Diversification trends and a guide to setting up a new business
Weathering the perfect storm

Rural businesses displayed dynamism, flexibility and enterprise in the face of the Covid-19 pandemic, successive lockdowns and volatile weather patterns.

Last year was without a doubt the greatest test for many rural businesses seen in a generation. Adverse weather created some of the most challenging farming conditions, while Covid-19 and the ensuing lockdown took a toll on a vast swathe of enterprises. This all happened against a backdrop of trade disruption, labour shortages and policy change in the rural sector. Farm diversification is a key strategy to reduce rural business risk and to maximise farm income returns, but even diversified businesses encountered significant adversity and hardship.

Yet despite forecasts of a perfect storm, many enterprises appeared to have weathered the worst through a combination of adaptability, determination and creativity. We have seen rural businesses dramatically modify their offering to cater to consumer attitudes and demands. This has not just mitigated the impact of the pandemic on pre-existing diversifications, but also on falls in core farming income streams.

This Spotlight focuses on the enduring trends emerging in rural diversification for 2022 and beyond, and provides a strategic guide on how rural businesses should approach diversification through a detailed case study on the Savills Virtual Estate. It also reviews our Rural Vibrancy Index (RVI), which tracks some of the key trends influencing rural businesses and diversification strategy to give a comparative indication of the strength of the sector over time.

**WHAT IS THE RURAL VIBRANCY INDEX?**

The Savills Rural Vibrancy Index (RVI) tracks some of the key influences on farm diversification and aims to give a comparative indication of the strength of the sector over time. The index combines a wide range of indicators in three separate categories: farm business drivers, economic indicators and enterprise performance results. The vibrancy of the sector is represented as standardised values indexed relative to the year 2011 (2011=100).

**ECONOMIC BASE**

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The 7.5% decline in the RVI's economic base index between 2019 and 2020 will come as no surprise and leaves the index at its lowest point since its base year of 2011. The decline is predominantly attributable to declines in stock indices, as well as economic indicators such as GDP. Exchange rates proved remarkably stable as central banks in developed economies have moved in strict parallel since the start of the pandemic leading to few divergences between currencies.

**FARM DRIVERS**

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The farm drivers index continues to prove volatile; this was the case even prior to an 11.4% decline between 2019 and 2020. Cereals and industrial crops were hampered by highly adverse weather conditions. A wet winter led to some farmers abandoning planting until spring when excessively dry weather caused further problems. The harvest began well, but was then compromised by wet weather in August. Taking wheat as an example, a relatively small price rise in 2020 could not compensate for the smallest harvest since 1981. The outlook for 2021 is much better, with record grain prices and near perfect autumn drilling conditions making up for the late harvest.

**DIVERSIFIED ENTERPRISES**

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A 1.6% increase in the diversified enterprises index is one of the poorer years since the index’s base year of 2011 and is below the five year average. Nonetheless, it is the strongest of the three indexes reported within the RVI.
The rural economy is well placed to cater to the growing number of travellers seeking authentic experiences.

**When is a trend no longer a trend?**

We look at the key lifestyle choices driving consumers

Marketing theory dictates that following Google search trends is a good way to get inspiration for a new diversification. In 2020, unsurprisingly, it was Covid-19. However, in 2019, it was the rugby world cup and in 2011, it was the royal wedding. Neither of these proved to be an enduring basis for a successful diversification. Cutting through the noise to find the trends that are increasingly coming to form an integral part of our society and therefore the lifestyle choices of prospective customers is key. We look at three of the most notable of these trends.

**EXPERIENTIAL**

The rural economy is well placed to cater to the growing number of travellers seeking authentic experiences. From the peaks of the Highlands to the gentler slopes of the South Downs valleys, every rural location has its own identity. A business should promote what it already has. Gimmicky offers are gone, authenticity and slow enjoyment is the new luxury.

A key enduring trend for customers, is personalisation, which has become standard for everything – from how we access music and films online to how we order our food. Incorporating personalisation and experiences into the accommodation offer is going to be essential in attracting new guests and retaining regular ones. A handwritten note to welcome guests or offering dietary options in a welcome pack is a simple way to start.

**SUSTAINABILITY**

Recent research by both Visit Scotland and Visit England suggests that sustainability is the fastest growing trend in tourism. Consumers increasingly perceive acting in an environmentally responsible way to be the right thing to do and consumers are beginning to choose brands that match their ideals. This will only accelerate and owners of tourism destinations and venues who are proactive in this regard are more likely to prosper.

Sustainability is arguably transforming tourism. Driven by the increasing desire for trips to have meaning, we are going to experience a shift towards “transformational tourism.” This is the movement among consumers to travel with purpose, maximising their time, giving something back to the destination and consciously off-setting the impact of their travel. Opportunities for visitors to contribute to projects that preserve the culture or environment will be key attractions. Can your guests volunteer in a local conservation or restoration project nearby? Partnering with local volunteering groups may be an easy way to start.

