

Crediton Monitor Farm

**Meeting 12 :
Digging deeper into fixed costs**

**1 December 2016
The Red Lion, Shobrooke**

**Speaker:
Keith Barriball**

**For more information, visit:
cereals.ahdb.org.uk/crediton**



Crediton Monitor Farmer James Lee

Meeting summary

1. Compare your own business costs year on year, against budget and then wider in the industry
2. Make a two-minute assessment of the major cost items – labour, power, machinery , rent and finance
3. What resource limits profitability? Measure it, manage it.
4. Proportional analysis and trend analysis give the facts but are not benchmarking until compared
5. Benchmark against better than average, your competitors and the best in your area
6. Benchmark using timely data, figures prepared with a similar methodology and for farm management purposes (not taxation Accounts). Care sample size
7. To allocate costs on a mixed enterprise business, establish a quick, easy, cheap and 'doable' methodology. Be pragmatic. Be 'right enough'. 90% accuracy giving +/- 25pence per tonne is not a problem. Allocate as much as possible to specific enterprises. Fall back to % of output allocation for a minimum eg insurance, accountancy
8. Depreciation. To drive a business forward use replacement costs to calculation depreciation funding requirements.
9. To plan strategy calculate cash requirements for reinvestment (depreciation), capital repayments and drawings, then work backwards.
10. Continual improvement is the aggregation of marginal gains. Drive efficiencies in a downturn, hang on to them and gain from them in an upturn. Challenge yourself beyond your comfort zone.

Typical proportional analysis

	Cost (£)
Output	100
Variable costs	35 - 40
Gross margin	65
Labour	15
Power & machinery (incl. lease)	15
Rent & interest	15
Property & misc overheads	15
Net margin	15

Strategies to reduce fixed costs

1. Driving down unit fixed costs: costs down or output up?
2. Replacement rates and policy
3. Rotational Efficiency of Fixed Cost use: Net Margin not Gross Margin focus
4. Outsource
5. Expand
6. JV/collaborate to achieve scale

Arable Business Group - Benchmarking

If you are interested in benchmarking your figures against James and other members from the Monitor Farm Group, please contact:

David Pett, Regional Officer:
Mobile 07813 45453 David.pett@ahdb.org.uk



Next meetings

2 Feb 2017	11:00	Soils
9 Feb 2017	12:00	Benchmarking meeting
2 March 2017	11:00	Fungicide strategies of the future

To attend meeting, please contact your AHDB Cereals & Oilseeds Knowledge Exchange Manager:

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