

## *Trends in farm diversification*

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The term ‘farm diversification’ became a policy buzz phrase in the late 1980s, the thinking of the time being that if farmers could be encouraged to use at least some of the resources of their business to produce goods other than food then the food mountains could be conquered and public subsidies cut. At that time the University of Exeter conducted on behalf of MAFF the first baseline assessment of the extent and nature of farm diversification (see, for example, McNerney *et al*, 1989; and McNerney and Turner, 1991a and 1991b). The results of that study found that nearly two out of five of all farm businesses were involved in at least one diversified enterprise. These enterprises varied enormously in scale and in success and, although their mean output was estimated to be just over £22,000, two out of three enterprises generated an output of less than £5,000. This huge variation in success and scale was one of the key research findings, showing that most diversification was on a fairly minor scale though contributing on average around 11 per cent of the farm’s total income. Farm diversification was clearly happening and was becoming a more common feature of farming but at that time its economic importance, though growing, was still fairly marginal.

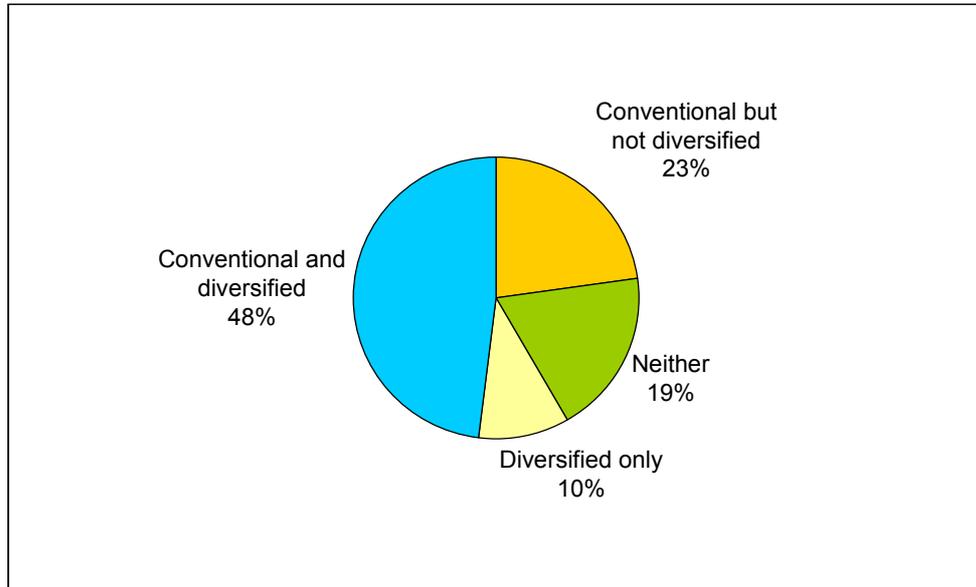
Since that time the agricultural industry has undergone enormous structural change, with major fluctuations in the fortunes of the sector and corresponding adjustments being made by many farm businesses. In 2002 the Centre for Rural Research, in collaboration with the University of Plymouth, returned to the topic and undertook a new benchmarking study of farm diversification activities in England on behalf of DEFRA. As well as major changes to the sector in the intervening years the academic community had reviewed and discussed not only the patterns of diversified activities but what the most appropriate definition of the term. In providing a new snapshot of the extent and form of diversification in English farming, therefore, the new benchmarking study was able to use a finer grain of analysis and explanation and to provide a clear assessment of the degree of change over the intervening decade or so.

### **Changing patterns of farm diversification**

The principal findings of the study demonstrate the scale of change over the period since the study of the late 1980s, with nearly six out of ten farm businesses now having a diversified enterprise of some description (Turner *et al*, 2003). Moreover, nearly one in five of these diversified holdings now have no conventional agricultural production, from which we estimate that nearly one in ten of all ‘farm’ holdings are engaged only in diversified activities (Figure 1). These findings confirm a substantial ‘broadening’ of farm diversification during the last decade or so. Below these headlines

