up diversified activities are set out in Table 6.26. Asked to identify the one over-riding factor in making their decision to abandon a diversified enterprise, nearly half cited ‘trading difficulties’ and 27 per cent ‘practical difficulties’. Some 14 per cent had, in fact, sold up, retired or moved on. ‘Regulatory problems’ were identified as the main cause of enterprise failure by seven per cent of those who had given up a diversified activity, while the FMD epidemic was blamed by five per cent.

Table 6.26 Principal reasons for giving up diversified activities

	As per cent of reasons given
Trading difficulties	46
Practical difficulties	27
Sold/retired/moved	14
Regulatory problems	7
FMD epidemic	5

6.5.7 The diversified *activities* given up in the five years prior to the interview survey have been grouped into *enterprises* (Tables 6.27 and 6.28). Where more than one activity from the same enterprise group has been given up on the same farm they are assumed to have been parts of the same enterprise. As will be seen from the top row in Table 6.27, the (unweighted) number of observations under each enterprise is very small so the reasons for stopping should be treated with some caution, and regarded as giving only a general indication of the reasons for this change.

6.5.8 One of the more robust and interesting findings in Table 6.27 is that the average age of those enterprises given up was nine years, indicating that the general pattern of exit from these business activities tends not to be associated with the waning of a short-lived enthusiasm. Recreation and leisure enterprises tended to have had the shortest lifespan at four years, while accommodation and leisure the longest at 13 years. As a percentage of current enterprises, it was found that the failure rate was one in ten in overall terms, but rising to 28 per cent for ‘unconventional crops etc.’ and 20 per cent for ‘unconventional livestock etc.’. Very low failure rates (3 per cent) were recorded for both ‘agricultural services’ and ‘trading enterprises’.

Table 6.27 Incidence of diversified enterprises given up

	AS	TE	AC	EE	RL	UC	UL	MS	All
Unweighted count	4	3	8	2	5	6	4	6	38
As per cent of current enterprises (weighted)	3%	3%	15%	9%	11%	28%	20%	7%	10%
As per cent of enterprises given up (weighted)	7%	6%	28%	8%	9%	17%	16%	11%	100%
Average years in operation	7	6	13	8	4	6	11	9	9

Key: AS = Agricultural services
 TE = Trading enterprises
 AC = Accommodation and catering
 EE = Equine enterprises
 RL = Recreation and leisure
 UC = Unconventional crops and crop-based processing
 UL = Unconventional livestock and livestock-based processing
 MS = Miscellaneous services

6.5.9 The detailed reasons for giving up a diversified enterprise make interesting reading. More than half of respondents cited 'too much hassle', a category which clearly encompasses a potentially very wide range of causal factors. The next most commonly recorded factor was 'insufficient financial returns' which, at only 25 per cent, appears to be much lower than might have been expected, particularly in relation to the established reasons for launching into farm diversification in the first place (see the discussion on the motivations for starting a diversified enterprise in section 6.3). If nothing else, this finding serves to underline the complex nature of decision-making in the family farm context, where business decisions are not infrequently closely bound up with personal and broader family factors. Notwithstanding the caveat about these figures given in paragraph 6.5.4, there are some very distinctive differences between enterprises with, for example, 'poor financial returns' being cited all respondents who had closed a 'trading enterprise' but by none in relation to 'accommodation and catering', 'equine enterprises' or 'recreation and leisure'.

Table 6.28 Detailed reasons for giving up diversified enterprises, by enterprise type

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of all enterprises								
Too much hassle	34	23	67	81	58	63	28	32	52
Insufficient financial return	57	100	0	0	0	54	28	18	25
Regulatory problems	0	0	5	0	15	11	68	36	19
Insufficient demand for product or service	0	23	5	0	0	37	28	18	15
FMD epidemic	0	0	7	19	0	37	32	0	15
Insufficient time available	0	0	5	81	0	17	0	0	11
Family changes	48	0	17	0	18	0	0	0	10
Competitive disadvantage	0	0	23	0	0	0	0	14	8
Conflicting resource demands with farm business	20	0	23	0	0	0	0	0	8
Staffing problems	29	23	5	0	0	9	8	0	7
Retirement	20	0	0	0	0	20	8	0	6
Conflicting resource demands with family	20	0	0	0	9	0	8	18	5
Business sold	23	0	5	0	0	0	0	0	3

Key: AS = Agricultural services
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 UL = Unconventional livestock and livestock-based processing
 MS = Miscellaneous services

Successful diversification: a review of the survey evidence

6.5.10 Turning now to the survey evidence of success in farm diversification, Table 6.29 identifies the detailed reasons given by interview respondents for expanding their diversified activity. As would be expected most respondents cited a number of reasons for the expansion of their diversification but, in contrast to the findings with regard to closures, a business focus is very evident in expansion. Thus, 63 per cent mentioned 'market conditions', 54 per cent the need to 'improve or maintain margins', 32 per cent the need to 'improve or maintain competitiveness'. More apparently opportunistic reasons also feature, such as 'availability of buildings' (22 per cent), 'availability of machinery' (17 per cent) and 'availability of labour' (17 per cent). These and some of the other reasons cited for expansion begin to identify an define a group of people with a developed (or developing) entrepreneurial approach to business growth, seeing opportunities for re-deploying resources of land (including buildings) labour and capital to more productive and profitable uses. In stark contrast to the grant-aided expansion of much post-war agricultural activity, this is clearly not an option in modern diversification and yet the sector is apparently thriving¹⁸.