**WELLBEING**

Wellness tourism is essentially about switching off, disconnecting from the pressures of everyday life and being able to slow down. There’s a common misconception that wellness travellers are a small, elite and wealthy group who visit destination spas, health resorts or yoga and meditation retreats. In fact, wellness travellers comprise a much more diverse group of consumers with many motivations, interests, budgets and values. Tourism providers don’t need to provide everything on site if there’s is not sufficient space.

Offer to make bookings with recommended fitness instructors or treatment providers locally, or provide a day pass to a local facility instead.

Between April and December 2021, Barclays Corporate Banking anticipate that leisure, fitness, spa and hospitality will bounce back to contribute £3.5 billion to the UK’s GDP. Wellness tourism was already firmly established prior to Covid-19 but is likely to be further propagated by changes to our lifestyle brought about by the pandemic, including an increase in hybrid working models, stricter travel precautions and an increased awareness of our mental health in particular.

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The downward forces enacted by external factors, including the Covid-19 pandemic and volatile weather patterns, ultimately weighed heavily on the overall index, with a combined decline of 5% in 2020. However, there were notable bright spots in this difficult year, thanks in no small part to the flexibility, enterprise and dynamism displayed by many rural businesses.
A high level options appraisal of the site, location and its assets is key to starting the decision making process and will give an initial insight on where to focus further investigations.

THE SAVILLS VIRTUAL ESTATE

The Savills Virtual Estate is a traditional 6,000 acre rural estate in Northumberland centred around a Georgian mansion. In addition to landscaped gardens and moors, the Estate comprises 200 acres of parkland that contains a large secluded lake surrounded by woodland. The remainder of the land is a variety of farmed landscapes, including uplands and a mix of topographies. There are a number of used and redundant farm buildings with good access to main roads, as well as numerous let cottages across the Estate.

Selecting your diversification

The Savills Virtual Estate provides a useful roadmap that highlights the key issues and actions you will need to look at on your diversification journey.

Using the Savills Virtual Estate, we have mapped out a typical diversification journey that explores a range of alternative rural enterprises and uses our own experience from across the business. We highlight what to expect when considering a diversification as well as key issues and actions to consider.

STEP 1: WHY DIVERSIFY?

Reasons to diversify are varied and range from a wish to improve the tax efficiency of a business to a heartfelt desire to explore a specific interest and bring it to the local community. A landowner may wish to explore a new opportunity as part of generational change, subsidy change, or any number of things in between. Whatever the reasons, prospective rural entrepreneurs should be sure they are the correct reasons. A diversification cannot compensate for an underperforming core business and may, in fact, worsen the situation by diverting resources.

STEP 2: HIGH LEVEL OPTIONS APPRAISAL

A high level options appraisal of the site, location and its assets is key to starting the decision-making process and will give an initial insight on where to focus further investigations. An initial investigation of factors such as location and access, pre-existing facilities and buildings and local markets will quickly establish which opportunities are plausible and which are not.

STEP 3: FEASIBILITY STUDY

Following the initial sift from the appraisal, looking into the feasibility of remaining options is the crucial next stage. A detailed feasibility study will narrow down the options to those that are most viable based on numerous factors, including:

- Market demand and competition
- Capital costs against funding availability
- Target audiences and complimentary marketing channels
- Potential staff resources
- Income, profitability and ROI

STEP 4: FINAL SELECTION

The high level appraisal and feasibility study will highlight the most suitable diversification choices for the farm or estate and yourself. We recommend selecting one business idea to focus on. Keep any other potential enterprises in mind for any further diversifications in the future.
New business opportunities
We look at the essential questions and actions to consider

The Estate planned to expand their offer and create additional income by exploring diversification options. Market trends, accelerated as a result of Covid-19, such as the interest in experiences, sustainability and wellbeing were considered during the planning stages.

STEP 1: WHY
As a result of diversification plans stalling during 2020, the Estate were keen to move forward with the project during 2021. There were three key drivers behind this:

1. Growing opportunities in new markets following the pandemic, specifically staycations and a move towards localism.
2. A desire to provide wellness opportunities, both as a consequence of Covid-19 and as an ethos of the Estate.
3. The Estate has wanted to redevelop the redundant buildings for many years and was keen to explore the finances.

So they drew up a long list of diversification opportunities that could be explored to find the best option for them.