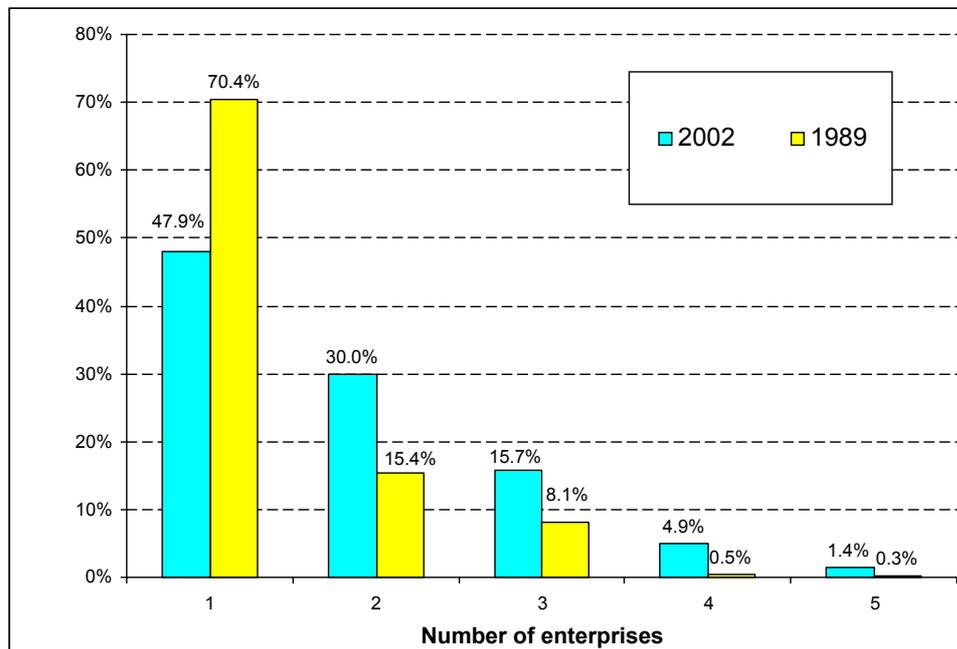
there are important details that demonstrate how profound these changes have been and how they are re-shaping English farming.

**Figure 1 Proportion of holdings in England associated with diversification, by broad category**



Although all types of diversification have risen its distribution, by geography, farm type and farm size, varies widely. Just below half of all farms in the Northwest are diversified compared to nearly seven out of ten in the Southeast. On the whole full-time farms are more likely to be diversified than part-time farms, but they follow the same broad pattern across the country. On the basis of this study there is clear evidence that very large farms are more likely than average to be diversified. This pattern also varies between farm types, with diversification being less common on dairy farms and on those systems based on farming cattle and sheep. If we consider diversification by area farmed, rather than the number of farm holdings, then nearly three quarters of English farmland is associated with a diversified enterprise. Of these businesses, one in three are providing agricultural services (machinery, contracting, haulage, advice and consultancy), one in three are involved in trading enterprises and nearly one in four are offering accommodation and catering. Only one in twenty of diversified holdings received any type of grant to help set up their enterprise. On average there are 1.8 diversified enterprises per farm, but this varies between 1.6 on small farms and 2.5 on very large farms. The range of diversified enterprises appears to be expanding as diversified holdings move into running more businesses and into extending the range of accessory businesses operated. The recorded increase in the incidence of multiple diversification activities (Figure 2) suggests a considerable 'deepening' in the incidence of farm diversification has also occurred during the last decade or so.

**Figure 2 - Multiple involvement in farm diversification, 2002 and 1989**



### Economic aspects of diversification

The performance of these enterprises provides an arresting reflection of the changing skills and activities of the nation's farmers. Business performance can be measured in a number of different ways, but by considering a range of these measures several patterns become apparent. The average output of a diversified enterprise is £25,500 but this varies between £8,836 for equine and £38,251 for agricultural services. These averages are considerably more than most such enterprises realise, however, because of the impacts of a relatively few very large enterprises which skew the figures: four in five of enterprises recorded an output lower than the mean. This pattern of uneven distribution also has a regional slant as, for example, the South West has more enterprises of a larger scale than any other region.

Not all types of diversified enterprise are equally profitable, with some enterprises which recorded the highest output actually having the lowest net profit margins. For example, profit margins are lowest in trading enterprises (18 per cent) and highest in 'equine enterprises' (64 per cent). This means that although the trading output is lower in some enterprises, the profit it makes and the value to the farm business may be just as important as for much larger enterprises. The average net profit of a diversified enterprise is £9,474, which currently compares very favourably with the margins from mainstream agriculture for many farms. It is estimated that the contribution that diversified enterprises make to farm

income ranges from 24 per cent on dairy farms through to 103 per cent on lowland cattle and sheep farms. Furthermore, on a national level, it is estimated that the aggregate income from diversified enterprises contributes 43 per cent of the total aggregate income for agricultural holdings although this figure should be treated with a degree of caution. It is clear, then, that both at the level of the farm business and for the economic sector as a whole, farm diversification plays a crucial role in maintaining agricultural incomes and uses substantial 'farm' resources.