¹⁸ See also the discussion on the need for diversification to be 'market-led' at the beginning of this chapter in section 6.1.

Table 6.29 Detailed reasons for expanding diversified activities, by enterprise type

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
Market conditions	53	86	46	61	70	72	37	73	63
Improve/maintain margins	47	49	60	38	67	77	25	62	54
Improve/maintain competitiveness	32	35	15	45	10	49	38	31	32
Availability of buildings	0	8	66	40	8	37	0	35	22
Availability of machinery	43	5	0	0	0	14	0	23	17
Availability of managerial experience	15	18	9	28	7	31	8	18	17
Availability of skilled (or trainable) labour	21	35	0	8	12	7	0	22	17
More time available	1	10	19	8	0	24	0	17	10
Availability of finance or capital	10	8	4	8	0	7	0	18	9
Family changes	5	7	13	0	0	0	0	2	4
Availability of public support (grants, training etc)	0	5	0	0	0	0	0	0	1

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6.5.11 A similar picture of a strongly market-led approach in the development of diversification emerges from the analysis of the reasons for upgrading diversified activities (Table 6.30). Major factors influencing the decision to upgrade the activity in some way include 'response to customer demand' (62 per cent), to 'improve or maintain competitiveness' (55 per cent), to 'improve profit margins' (37 per cent) and to 'establish a niche market' (26 per cent).

6.5.12 Again, and with the earlier caveat about small sub-samples, there are interesting variations between enterprise types, with the most customer-focused upgrading decisions being in the 'miscellaneous services' and 'recreation and leisure' enterprise groups. Equally of interest, particularly in comparison with past approaches to machinery investment in agriculture, is the finding that in only six per cent of these examples of upgrading a diversified enterprise was 'improved technology' cited and in only three per cent was 'reduce labour input' mentioned. This further strengthens the perception that the drivers of successful farm diversification are much more likely to be 'market-led' than 'input-driven'.

Table 6.30 Detailed reasons for upgrading diversified activities, by enterprise type

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
Response to customer demand	<i>70</i>	<i>85</i>	<i>59</i>	<i>38</i>	<i>94</i>	<i>68</i>	<i>41</i>	<i>100</i>	<i>62</i>
Improve/maintain competitiveness	<i>87</i>	<i>33</i>	<i>34</i>	<i>69</i>	<i>61</i>	<i>68</i>	<i>88</i>	<i>31</i>	<i>55</i>
In order to improve profit margins	<i>12</i>	<i>58</i>	<i>32</i>	<i>28</i>	<i>63</i>	<i>68</i>	<i>41</i>	<i>46</i>	<i>37</i>
To establish niche market	<i>19</i>	<i>31</i>	<i>9</i>	<i>10</i>	<i>71</i>	<i>40</i>	<i>65</i>	<i>0</i>	<i>26</i>
Part of wider initiative	<i>12</i>	<i>15</i>	<i>15</i>	<i>0</i>	<i>61</i>	<i>40</i>	<i>29</i>	<i>0</i>	<i>19</i>
Availability of financial support	<i>19</i>	<i>18</i>	<i>0</i>	<i>41</i>	<i>50</i>	<i>40</i>	<i>29</i>	<i>0</i>	<i>18</i>
Availability of improved machinery/technology	<i>31</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>72</i>	<i>0</i>	<i>0</i>	<i>6</i>
To reduce labour input	<i>19</i>	<i>0</i>	<i>2</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>3</i>

Key: AS = Agricultural services
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 RL = Recreation and leisure
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 UL = Unconventional livestock and livestock-based processing
 MS = Miscellaneous services

Note: There is clearly a problem in the analysis of sub-groups when cell sizes become very small, and in this table analyses of cells which contain less than ten observations have been shown in italics.

6.5.13 Although based on very small samples, Table 6.31 summarises the reasons given for a reduction in a diversified enterprise. Again, market conditions appear to be the most important, cited by 56 per cent, although personal ('less time available', 20 per cent) and family ('family changes', 9 per cent) also feature.

Table 6.31 Reasons for having reduced the scale of a diversified enterprise, by enterprise type

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
Market conditions	<i>54</i>	<i>44</i>	<i>12</i>	<i>80</i>	<i>n/a</i>	<i>100</i>	<i>100</i>	<i>41</i>	<i>56</i>
Less time available	<i>54</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>0</i>	<i>41</i>	<i>20</i>
Family changes	<i>0</i>	<i>33</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>0</i>	<i>10</i>	<i>9</i>
Lack of finance or capital	<i>13</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>0</i>	<i>10</i>	<i>5</i>
Reduced availability of machinery	<i>6</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>2</i>
Lack of public support (grants, training etc)	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>0</i>	<i>10</i>	<i>1</i>

Key: AS = Agricultural services
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 MS = Miscellaneous services

Note: There is clearly a problem in the analysis of sub-groups when cell sizes become very small, and in this table analyses of cells which contain less than ten observations have been shown in italics.

6.5.14 Respondents own assessments of the current profitability of their diversification are summarized in Table 6. 32, which indicates that three quarters considered their enterprise to be profitable. Of the remainder, only seven per cent knew their enterprise to be unprofitable, while 16 per cent were unsure of its current position. The main variances between groups were the relative proportions identifying their enterprise as profitable, which were highest for ‘accommodation and catering’, ‘miscellaneous services’ and ‘agricultural services’, and lowest for ‘unconventional crops’ and ‘unconventional livestock’. Those with ‘trading enterprises’ were least likely to know the current profitability status of their enterprise.