STEP 2: OPTIONS
From the initial options appraisal, the Estate decided that without any specific interest or passion from the team, any animal related project was not viable. A farm shop or café was also not viable due to local competition and capital constraints. However, the Estate was keen to consider alternative food service options due to heightened interest in local food during the pandemic. The Estate made a decision at this stage to concentrate on providing some sort of tourist accommodation, possibly using the redundant buildings or making use of the lake for recreation, water sports or fitness options to cater for increased demand for positive wellbeing experiences.

STEP 3: FEASIBILITY
Having engaged with third party water sports providers, it was deemed that the lake was too small and inaccessible to make this possible. This option was therefore dismissed.

The Estate's passion to redevelop some of the redundant buildings to offer accommodation was also investigated. An architect and surveyor provided costs to convert some of them into holiday cottages. However, this showed that the conversion costs were very high, funding for rural buildings conversion has dried up and a more detailed study showed there was a higher level of competitive holiday cottage accommodation in the surrounding area than the Estate has thought.

Keen to harness the market demand for staycations but without the holiday cottages as an option, the Estate made the decision to focus on opening a camping site. Their location near a national footpath route added footfall and market demand, while collaboration with nearby businesses to provide local food would create a unique and sustainable offering.

STEP 4: THE DIVERSIFICATION
The Estate discovered a change in permitted development specifically for campsites. In response to Covid-19, this allowed land to be used for campsites without having to submit a planning application and it allowed them to open for up to 56 days per year (eight weeks), up from a previous 28 days (four weeks). This made the campsite option more viable in relation to the capital investment needed.

They decided to use this opportunity to set up a new campsite for eight weeks of the summer. With a strong ethos for sustainable tourism, the Estate decided to focus on creating a wild and natural campsite.

Thinking through the options

| ANIMALS | Horse riding considered good exercise for all ages |
| SPORT & LEISURE | The number of annual rod licence applications in England and Wales surged by more than 120,000 in 2020 |
| ACCOMMODATION | Cool Camping saw bookings for May 2021 up 92% compared to the same period in 2020 and up by 195% compared to the same period in 2019 |
| SELF CATERING | Despite the lockdown UK self-catering cottage occupancy levels were 50% higher in 2021 compared to previous years |
| FOOD SERVICES | Weekly sales of veg boxes have doubled as a result of the Covid-19 pandemic. The highest rates of growth were seen by smaller box schemes that grew sales by 134% |

Reason for elimination: lake was too small and inaccessible to the public

Reason for elimination: no specific interest or passion from the team

Reason for elimination: conversion costs very high, and funding dried up

Reason for elimination: without any specific interest or passion from the team

VIRTUAL ESTATE ACCOMMODATION VISION

- A wild and natural tent campsite.
- Pitches are to be spacious and so 40 sites will be created; only 5% of the 900 that research indicated would be possible.
- All structures to be made with wood from the Estate to promote sustainability.
- Market research shows a demand for wild camping experiences with compost toilets and cold showers among the woodland.
- Pre-bookable meat boxes and bakery hampers from local suppliers will be offered.
- Fire pits, firewood from the Estate and marshmallows will be provided on arrival for an authentic, cosy and unique fireside experience.
After narrowing down an almost endless list of potential diversification ideas to a single, well-considered enterprise, it is time to act upon that decision. From obtaining planning permission to sourcing labour and marketing the enterprise, setting up a new business is a significant and multi-faceted undertaking with a number of potential stumbling points. However, it is also a well-trodden path and, despite a definite lack of shortcuts, there are a number of ways in which the journey to your new diversification business can be simplified and expedited.

**STEP 1: DUE DILIGENCE AND PRE-REQUISITES**
Having decided upon which option to pursue, it is time to secure the necessary permissions and finance and ensure every aspect of the chosen option is thoroughly planned for. Pre-planning advice should be sought, stakeholders (including the local community) should be consulted, funding applications submitted and all necessary surveys prepared. Only once this is done should full planning permission be pursued, in order to ensure the best chance of approval and success.

**STEP 2: COMMENCE WORKS**
Having secured all the relevant permissions, work on site can commence. In addition to simply constructing the facilities, staff must be recruited and stock ordered. Use this opportunity to undertake some pre-launch marketing; including prospective customers, which will ensure greater acceptance and buy-in in the future.

**STEP 3: LAUNCH AND EVALUATE**
Having carefully chosen the right project for the estate, carried out all the due diligence and achieved all necessary permissions, secured funds, carried out building work, employed staff and marketed the offer, the project can be launched. This is only the beginning, however. There are numerous things you can do to ensure its long-lasting success:
- Listen to feedback, be flexible and move to accommodate the demands of customers and the market.
- Make seasonal changes and offers to keep your diversification fun and relevant.
- Diversify the diversification! Be brave and don’t be afraid to expand or change the chosen option.

