

# Diversification demystified



The opportunities and challenges in setting up and making a success of a new venture







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A version of this report was produced as part of the build-up to the CLA Rural Business Conference 2018 *Inspiring Investors* held on 29 November 2018. It is one of three reports produced for the Master Class events that were held in summer and autumn 2018. Ideas and thoughts from these reports and Master Classes helped set the agenda for the CLA's national conference.



## Introduction

Many businesses diversify to generate a new income stream and to spread the risks of being dependent on one sector or type of business. You often hear people say that businesses should not diversify but focus on their core business, so they make it as good as possible and do not spread their time and *'entrepreneurial energy'* too thinly.

However, if you look at the data<sup>1</sup>, the businesses that are most efficient at farming, also tend to generate more profit from diversification and also from the environment. So the evidence suggests that far from spreading their time and energy too thinly, they are making the most of the skills they have to run successful diversified businesses.

Generating new sources of income will become even more important for many businesses post-Brexit as direct payments, currently made through the Common Agricultural Policy, are reduced to zero.

We hope that this guide is useful and sparks ideas for your business. Please call our team for their expertise on ideas, planning, setting up and managing new businesses.



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1. *Farm Business Survey*, all farm types, analysis of profit from agriculture, agri-environment, diversified activities and Basic Payments, 2012 – 2016.





**Diversification by CLA members**

A 2016 survey showed that just over half of CLA members generated their primary source of income from farming, around a quarter generated most income from letting land or property and 19% generated it from other activities, mainly diversification<sup>2</sup>.

CLA members identified over 25 different types of business activity, with each member having an average of four different business activities taking place.

Top 5 activities	% of CLA members	Top 6 'away from the usual' activities	% of CLA members
Farming livestock	53	Renewable energy	28
Farming crops	48	Equestrian	15
Landlord - residential properties	39	Tourism	14
Forestry/woodland management	31	Leisure and sport	14
Landlord - commercial properties	29	Retail or catering	6
		Educational activities	5

Most investment is related to property or 'enabling' it to work better, such as by investment in renewable energy, infrastructure or connectivity; this enables businesses, both owned and tenanted, to function more efficiently (or higher rents to be charged).

**Diversification by farmers**

As farming is the primary source of income for many CLA members, it is worthwhile looking at how the sector as a whole has diversified. The most popular forms of diversification are ranked in the table opposite.

**35% of CLA members say that they have invested in new/diversified activities.**  
**A similar proportion plan to invest in new/diversified activities in the future (36% of smaller businesses and 41% of larger businesses<sup>3</sup>).**

2. Source: Research for the CLA Rural Business Conference 2016. *Unlocking investment, unlocking potential*. Figures based on a survey of 826 CLA members by DJS Research.  
 3. *Smaller businesses* means owning under 500 acres and *Larger businesses* means owning more than 500 acres.

Ranking	1	2	3	4	5	6
Type of Diversification	Letting Buildings for Non-Farming Use	Renewable Energy	Sport and Recreation	Processing/Retailing of Farm Produce	Other	Tourist Accommodation and Catering
Number of farms	23,400	12,800	7,300	5,200	5,000	3,300
% of all farms <sup>4</sup>	41	23	13	9	9	6
Average income (turnover) from the diversification (£/farm)	£24,700	£13,700	£14,100	£23,400	£14,500	£20,200
Average net profit from the diversification (£/farm)	£17,400	£4,400	£3,000	£9,700	£4,200	£6,900
Net profit as a % of income	70	32	21	41	29	34

Source: *Farm Business Survey, 2015/16*

**Rank 1** Letting buildings for non-farming uses. This is by far the most popular type. It also produces the highest net profit (£17,400 average per farm) and the highest proportion of income becomes profit (70%, measured by net profit as a % of income).

**Rank 2** Renewable energy. This has been done by just under a quarter of farms. It generates a lower income and, on average, four times less net profit per farm. However, like letting buildings, it is relatively low risk and low managerial input compared with running a trading business.

**Rank 3&6** Sport and recreation, and tourist accommodation and catering are done by 6–13% of farms, so a relatively small proportion.

**Rank 4** Processing/retailing of farm produce. Around 10% of farms have diversified into processing and/or retailing of farm produce. It generates the second highest net profit per farm (£9,700 on average), as a higher proportion of income becomes profit (41%).



4. Including those that have not diversified.



## Post Brexit

**The proposed changes to agricultural and environmental policy outlined in the Health and Harmony consultation paper and Agriculture Bill are as follows:**

- A phasing out of the Basic Payment scheme by 2027.
- The introduction of a payment for public goods model with payments for delivering specified outputs, including biodiversity, landscape, air quality, water quality and flood risk management.

It is unclear in the long term what the total budget and payment rates for the delivery of public goods will be, as the agriculture budget once the UK leaves the EU will be competing with other domestic spending priorities.

Therefore, many businesses may want to use the opportunity Brexit presents to look at the make-up of their business to see whether any further income sources are required.

**The most obvious ways of assessing your business are:**

- 1 Do you have the right people? Having the right people, skills, drive and vision is a key part of any successful business.
- 2 Ensure you are farming as efficiently as possible; the top 25% of businesses are less reliant on direct payments and more resilient to volatility.
- 3 Are you taking your approach to (and income generation from) environmental management as seriously as your approach to crop and livestock management?
- 4 Understand what valuable public goods your land produces and where they may fit into a new payment for public goods model.
- 5 Do you collaborate enough? Collaboration, so that the best skills of the group, sharing labour and machinery, group buying and selling, sharing risk, cutting capital investment, and producing landscape-scale public goods, such as pollination, can help a business.
- 6 Do you need to grow profits from diversification and environmental management to ensure your business has multiple sources of income and is not as reliant on farming?