Table 6.32 Respondents assessment of the current profitability of their diversified enterprise, by enterprise type

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
Profitable	82	54	93	71	71	58	64	84	75
Unprofitable	2	<i>13</i>	<i>1</i>	7	6	<i>15</i>	<i>19</i>	7	7
Not sure/uncertain	16	31	6	22	23	25	<i>10</i>	6	16

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Note: There is clearly a problem in the analysis of sub-groups when cell sizes become very small, and in this table analyses of cells which contain less than ten observations have been shown in italics.

6.5.15 This analysis is taken further in Table 6. 33, which sets out respondents’ perceptions of the reasons for the profitability of their enterprises, which identifies a broad range of ‘success factors’ in successful, profitable diversification, among the most important of which are:

- ‘Good market for product’ (all types);
- ‘Family involvement and commitment’ (most types not independent on family);
- ‘Good proximity to market’ (depending on type);
- ‘Attractiveness of location’ (for accommodation and leisure activities);

6.5.16 While a number of other factor such as ‘management ability’, ‘level of capital investment’, ‘good marketing’, ‘competitive advantage’ and ‘market research’ are clearly very important, respondents assessments of the principal factors underpinning their profitability may be summarized as *market*, *commitment* and *location*.

Table 6.33 Respondents assessment of the reasons for the current profitability of their diversified enterprise, by enterprise type

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
Good market for product	41	89	65	89	61	83	82	50	64
Family involvement/commitment	56	53	61	42	24	52	55	17	47
Good proximity to market	35	64	34	47	37	36	63	28	40
Attractiveness of location	2	10	74	55	65	26	12	40	36
Management capabilities/training	25	28	11	15	25	42	44	16	22
Capital investment	23	10	23	25	17	14	18	19	20
Good marketing	10	31	20	9	8	30	22	21	18
Competitive advantage	18	23	18	7	9	42	0	25	18
Good market research	7	32	9	15	5	26	26	6	13
Successful branding	1	21	4	0	0	9	14	7	6

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6.5.17 Perhaps of equal importance in assessing success, is a clear understanding of the reasons for a current lack of profitability (Table 6.34). In fact, of the seven per cent who knew their enterprises were unprofitable, nearly half (45 per cent) expected this to be a short-term problem because the enterprise was in the start-up phase when losses were to be expected. However, nearly a quarter reckoned that the market for their product was not strong enough, while 19 per cent identified a 'lack of competitive advantage' as a major factor. Nine per cent blamed 'inadequate marketing' for the problem of a lack of profitability.

Table 6.34 Reasons for being unprofitable

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
Enterprise in loss-making start up phase	33	42	0	0	65	57	41	75	45
Insufficient market for product	33	13	100	0	0	21	59	0	23
Lack of competitive advantage	0	51	0	30	0	0	0	7	19
Inadequate marketing	0	0	0	0	0	0	0	61	9

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Note: There is clearly a problem in the analysis of sub-groups when cell sizes become very small, and in this table analyses of cells which contain less than ten observations have been shown in italics.

6.5.18 A final perspective on successful farm diversification is given in Table 6.35, which sets out respondents' assessments of the factors (including profitability) which they regard as being important indicators of success. While two financial measures - 'cash flow' (66 per cent) and 'profitability' (61 per cent) - come top of their list, it is clear that these farmers take a very rounded view of 'success' in assessing their diversification. Synergy with the remainder of the business is very important (56 per cent), but so is 'customer satisfaction' (53 per cent). Personal and family satisfaction is also widely seen as important, including 'fitting in with farm life' (41 per cent). 'operator satisfaction' (35 per cent) and 'family employment' (21 per cent). Although there are interesting variations between enterprise groups, there is clearly widespread support for the eight factors identified in Table 6.35.

Table 6.35 Respondents' criteria for success in diversification, by enterprise group

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
Generating cash income/increasing cash flow	70	66	71	46	60	81	49	70	66
Profitability	66	51	74	58	63	61	40	60	61
Fitting in with farm business	82	47	55	44	56	57	35	51	56
Satisfied customers	54	55	62	45	61	37	53	48	53
Fitting in with farm life	47	42	52	49	40	41	30	18	41
Operator satisfaction/enjoyment	27	42	31	46	38	39	56	18	35
Adding value to farm	15	22	34	14	38	20	12	29	24
Providing family employment	30	28	14	19	10	34	8	15	21

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6.6 Prospective developments

6.6.1 This study has both confirmed and strengthened many of the findings of earlier studies about the dynamic nature of farm diversification as a largely market-led adjustment in farm resource use, a process which is a growing part of the farm sector's adaptation to the new economic and policy environment in which it increasingly operates¹⁹. However, the diversion of 'agricultural' resources into diversified enterprises can take place only as fast as the markets for those particular products and services grow. Far from being recent discoveries, many of these markets have been growing steadily over many years. As they have grown, so enterprising farmers have seen the potential for business activity, established new 'diversified' enterprises and catered for the consumer demands they expressed. Along the way, there has been a major change in attitudes among many owners of agricultural

¹⁹ While it must be understood that such farm adjustment is still partial, and that agriculture continues to operate within the state-funded framework of the CAP, at least the *direction* of change is becoming evident, as is its increasingly market-oriented approach to business organisation and production. Nowhere is this better demonstrated than in the area of 'farm diversification'.

resources. There is a now among farmers a growing recognition not only that agricultural resources can validly be used for forms of economic activity other than food production, but also that this wider definition of their role makes sense in meeting the wider needs of society in the twenty first century. It is against this background that the prospects for the future development of farm diversification are now discussed. This section concludes with a careful review of respondents' plans for new diversification ventures over the next few years.