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**MARKETING TOOLS**
- **Local press** If an offering is new to the area or has unique, never-before-seen characteristics, it will make for an ideal local news story.
- **Social media** Free and with the potential for national, even global reach, social media is a powerful tool. To increase your reach, make sure you have a variety of platforms for different audiences.
- **Existing customer base** A poster, an email, even a simple conversation. There are an endless number of ways to let an existing customer base know about a new offering from the local business they already know and trust.
- **Signage** To catch the eye of those passing by, ensure signage is appropriate. A large, simple sign in a safe location is best for those passing by in vehicles, but a smaller, more informative sign will prove more successful for walkers.

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**POTENTIAL FUNDING STREAMS**
The UK Shared Prosperity Fund is due in April 2022 and is the most likely source of future tourism-based funding. However, alternative funding options are still available for those eager to diversify:
- Record low interest rates make bank borrowing very attractive at present.
- Record low interest rates also make traditional savings accounts particularly unattractive. Those diversifying may wish to consider investing some savings into their latest venture where yields may ultimately be better.
- Localised grant schemes such as Farming in Protected Landscapes (FiPL) still exist in particular locations. Consult local agencies and organisations to avoid missing out.

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**63%**
British shoppers spent 63% more at food and drink specialist stores such as butchers, bakers and greengrocers in February 2021 compared to February 2020

**30%**
of 25-49 year olds would consider a UK holiday to avoid environmental impact of international travel

Source Schofields Insurance

Source Barclaycard

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**Developing your diversification**
Setting up a new venture can be a significant and multi-faceted undertaking, but it is a well-trodden path.

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Source Schofields Insurance

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Source Barclaycard
Listen to feedback, be flexible and move to accommodate the demands of customers and the market.

Establishing the enterprise
The route to successfully setting up the new campsite venture

**SUCCESSES**
The choice of a wild camping offer worked particularly well for the Virtual Estate due to:
- Close proximity to the national footpath network and local businesses.
- Collaboration with local business boosted their income at a difficult time.
- Access to funding from FiPL.
- Interest from the local press provided excellent marketing.
- Existing website was easily adapted to take bookings.
- Staffed by family member, cutting costs.
- Excellent reviews, which should prove an excellent foundation for next year’s season.

**STEP 2: PREPARATION**
The Estate purchased and dug in their compost toilets and secured the field for the campsite. A large amount of time at this stage was taken up constructing a booking form, producing marketing literature and convincing their customers to come to a brand new site. A drop pin was set up on Google maps and new signage was installed.

A partnership was formed with an online campsite booking service to take camping bookings, but the Estate also decided to embed a simple booking form into their own website. The later booking option proved far more lucrative and received far more traffic than the national provider. Fortunately a family member was able to take on the role of campsite manager for the season.

**STEP 3: LAUNCH AND EVALUATION**
The campsite opened at the start of July 2021 for eight weeks of the peak season. The site saw high occupancy rates, received glowing reviews and gained a great reputation. The Estate plans to continue offering the wild camping experience next year and hopefully expand into glamping, which will expand the appeal of the business to a new demographic, further enhancing the resilience of the Estate. Smaller additions will also be investigated to cater to demand for enhanced wellbeing, sustainable tourism and authentic experiences. This consistent approach not only attracts new potential customers but also enhances the likelihood of repeat custom from satisfied guests.

Further expanding exposure to tourism was initially questioned as travel restrictions continue to relax and international travel becomes an option once again. Market analysis also suggested that the number of overnight stays has decreased by 2% in England in recent years. Further inspection revealed that the number of trips to Northumberland has increased by 2%. This seems to be a long-term trend with the economic impact of tourism in the region increasing by 57.3% since 2009. Having analysed their own, unique situation, the Estate is satisfied that a tourism enterprise can continue to be successful, particularly as it caters to emerging consumer attitudes.

**LOOKING FORWARD**
When evaluating the project a number of challenges, as well as future opportunities, were discovered:
- When establishing a vision for the glamping enterprise, the Estate will allow more time for preparation. The launch of the campsite was delayed due to underestimating this.
- Research and select preferred style of glamping accommodation and secure necessary planning permissions.
- Extend meat box and bakery hamper offer so campers can continue to have them delivered to their homes after their trip ends.
- Add star-gazing kit to offers as the enterprise is located close to a Dark Sky Discovery Site.
- Consider offering a “rewilding experience” for those campers who want to give back to nature.
- Review staffing as family member will not be available next year and the enterprise will be expanding.

When engaging with their neighbours, existing tenants, national campsite providers and the local council to ensure their idea was fully shared with all stakeholders. As a result of this, their idea was pared down a little to only accommodate tents. Allowing caravans on the site added further planning requirements, additional licencing, far more structural requirements and would detract from the wild feel of the venue. They accepted they could expand to this in the future but would start with tents on large pitches.

**STEP 1: ENGAGE**
Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.