savills

Spotlight
Arable Benchmarking Survey
Harvest 2014

June 2015

SUMMARY

Range of results shows opportunities for improved performance

■ The 2014 growing season was less problematic than the previous year and the harvest started earlier leading to higher yields, but a significant fall in crop prices impacted on margins.

■ The yield/price effect on crop gross margins in our survey between harvest 2013 and 2014 was variable with wheat margins least affected.

■ Fixed costs are a significantly smaller proportion of crop price in Contract Farming Agreements (CFAs) than for in hand operations.

■ Our analysis clearly shows the opportunity for improved efficiencies and performance by the range of results recorded.

"The 2014 growing season was less problematic than the previous year"
Ian Bailey, Savills Research

About the Survey

The survey focus is combinable crops and covers around 18,000 hectares of combinable cropping area representing 70% of the area of farms in the sample.

■ Average farm (combinable crops) size is just over 450 hectares
■ National coverage
■ Two thirds of farms have a moderate to serious blackgrass problem
■ Predominant soil types are clay and loam with 65% of farms on grade 3 land.

HARVEST 2014 BENCHMARKING SURVEY RESULTS

This report summarises the results of our Arable Benchmarking Survey for harvests 2013 and 2014. The results are shown for in hand and contract farming agreement (CFA) operations and from the landowner perspective.

The harvest 2014 crop year was easier than the 2013 harvest year, where the wet autumn impacted on drilling and ultimately crop areas and yields. Although the 2014 growing season was less problematic and harvest started earlier resulting in higher yields (see Table 1) a significant fall in crop prices (see Table 2) impacted on margins. Our survey participants recorded yields on average 7% to 10% higher than those recorded nationally by Defra.

Well-supplied world markets pushed down the combinable crop prices and as the latest CAP reforms are implemented there will be continuing pressure on the amount of subsidy received at the 'farm gate'. It is increasingly important therefore to understand enterprise performance excluding subsidy and benchmarking is an important business management tool to inform management decisions and farm budgets.

TABLE 1

Average crop yields

Area	2013	2014	% change
Winter Wheat	7.93	9.21	16.1%
Winter Barley	6.56	7.27	10.8%
Spring Barley	6.48	6.53	0.8%
Oilseed Rape	3.03	3.88	28.1%
Spring Beans	3.81	4.36	14.6%

Source: Savills Research

TABLE 2

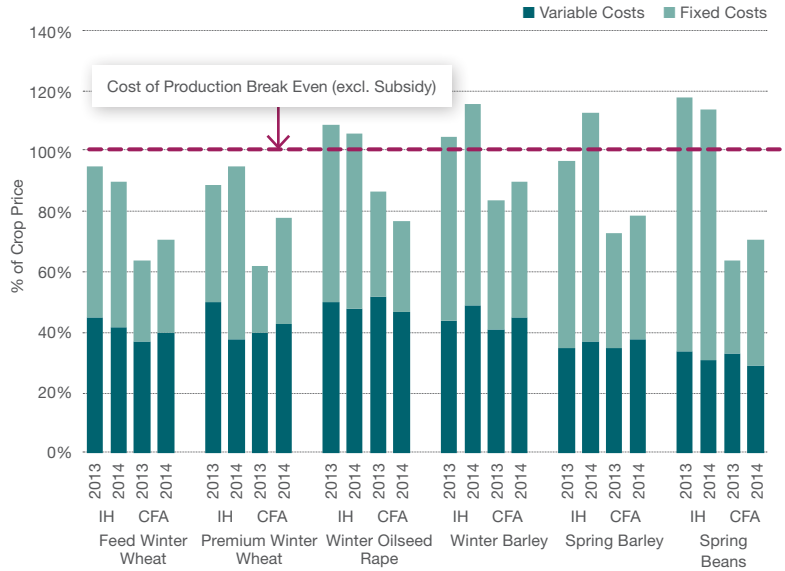
Average crop prices

Area	2013	2014	% change
Winter Wheat	£166	£132	-20.4%
Winter Barley	£149	£121	-19.0%
Spring Barley	£152	£144	-5.6%
Oilseed Rape	£330	£296	-10.2%
Spring Beans	£230	£220	-4.5%

Source: Savills Research

GRAPH 1

Total costs as a proportion of crop price



Source: Savills Research

The yield/price effect on crop gross margins in our survey was variable. Wheat margins were least affected with average harvest 2014 margins less than 10% lower than harvest 2013. The performance of barley and oilseed rape was more marked with margins down by almost a fifth and a third respectively.

Costs of production

Understanding the costs, both variable and fixed, of growing a tonne of crop is essential, especially with price volatility. This performance indicator is useful, both as an absolute measure (£ per tonne of crop output) and relative to crop price (% of crop price) and especially at today's prices.

Graph 1 shows variable and fixed costs as a percentage of crop price. It is clear that fixed costs are a significantly smaller proportion of crop price in CFAs than for in hand operations. This is especially so for spring crops. Contractors are able to make cost savings and benefit from economies of scale as costs are spread across several farms. These savings are passed onto the farmer. In addition the farmer does not have to invest in labour and machinery which might not be fully utilised throughout the year and capital can be used elsewhere.

The fall in crop price has, in most cases as illustrated on Graph 1, further squeezed net margins per crop tonne. Driving down costs and/or crop yields up are necessary to remain profitable without relying on subsidy.