6.6.2 In Table 6.36 farmers' intentions regarding the development of their businesses in the area of farm diversification are summarized. It was found that nearly half (46 per cent) of currently diversified farmers plan to introduce a new diversified activity in the foreseeable future, either in conjunction with expanding an existing activity or as a stand-alone venture. More than half (56 per cent) plan to expand an existing activity, many of which will be in conjunction with setting up something new. Only 1.5 per cent plan to give up an existing diversification.

Table 6.36 Farmers' intentions for the future development of their diversification: existing diversified holdings

	As per cent of currently diversified holdings
Introduce a new diversified activity	13.2
Expand an existing diversified activity	22.9
Introduce a new, and expand an existing, activity	33.0
Give up an existing diversified activity	1.5

6.6.3 The *types* of diversification in which these already diversified farmers see most potential are very clear from Table 6.37, with most seeing potential in various parts of the service sector. Some 42 per cent of the planned new activities will be in the area classified as 'miscellaneous services', and 27 per cent will be 'accommodation and catering' activities. No other category of diversification comes close in terms of planned development to these two types.

Table 6.37 Proposed new diversified activities, by enterprise group

	As per cent of currently diversified holdings
Agricultural service activities	3.2
Trading enterprise activities	8.6
Accommodation and catering activities	27.0
Equine enterprise activities	5.8
Recreation and leisure activities	7.2
Unconventional crop etc. activities	1.6
Unconventional livestock etc. activities	4.2
Miscellaneous service activities	42.4

6.6.4 In a similar manner Table 6.38 sets out the existing diversification activities identified for expansion. Here there is a much more balanced picture, presumably reflecting what are seen by respondents as good prospects almost across the board. Having said that ‘miscellaneous service’ activities, at some 23 per cent, are still clear favourites for expansion, with other types varying between about eight and 15 per cent.

Table 6.38 Activities identified for expansion by enterprise group

	As per cent of all proposed new activities
Agricultural service activities	11.8
Trading enterprise activities	11.0
Accommodation and catering activities	14.0
Equine enterprise activities	14.9
Recreation and leisure activities	9.5
Unconventional crops etc. activities	7.7
Unconventional livestock etc. activities	7.8
Miscellaneous service activities	23.4

6.6.4 Clearly, if diversification really is to have a greater role in resolving some of the current problems of agricultural adjustment, there have to be ‘new entrants’ – the operators of farms which are not currently diversified but who now see potential in their own circumstances for setting up profitable business alternatives to agriculture. Table 6.39 shows the postal survey findings of relevance here. Although this particular question was not completed by all respondents (more than a third did not complete), those who did provide an answer were split roughly one third who could see some opportunity to diversify and two thirds who could not. Even if it is assumed that all of those who failed to answer this question did so because they too could see no realistic prospects to diversify, this still equates to a remarkable one in five of non-diversified holdings at least aware of possible new opportunities. However, of those who saw some opportunity to diversify, in answer to the question ‘Why do you see an opportunity to diversify?’ the two most frequently mentioned reasons were ‘surplus buildings’ and ‘the need for an alternative income’, perhaps suggesting that many have not yet got clear business proposals thought through.

Table 6.39 Farmers' intentions for the future development of diversification: non-diversified holdings

	As per cent of all proposed new activities	As per cent of those completing the question
Some opportunity to diversify	20	31
No opportunity to diversify	44	69
Not completed	37	

6.6.5 Of those respondents who saw no opportunity to diversify (Table 6.40) one in three stated firmly that they 'prefer to stick to farming' and a similar proportion were close to, or already, retired and not therefore at the stage of life when they would be looking to develop new business opportunities. Other important reasons were 'location' (13 per cent), 'operating a tenanted farm' (10 per cent), 'time pressures' (9 per cent) and 'existing off-farm employment' (9 per cent).

Table 6.40 Non-diversified farms: reasons for 'no opportunity to diversify'

	As per cent of activities to be expanded*
Prefer to stick to farming	33
Retired/retiring soon/about to sell up	32
Location unsuitable	13
Tenanted holding	10
Lack of time	9
Employment off farm	9
Type of land unsuitable	8
Financial reasons	6
Too much red tape	3

*Percentages total more than one hundred because up to two reasons could be recorded.

Prospective developments in existing diversification

6.6.6 In the interview survey the prospects for further development of diversification, in terms of respondents' intentions for change over the next five years, were explored in some detail. The results, presented in Table 6.41, are fairly mixed but 'unconventional livestock and livestock products' recorded the lowest proportion of 'no change' and the highest proportions of 'increase scale' (50 per cent) and 'upgrade' (19 per cent). Upgrading intentions were also quite common in the 'accommodation and catering' group. Each of these responses is considered separately in Tables 6.42 to 6.45 and the accompanying text.