## Ideas for your next diversification

Over 450 projects have been approved or completed since 2014 under the Growth Programme and Countryside Productivity grants, which are parts of the Rural Development Programme for England.

This section shows what types of project other businesses applied for, which may give you ideas for your business.

Around half of the applicants are micro businesses, which means they have five or fewer employees. Lots of different types of rural business applied for the grants, with the most common being rural businesses (79 applications); arable farmers (69); livestock farmers (64); food businesses (54); horticultural businesses (47); tourism operators (39); and contractors (22).





**Projects that arable farmers have applied for include the following:**

<b>Growth Programme<sup>5</sup></b>	<b>Countryside Productivity<sup>6</sup></b>
Crop or produce storage, including cold storage	Crop or produce storage, including cold storage
Animal feed business	Seed cleaning machinery
Processing, grading and packing facilities and plant	Woodchip store
Bottling plant	Wood chipping machinery
Expansion of tea room	Farm water efficiency machinery
Events venue	Irrigation scheme
Wedding barn and marquee	Processing, grading and packing facilities and plant
Glamping	Precision slurry/digestate application machinery
Haylage packing machine	Water storage reservoir
Holiday/guest accommodation	
Caravan park	
Marina	

**Projects that livestock farmers have applied for include the following:**

<b>Growth Programme</b>	<b>Countryside Productivity</b>
Dairy machinery	Dairy machinery, including robotic milking
Accommodation/restoration of historic yard	Research to improve animal productivity
Conversion of buildings to offices	Precision slurry/digestate application machinery
Expansion of caravan storage site	Robotic egg processing
Farm/holiday accommodation	Slurry acidification project
Play barn	
Farm shop expansion	
Processing, grading and packing facilities and plant	
Crop or produce storage, including cold storage	
Cheese making equipment	

5. Grants for projects which create jobs and economic growth in rural areas. The three priorities are about: growing businesses and diversification; food processing (meat, milk, fruit processing); and tourism infrastructure (new infrastructure, extensions to buildings).

6. Grants to increase the productivity of businesses, mainly farms, for animal productivity, health and welfare, remote crop sensing, forestry processing, slurry management.

Projects that rural businesses have applied for include the following:

Growth Programme	Countryside Productivity
Processing, grading and packing facilities and plant, including bird food, brewing, distillery, egg processing, grain milling, abattoir	Timber harvesting and processing
Pharmaceutical project	Digestate application
Timber production/processing project	
Factory and plant improvement, including CT scanner, spray shop, panel bending, joinery, shredder, sprayer manufacturing and testing	
Activity centre/adventure farm/multi-sports area	
Car repair workshop	
Art studio/print business	
Visitor centre/café/farm shop/indoor play area/tree houses/woodland lodges	
Wedding/function venue	
Pub renovation	
Holiday accommodation/bunk barn/cabins/hotel	
Kitchen project	
Stables/kennels construction	
Conversion of buildings to offices, workspace, storage	
Diving test centre improvements	
Marketing research facility	
Contracting business expansion	
Glass production line	
Safety and landscaping products	
Marina project	
Vineyard, winery and distillery	





Projects that food businesses have applied for include the following:

Growth Programme	Countryside Productivity
Factory and plant improvement, including condiments, eggs, beet, bottling line, brewery expansion, meat cutting, crisps, leeks, sloes, mushrooms, dairy products	Processing, grading and packing facilities and plant, including pack house modernisation, fruit production, malt and UHT milk
Processing, grading and packing facilities and plant, including distillery, vegetables, cereals, dairy products, chicken, bottling, farm collection tanker, eggs, green beans, mobile potato washer	
Holiday / guest accommodation	
Brewery business start up	
Café / farm shop	
Ice cream making project	
Winery	
Rum distillery	

## How to avoid common issues with new enterprises

Diversifying your business can bring a number of benefits, but it can be a problematic journey if you are not well prepared.

Issue	What's the issue?	How to avoid it
<b>Start from a strong core business</b>	If the central business is not strong then diversifying for the sake of it risks both old business and new.	Focus first on getting the core business into the best shape possible. This might mean getting the right advice, restructuring, refocusing or cutting costs.
<b>Market research</b>	Make sure there will be demand for your new offerings and that you can sell them at a price that makes you a profit.	Research the market for your new offering, looking at what potential competitors are doing, how much they charge and how successful they are. Getting experienced advice can help.
<b>Having the right skills</b>	A new business may require a new set of skills as well as an additional demand on your time.	Retrain yourself so you're equipped with the right skills or hire in someone with the skills.
<b>The right infrastructure</b>	Has your location got the right road access, broadband and mobile services, buildings and access to support services for the new enterprise?	Check what you need, get realistic costs for anything that needs to be installed and check what other similar businesses do.
<b>Financial planning</b>	Make sure the cashflow requirements of the new business can be covered. A number of rural businesses have said lack of access to finance is a barrier.	Use a financial plan to assess how and when the new business will generate profits, and stress test it. Consider all types of finance – own funds, family, peers, commercial lending and grant funding.
<b>Getting planning permission</b>	CLA members often cite the cost, length of time and complexity of getting planning permission as a barrier to growing their businesses	Speak with your local council about your plans early – but make sure you have 'planned' and know the relevant policies, so you have answers for any questions they may raise.

**Once you have set up a business, how do you grow it?<sup>7</sup>**

**1** Focus on **people and culture**.

**2** Be clear about **how growth will be achieved** – is it excellent customer relations, increasing profit per sale or another way? Always measure the results, accept elements might not work and be ready to stop them.

**3** **Stay close to the customer** – so you can learn from them and adapt what you do.

**Stefanos Zenios**, *Professor of Entrepreneurship at Stanford Graduate School of Business*



7. Source: *Financial Times*, 18 December 2017.



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