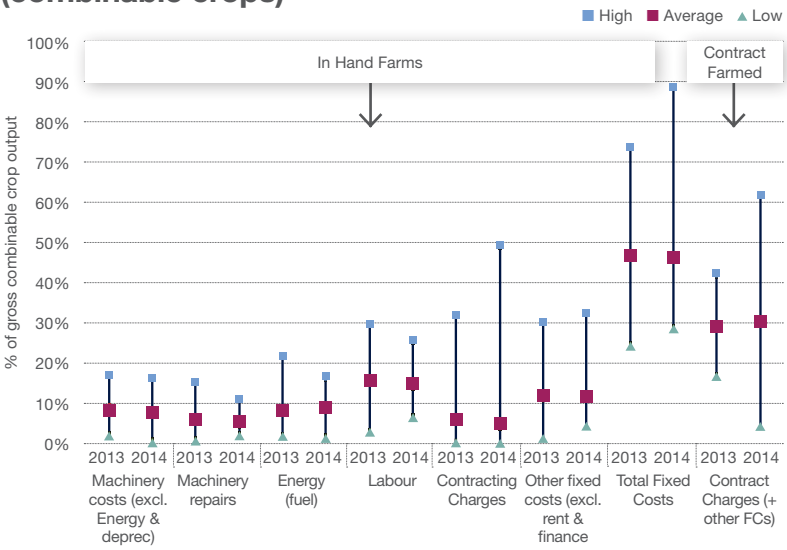
Fixed costs analysis

As we have noted above fixed costs are a significant production cost and represent 40% to 60% of crop price. Our research shows that average fixed costs (as a proportion of total gross farm output) were broadly similar in harvest years 2013 and 2014 (see Graph 2). Graph 2 also shows the fixed cost efficiencies of CFAs with total fixed costs representing just under 50% of gross output on in hand farms compared with around 30% for CFAs.

For in hand operations labour, at 15% of gross output, is the largest individual fixed costs. The flexibility of farming in hand and the seasonal workload of arable farms must be balanced by enterprises with complementary labour requirements to reduce these costs to the combinable crop enterprises.

GRAPH 2

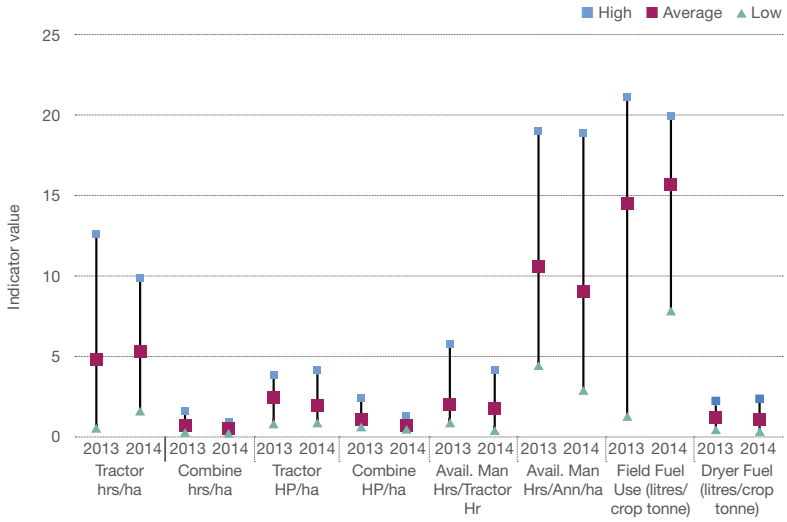
Fixed costs as a proportion of gross farm output (combinable crops)



Source: Savills Research

GRAPH 3

Labour, machinery and energy performance



Source: Savills Research

Lower crop prices have offset the benefits of lower fuel prices in 2014 to keep energy (fuel) costs at levels similar to the 2013 harvest year.

Our analysis shows the opportunity for improved efficiencies and performance by the range of results in Graph 2. Improving performance on some farms may be restricted by factors beyond the operators control such as soil type and differences in local climatic conditions. However, the benefit of knowing your costs may make opportunities to improve performance more apparent and will enable targets sensitive to crop price to be set.

Performance indicators

Our survey identifies a range of machinery and labour indicators. Once again these show a range of performance (Graph 3). An easier harvest in 2014 appears to be shown in the improved combine performance and reduction in dryer fuel per tonne used.

The increased average tractor hours per hectare and field fuel use may be linked to increased yields and crop passes for pest and disease control although two years' data is too narrow to draw any conclusions. However, it appears there may have been efficiencies in tractor power requirements due to the easier field conditions for cultivating and drilling.

These performance indicators provide a useful addition to the financial performance indicators discussed above and as we grow the survey we will be able to identify the key factors that influence performance and 'best practice'. We welcome new participants to our survey.

Savills arable (combinable cropping) benchmarking

Survey aims to help appraise performance and identify appropriate targets

This survey aims to help arable (combinable cropping) farmers appraise their businesses and to identify the most appropriate financial targets for their business which will boost efficiency and improve financial performance taking into account any resource limitations.

The survey will complement existing benchmarking methods by adding another layer of analysis to order to challenge businesses to ask questions in terms of cost performance each year and relate these to profitability.

We believe benchmarking your farm against the average data for the industry, enables a useful critique of the farm business. All information is ring fenced within our research department, which has established a track record of preserving the confidentiality of participant data.

THE KEY OBJECTIVES ARE:

To challenge current performance

To identify and disseminate best practice

To improve performance

Savills research team

Please contact us for further information

Ian Bailey
Head of Rural Research
01797 230 156
ibailey@savills.com

Nicola Buckingham
Research Analyst
01398 332 170
nbuckingham@savills.com

Andrew Wraith
Head of Agribusiness
01522 508 973
awraith@savills.com

Simon Blandford
Director, Agribusiness
01962 857 405
simon.blandford@savills-smithsgore.co.uk