Table 6.41 Intentions to develop diversification over the next five years: diversified farms, by enterprise type

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises								
No change	53	58	57	51	61	63	<i>31</i>	49	53
Increase scale	28	27	23	41	29	<i>16</i>	50	32	30
Upgrade	<i>11</i>	9	17	9	6	8	<i>19</i>	9	11
Reduce scale	8	4	4	3	0	9	0	0	4
Close	5	6	7	2	8	3	4	<i>11</i>	6

Key: AS = Agricultural services
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 EE = Equine enterprises
 RL = Recreation and leisure
 UC = Unconventional crops and crop-based processing
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 MS = Miscellaneous services

Note: There is clearly a problem in the analysis of sub-groups when cell sizes become very small, and in this table analyses of cells which contain less than ten observations have been shown in italics.

6.6.7 As Table 6.42 shows, there are a number of key factors behind the planned increases in scale, with a rather longer list of subsidiary or supplementary reasons. The top three reasons, all cited by more than four out of ten 'expanders', are all closely connected with market conditions for the product or service being supplied including 'growing market', 'continuing pattern of growth' and 'more demand than can currently be met'. Most of the remaining reasons are, in fact, recognising the opportunity to re-deploy existing farm resources more profitably including 'land and buildings', 'shift resources', 'labour resources', 'investment resources', 'machinery resources' and 'management resources'. This reinforces the picture of the operators of these diversified businesses increasingly looking at their total resources and comprehensively considering where the best (i.e. the most economically productive) use for those resources might be within the whole business. Having got an experience of the financial and other benefits associated with successful diversification, these farmers are now steadily re-planning and re-structuring their businesses along commercial lines.

Table 6.42 Diversified farms: reasons for the intended increase in scale of existing diversified enterprises

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises for which increases in scale are planned								
Market for product/service growing	41	62	38	48	<i>54</i>	<i>7</i>	54	35	45
Continuing established pattern of growth	60	35	29	42	<i>64</i>	<i>45</i>	42	49	45
More demand expected than could currently be met	27	40	39	66	<i>84</i>	<i>52</i>	19	41	42
Additional buildings/land will become available	3	0	75	39	<i>44</i>	<i>7</i>	32	68	34
Desire to shift resources from farm to diversified	9	16	27	0	<i>63</i>	<i>7</i>	19	30	20
Additional labour resources will become available	3	14	0	0	<i>29</i>	<i>0</i>	16	2	7
Family changes	5	0	4	0	<i>34</i>	<i>0</i>	3	5	5
Additional investment resources will become available	5	0	10	9	<i>9</i>	<i>0</i>	0	1	4
Additional machinery will become available	11	0	0	0	<i>0</i>	<i>0</i>	0	14	4
New partnership/co-ops/mergers	16	0	0	0	<i>0</i>	<i>0</i>	3	0	4
Additional management resources will become available	3	0	0	0	<i>0</i>	<i>0</i>	0	15	3

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6.6.8 The analysis of the interview survey responses to the question ‘What are the reasons for the intended upgrade to your diversified enterprise?’ are given in Table 6.43. Again, it is notable how the two principal responses are market-focussed – ‘in response to customer demand’ (69 per cent) and ‘to remain competitive’ (55 per cent). The business economics of the enterprise (‘improve profit margins’) were an important factor in 30 per cent of cases, while 17 per cent cited ‘to establish a niche market’, presumably another example of a very strong focus on the market. Interestingly, factors associated with the more efficient use of resources do not appear to be very common as principal reasons for upgrading a diversification venture.

Table 6.43 Diversified farms: reasons for an intended upgrade to existing diversified enterprises

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises for which upgrades are planned								
In response to customer demand	<i>70</i>	<i>49</i>	<i>79</i>	<i>81</i>	<i>65</i>	<i>69</i>	<i>41</i>	<i>93</i>	<i>69</i>
To remain competitive	<i>66</i>	<i>41</i>	<i>54</i>	<i>54</i>	<i>30</i>	<i>100</i>	<i>59</i>	<i>39</i>	<i>55</i>
In order to improve profit margins	<i>8</i>	<i>51</i>	<i>32</i>	<i>23</i>	<i>65</i>	<i>31</i>	<i>9</i>	<i>54</i>	<i>30</i>
To establish a niche market	<i>0</i>	<i>21</i>	<i>4</i>	<i>19</i>	<i>30</i>	<i>0</i>	<i>41</i>	<i>48</i>	<i>17</i>
Part of a wider initiative	<i>3</i>	<i>22</i>	<i>4</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>41</i>	<i>7</i>	<i>11</i>
Availability of improved machinery or technology	<i>40</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>8</i>
Availability of financial support	<i>13</i>	<i>0</i>	<i>4</i>	<i>0</i>	<i>35</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>5</i>
To reduce the labour input	<i>0</i>	<i>12</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>9</i>	<i>0</i>	<i>3</i>

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Note: There is clearly a problem in the analysis of sub-groups when cell sizes become very small, and in this table analyses of cells which contain less than ten observations have been shown in italics.

6.6.9 Although only a small proportion of diversified enterprises were identified as likely to undergo a reduction in scale, it is clearly of interest to explore the declared reasons for the operators' decision in this and these are set out in Table 6.44. By comparison with the strongly market-focussed approaches to expanding or upgrading decisions, it is evident that a wider range of factors are involved in decisions to cutback. In particular, family and personal reasons are much more prominent, with the most frequently cited reason being 'family changes' (35 per cent). The most frequently mentioned reasons for a planned reduction in scale were concerned with issues of *resource availability* – 'fewer labour resources' (22 per cent), 'fewer investment resources' and 'less machinery available' being the most important. However, market factors were still very prominent determinants, with 'declining market' (29 per cent) and 'established pattern of decline' (28 per cent) being the second and third most frequently cited reasons for a decision to cutback.