### **The nature of diversification**

Since the first survey in the late 1980s farm diversification has changed in very important ways and, crucially for an understanding of its socio-economic role, it has become both 'broader' and 'deeper' as noted earlier. Diversification has grown *broader* in that nearly three out of every five farms now have some form of diversified business activity, albeit many being of only a small scale; and it is now *deeper* in that over half of all diversified farms are now involved in operating two or more such diversified enterprises, compared with about one in three with multiple diversification a decade or so ago. Consequently, farm diversification is now making an increasingly important impact on the structure of contemporary English farming and, with every sign that the trend towards greater business diversity in the farm sector is set to continue, has very fundamental implications for various strands of public policy, for the development of rural economies and for the social structures of much of rural England, broadly defined.

### **Farmers' attitudes to diversification**

The success of the diversified businesses is of obvious importance not only to those individuals running the enterprise but also increasingly to the wider agricultural sector. Our study found that in approximately one in three cases the operators were confident enough to be planning to invest further in their business and expand. Nearly half of the diversified enterprises operating had remained the same since foundation and the same number were planning to continue in the same way in the next five years. This creates a picture of considerable continuity in many businesses, although there are indications that in the 'very small' and 'large farms' there is a greater degree of change.

The drivers behind successful diversified farm businesses appear stem from changes and conditions in the market rather than being driven by processes occurring on the farm. Of those running successful diversified enterprises 63 per cent mentioned 'market conditions' as important, 54 per cent the need to 'improve or maintain margins' and 32 per cent 'improve or maintain competitiveness'. When asked about the reasons why they believe that their business is thriving, the three themes the most commonly identified were 'market conditions', 'personal commitment' and 'location'. These and other findings point to an increasingly entrepreneurial

leadership of the farm enterprise that is at odds with the clichéd image of agriculture as a subsidy-led industry.

Not all diversified activities were a success and quite what their role in the context of a failing farm business might be is as yet unclear. Of all those interviewed for the survey only four per cent had given up a diversified enterprise in the last five years. To even have taken part in the study, of course, a farm must have been able to weather any such storm and to survive as a farm business. From this survey, therefore, it is not known either how many farm businesses ended prematurely because of a struggling diversified enterprise or how many failing farm businesses pulled down a potentially successful diversified enterprise.

Of those farmers who knew that they were operating an unprofitable diversified enterprise, nearly half expected it to be a short-term problem suggesting they were in the start-up phase of its development. However, a further quarter judged that there was 'not a strong enough market' for their product or service while two in ten thought that their enterprise was 'not competitive enough', again such evaluations reflecting a dominantly market orientation and approach. Although diversification cannot be seen as a universal panacea to the financial problems of farm businesses, as these research findings demonstrate, the overall picture appears to be that once farmers have found a successful model of farm diversification in most cases they have been able to continue with it and benefit from its contribution to total business income.

### **The broader implications of farm business change**

The social and policy implications of these changes are the most interesting questions raised by this benchmarking study. With a majority of farms now operating not just a food commodity production system but another business enterprise as well, the role of the farm family has changed. In particular, women appear to be taking an increasingly important economic role within the farm family and, possibly, are having a greater direct influence on the use of business assets. The ramifications for particular families as well as for the sector as a whole will only become apparent over the next few years but, if these changes continue, they herald a shift of considerable and far-reaching importance.

Alongside this is a shift in the attitudes and expectations of those involved in farming as a business. There is an increasingly important role within farm businesses of enterprises that might be described as being based in the wider rural economy rather than in agriculture as such. This has important implications both for policy design, in that farming cannot be divorced from the wider economy of a rural area, and also for the social role of farmers who may be becoming more like other entrepreneurial groups in rural areas.

The study has confirmed 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 farming's adaptation to the new economic and policy environment in which it increasingly operates. 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 for many years. As they have grown, so enterprising farmers have seen the potential for profitable business activity and have prospered accordingly. When considered as an evolutionary response to market signals, it becomes clearer that the policy implications arising from farm diversification lie in the regulatory area, in a permissive or facilitating role, rather than in new funding initiatives resulting in grant-aided development. That way leads only to market distortions and unprofitable businesses.

Encouragingly, the study points to a growing recognition among farmers that 'agricultural' resources can validly be used for forms of economic activity other than food production, and that this wider definition of their role makes sense in meeting the wider needs of society in the twenty first century. The study begins to identify a group of people with a developed, or developing, entrepreneurial approach to business growth, seeing opportunities for re-deploying resources such as land, buildings, labour and capital to more productive and profitable uses. Diversification, it would appear, has moved from being a generalised policy prescription to a widespread business practice over the last decade. In doing so it has become more complex and more tightly integrated into the agricultural sector than many would have imagined and, quite clearly, it is now a factor of great influence for the future of English farming.

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