Table 6.44 Diversified farms: reasons for the intended decrease in scale of existing diversified enterprises

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises for which decreases in scale are planned								
Family changes	<i>0</i>	<i>100</i>	<i>75</i>	<i>0</i>	<i>n/a</i>	<i>35</i>	<i>n/a</i>	<i>n/a</i>	<i>35</i>
Declining market for product/service	<i>38</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>88</i>	<i>n/a</i>	<i>n/a</i>	<i>29</i>
Continuing an established pattern of decline	<i>35</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>88</i>	<i>n/a</i>	<i>n/a</i>	<i>28</i>
Fewer labour resources will be available	<i>35</i>	<i>0</i>	<i>10</i>	<i>0</i>	<i>n/a</i>	<i>35</i>	<i>n/a</i>	<i>n/a</i>	<i>22</i>
Less demand expected than could currently be met	<i>25</i>	<i>0</i>	<i>15</i>	<i>0</i>	<i>n/a</i>	<i>47</i>	<i>n/a</i>	<i>n/a</i>	<i>21</i>
Fewer investment resources will be available	<i>17</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>35</i>	<i>n/a</i>	<i>n/a</i>	<i>13</i>
Less machinery will be available	<i>17</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>	<i>n/a</i>	<i>8</i>
Too much hassle	<i>0</i>	<i>0</i>	<i>10</i>	<i>0</i>	<i>n/a</i>	<i>35</i>	<i>n/a</i>	<i>n/a</i>	<i>7</i>
Low profitability	<i>3</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>35</i>	<i>n/a</i>	<i>n/a</i>	<i>6</i>
Fewer buildings/less land will be available	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>35</i>	<i>n/a</i>	<i>n/a</i>	<i>5</i>
Fewer management resources will be available	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>n/a</i>	<i>35</i>	<i>n/a</i>	<i>n/a</i>	<i>5</i>
Desire to shift resources from diversified to farm	<i>0</i>	<i>0</i>	<i>15</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>	<i>n/a</i>	<i>3</i>
Not enough time available	<i>0</i>	<i>0</i>	<i>10</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>	<i>n/a</i>	<i>2</i>

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6.6.10 It will be recalled that respondents identified six per cent of enterprises for which closure was planned (Table 6.41) and in Table 6.45 the main reasons for these decisions are set out. Again, these findings may be contrasted with the reasons given by those deciding to expand which, as has been shown, are strongly market-led. In practice, although the most commonly cited reason was 'low profitability' (30 per cent) others appear also to be very important, including personal factors ('too much hassle' was noted by 28 per cent), family factors ('family changes' given by 25 per cent) and resource use issues ('shift resources back to farm' gained 24 per cent). Care should be taken with some of the sub-sample responses because of small numbers.

Table 6.45 Diversified farms: reasons for the intended closure of existing diversified enterprises

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises for which closure is planned								
Low profitability	39	26	8	0	0	100	100	39	30
Too much hassle	26	17	16	0	0	100	0	56	28
Family changes	28	26	68	0	0	0	0	9	25
Desire to shift resources from diversified to farm	26	0	0	0	100	0	0	39	24
Fewer buildings/less land will be available	0	0	0	0	100	0	0	39	20
Less demand expected than could currently be met	0	26	24	0	0	0	100	12	17
Market for product/service declining	15	26	8	100	0	100	0	5	16
Concentrate on other enterprises	13	57	0	0	0	0	0	0	12
Fewer labour resources will be available	28	0	16	0	0	0	0	9	10
Continuing an established pattern of decline	0	26	0	0	0	0	0	12	8
Fewer management resources will be available	15	0	0	0	0	0	0	9	5
Less machinery will be available	13	0	0	0	0	0	0	0	2

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New diversification on currently diversified farms

6.6.11 Finally, the interview survey considered respondents' plans for new diversification ventures over the next five years, including assessing how far these plans had progressed, and Tables 6.46 to 6.48 set out the study findings. Using the standard approach in this study, the activities that might be taken up in the next five years have been grouped into 'diversified enterprises'. Where more than one activity from the same enterprise group might be taken up on the same farm it has been assumed that they will be parts of the same enterprise. The unweighted number of observations has been included to make explicit the small number of responses in some cases.

6.6.12 As Table 6.46 shows, new diversification ventures are planned by one in four of the diversified farms which formed the sample for the interview study. By far the most frequently mentioned enterprise was 'accommodation and catering', in which group about one in three of the proposed new diversification activities would fall. 'Miscellaneous

services' was the second most popular type (20 per cent) followed by 'trading' and 'equine' enterprises (at 11 and 12 per cent respectively).

Table 6.46 New diversification: enterprises planned on currently diversified farms

	AS	TE	AC	EE	RL	UC	UL	MS	All
Unweighted count	5	12	27	11	9	4	4	23	95
As percentage of current enterprises (weighted)	<i>6%</i>	<i>17%</i>	<i>44%</i>	<i>32%</i>	<i>30%</i>	<i>27%</i>	<i>16%</i>	<i>35%</i>	<i>25%</i>
As percentage of possible new enterprises (weighted)	<i>5%</i>	<i>12%</i>	<i>32%</i>	<i>11%</i>	<i>9%</i>	<i>6%</i>	<i>5%</i>	<i>20%</i>	<i>100%</i>

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 MS = Miscellaneous services

Note: There is clearly a problem in the analysis of sub-groups when cell sizes become very small, and in this table analyses of cells which contain less than ten observations have been shown in italics.

6.6.13 Clearly some of these plans, given that the time frame suggested was 'the next five years', are more advanced than others and Table 6.47 presents an analysis of the planned new diversification, by enterprise type, which broadly categorises the stage of business planning. On this basis, although half are still at the 'just a possibility' stage the other half are, for the most part, considerably more advanced with nearly one in four 'definitely going ahead'. The enterprise types for which the most certainty was shown were 'agricultural services', 'trading enterprises' and 'miscellaneous services'; and those where respondents tended to have less advanced plans were 'equine enterprises' and 'unconventional crops etc.'.

Table 6.47 New diversification: firmness of proposals, by type of diversified enterprise

	AS	TE	AC	EE	RL	UC	UL	MS	All
	As per cent of enterprises planned to start								
Just a possibility	33	31	48	73	58	79	38	48	50
A fair chance of proceeding	13	11	3	27	8	0	0	13	9
More than likely to go ahead	0	22	29	0	7	21	50	7	17
Definitely going ahead	54	37	20	0	27	0	12	33	23
	Unweighted count								
Just a possibility	3	5	16	6	6	2	2	11	51
A fair chance of proceeding	1	2	2	5	1	0	0	4	15
More than likely to go ahead	0	1	5	0	1	2	1	2	12
Definitely going ahead	1	4	4	0	1	0	1	6	17

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 MS = Miscellaneous services

Note: There is clearly a problem in the analysis of sub-groups when cell sizes become very small, and in this table analyses of cells which contain less than ten observations have been shown in italics.

6.6.14 Finally the interview explored in detail the stage of implementation of respondents plans for new diversification and the results are summarized in Table 6. 48. The findings are illuminating, not only showing that, as would be expected, those whose plans were more firmly established have already invested a good deal more effort in getting the project off the ground, but also aspects of business planning practice. For example, at the stage of 'definitely going ahead' many have clearly invested time and money in the new venture - 42 per cent having applied for or obtained planning permission, 29 per cent having commissioned detailed plans, 28 per cent having invested some capital – yet only 25 per cent have a business plan and only 11 per cent have sought advice or information! Of course, it may well be that this rather overstates the situation, and that the new venture is a logical extension of something with which the farmer-entrepreneur is already familiar, but nevertheless this finding is slightly surprising given that most, if not all, of these are already operating successful diversified businesses.

6.6.15 Conversely, it is also of interest to note that, even among those whose thinking about a new diversified venture was described as 'just a possibility', a third had already sought advice or information and a small proportion had gone as far as more formal planning. Taken as a whole, these findings about new ventures highlight several important points about the current nature of farm diversification:

- There is evidence of a structured approach to developing new diversification projects, involving advice and information, business planning and other professional help.

Table 6.48 New diversification: firmness of proposals, by stage of implementation reached

	Just a possibility	A fair chance of proceeding	More than likely to go ahead	Definitely going ahead
	As per cent of enterprises at stage			
None	46	19	3	3
Advice and or information sought	35	76	64	11
Business plan developed	8	15	14	25
Physical plans developed	2	22	37	29
Planning permission applied for or obtained	0	14	28	42
Some capital expenditure	0	0	33	28
Some staff hired	0	0	0	0

- The gestation period may be relatively extended for some forms of diversification, extending over a number of years before final decisions on investment and launch are taken.
- Even among this group of successful diversifiers, only a minority of those firmly committed to a new venture had produced, or commissioned, a business plan.
- Some capital expenditure may be undertaken before a final decision to enter the new market is taken.

7 CONCLUSIONS AND RECOMMENDATIONS

Rather than select and repeat the key findings of this report, which are already set out in the executive summary and in the body of the report itself, this short concluding chapter reflects and comments on a few key themes of the research. It does so particularly in the context of changes since the earlier Exeter research. In addition, it makes some recommendations on how we feel research in this area should be carried forward.

In examining our own findings against those of the original baseline research (McInerney and Turner, 1989), as undertaken in some detail in Chapter 6, we are struck in general terms by the similarities between the findings of the earlier study and are own. Indeed many paragraphs from the conclusions of that study could be placed verbatim into our conclusions without doing any real disservice to our own findings. For example,

It has to be said, too, that although diversified enterprises are common in farming many of them are relatively unremarkable, and some almost qualify for being considered as traditional activities. Machinery contracting and provision for farm-based tourism, for example ... have long been accepted sidelines to farming. It is the more eye-catching but infrequent examples - like snail farming, golf courses, crops of evening primrose and craft workshops - that dominate media attention and create a rather biased image of the change that is taking place in the countryside. It is certainly true that there are many ways in which rural resources can be used productively for things other than conventional food production. The demand for these uses (whether in the form of consumer products or services) appears to have grown over recent years, and those demands are likely to expand and widen in the future as food production loses its exclusivity as the primary use for agricultural land. It is also true that, as the incomes from farming have seemed less secure many operators of agricultural holdings have been looking to see whether any of those alternatives were relevant to their businesses. As a result there has been a noticeable expansion in farm diversification in Britain in the last decade. But it is important to emphasise that this is less the discovery of new openings than the manifestation of a predictable development in the rural economy. In many ways the widening of business activity on farms is no more remarkable than the diversification of petrol filling stations into the sale of food products, magazines, digital watches and other commodities that might serve the needs of passing motorists. It is simply the kind of exploitation of valid market opportunities that every resource owner or manager is expected to do in every sector of an enterprise-based economy ... (McInerney and Turner 1989)

These words could have been penned with equal validity for the present study. The activities characterised as diversification remain unremarkable both in terms of their characteristics and in terms of an economic understanding of market responsiveness. Of course the scale and extent of diversified activity has continued to grow, thereby reinforcing the thrust of the earlier remarks and the implied prediction that things would continue as they were in the 1980s. Thus our study shows a continuing process of agricultural adjustment and the growing significance of diversified activities within the rural economy, an economy which is itself more complex and diversified thereby providing many of the opportunities for farmers to diversify.

The criteria for success in diversification remain broadly the same as in the 1980s. These include the existence of a market opportunity, the necessary on-farm resources (such as specific expertise, management skills, marketing ability), and the need for careful scrutiny and assessment of business potential. Again, as in the earlier study, we did not discover successful farm diversification to be particularly relevant to small or to struggling businesses. On the contrary, it is hardly surprising that most successful diversified enterprises form part of an otherwise successful farm business and, quite often, these are large businesses with, on occasions, diversification having served to facilitate expansion of the enterprise as a whole.

However, this last point brings us to some comments on where things may have changed since the earlier study. Clearly the continued expansion of diversification, both in terms of the number of farmers operating such businesses and the scale of diversified enterprises, brings into question the maxim from the early years of growth in diversification (the 1970s and 1980s) that such enterprises should be supplementary to the farm business. This was the line taken by leading farming commentators and spokespersons when diversification first hit the headlines. The message to farmers was a simple one, albeit somewhat caricatured here: ‘diversify if you wish but don’t forget that farming is your core business.’ By implication, this message implied that farming itself was of inherent importance and its role in the national and rural economy should be affirmed and protected.

The context in the twenty first century is rather different. The current policy framework, including the recently published *Government Strategy for Sustainable Farming and Food*, places considerable emphasis on diversification as an element in rural and agricultural recovery. Moreover, we found many more cases than in the 1980s where the diversified enterprise assumed a greater economic significance than the farm itself. In the light of CAP reform proposals to de-couple support payments from production, it is logical to assume that the extent of these cases will increase. Farm diversification is no longer merely a modest supplementary adjunct to the core farm business.

This brings with it another set of social differences between the current situation and that of the late 1980s. There are two key issues here. The first is that, in the context of both the increased level of diversified activity and the parlous state of farm incomes (far worse than in the late 1980s), some farmers ill-suited through lack of capital or expertise to diversify may be encouraged to diversify, with predictable and lamentable consequences for their own business circumstances. Whilst we found relatively few examples of this, we did observe that diversification as a business strategy is now ‘normal’ and almost universally accepted as such by farmers. Indeed we would suggest that the characteristic resistance to innovation in the early stages of the adoption process has long since passed. Instead we are now perhaps in the phase of late or laggardly adoption. The problem is we are not dealing here with a single innovation (diversification) of universal applicability. On the contrary, we are dealing with a myriad of innovations, only loosely characterised under a single collective heading. In nearly every case these are innovations relevant to highly specific and limited markets, which could not possibly be relevant to more than a minority of farmers. Thus there is a danger that a combination of diversification having become the norm and the current challenging economic circumstances facing the agricultural industry will prompt some

farmers to make the wrong business decisions. Consequently, in policy terms it is important that the signal sent out to farmers is that they should scrutinise their business

in the round, rather than adopt any particular strategy. This has major implications for the provision of sound and independent advice tailored to the individual circumstances of farm businesses. Our research also demonstrated the wide-ranging levels of financial performance within the various diversified enterprises. This also needs to be understood and taken into account within farm business advisory services. In contrast to mainstream commodity production, well catered for in terms of financial data by the Farm Business Survey, we doubt that many private or public-sector advisors and consultants have access to adequate benchmarking data for many diversified enterprises.

Furthermore, the current drive to develop collaborative marketing groups and co-operatives in order to share costs, secure professional marketing expertise and operate on a scale to support larger marketing and processing activity may also be as relevant to diversified enterprises as to mainstream commodity production.

The second social issue we wish to highlight is that the changing relative importance of diversified enterprises within the farm business as a whole has had social ramifications within farm households. This is particularly the case where female or junior members of the household are now involved in diversified enterprises which now provide the majority of household income. There may also be implications for countryside management as this shift in balance occurs. Thus the growth of diversification may also lend further weight increase to the widely accepted view that the key to achieving a sustainable future for rural economies is dealing with the issues and potential solutions in a more integrated way. As Midmore et al (1998) argue for the uplands, 'in order to attain a more sustainable rural economy an approach that integrates emerging consumer trends, farming community involvement, research and education in a self-contained package is essential.'

Finally we turn to research requirements. We recommend that future research should concentrate on the following key issues:

- The provision of regular and up-dated benchmarking data on a range of key diversified enterprises, possibly obtained through bolt-on studies to the Farm Business Survey, or as ancillary components of the survey itself.
- The need to explore in greater detail the transition from primarily agricultural businesses to primarily diversified businesses in terms of social and environmental implications.
- The implications of growing farm diversification for knowledge transfer activities.
- The need for revisions to both the agricultural census and the Farm Business Survey to deal with diversified enterprises.
- The growing complexity of family, business and farming inter-relations, including the growth of new forms of business structure.

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