Thank you for helping generate new ideas,

We hope you enjoy the problem solving ........
Would like to thank the following partners for making this initiative a reality for UK farmers.
KIDWORTH DAIRY FARM

Kidworth Dairy Farm is at a crossroads. Long term survival is in doubt. This family farming business has been ticking away for generations but the increasing trading volatility and uncertainty are rapidly putting the Kidworths farm viability in doubt. If we cannot help them create a new beginning, what does their long term future look like?

On top of the extremely tough trading environment there has been a recent change in the family dynamic with the next generation knocking on the door and now the family business needs to begin the process of overcoming the challenges of being a price taker in a global commodity market place. As an owner occupier, this business, like many, has actually seen its equity grow in recent years, but this has all been down to land price inflation rather than positive cash flow.

Robert and Heather Kidworth’s year ahead and beyond will be an extreme challenge which will need some external thinking to navigate the way ahead. They will need new opportunities and thoughts put in front of them immediately as they attempt to navigate their family through the current crisis as well as setting the business on a stronger course to deal with the globalisation of their industry. They need help to identify what their current business is capable of and how they can ‘future proof’ their cashflows and balance sheet.
THE FARM

- 220 acre ring fenced block of land.
- Ploughable pasture land predominantly grade 3. Excellent grass growing area of the country.
- Equipped with a range of buildings including parlour, cubicle sheds and loose housing. Limited slurry storage and adequate silage storage. The business has invested in modernising buildings over the years, so they are usable, however the layout is not ideal for the current setup and makes further expansion on site difficult (see plan).
- Farmhouse is within the farm steading. Habitable but in need of modernisation.
- The farm is well fenced, drained and maintained.
- The farm has recently been valued at £2.2m as a whole.
- Further 150 acres of similar land rented from neighbouring unit. Land lies into the home farm. This was a 5 year tenancy with 3 years remaining. Rent is £190/acre. No buildings but includes a small cottage. Land class similar to the owned unit.

THE SYSTEM

- 180 dairy cows in the herd.
- This has grown from 150 in the last 24 months and has grown from 130 over the last 5/6 years. Steady growth from retained heifers, and with a bigger increase in cow numbers in 2013/14 when eldest son returned home.
- Forecast 12 months milk production for the 2015/16 financial year is 1.314m litres with traditional Holstein Friesian cows averaging 7,300 litres of milk sold from an all year round calving composite system.
- Cows tend to be out at grass from late March for as long as possible. There is no 'system' around the pasture management.
- Breeding policy is top 50% of cows served by Holstein Friesian bull with bottom 50% to beef bull.
- Heifer calves retained for own replacements. All other calves retained and reared to heavy stores and sold at around 18 months of age.
- Stocking density is relatively low.
- The business can conserve plenty of forage and indeed may sell some at times.
- Historically milk was sold to Dairy Farmers of Britain and the business lost money on the demise of their milk buyer.
- They now sell to a regional buyer on a commodity type contract which has recently had A/B pricing introduced. There are no aligned contracts available in their area.
THE FAMILY

- Robert (60) and Heather Kidworth (59) inherited the farm from Robert's family. They own all of the land, buildings and farmhouse.
- They have 3 children, John (28), Tom (25) and Alison (24).
- John is very well educated with a degree in Mathematics. Following graduation he worked his way to a senior position in the insurance industry. Despite being successful, John disliked his chosen career and returned home to farm with his family 2 years ago.
- Prior to this John took a passing interest in the farm but was not actively involved. It is clear that he thinks about money and farming differently to his mother and father.
- John is highly literate in financial affairs and is very focussed on targets and outcomes.
- John has around £100,000 of cash in the bank from the sale of his house.
- Tom left school at 16 to come home and milk cows. He is very keen on livestock. He still lives with mother and father, however he no longer works at home, instead he works at a dairy farm nearby to earn more money. This was also driven by John returning home. Robert and Heather also have concerns that Tom just isn't up to the job of running a farm business.
- Alison works in nursing in Manchester and is recently married. She is not interested in the farm but wants a family and home ownership in the near future. Parents would like to help with a house purchase in future.
- Robert and Heather have no formal succession plan in place with the family.
- Whilst they have tried to keep the unit relatively modern, Robert and Heather also have very traditional views on dairy farming. There is some conflict with John over the future direction of the business.
FAMILY AND FARMING FINANCES

- The last 6 years annual accounts demonstrate that the business has stagnated during the period. The increase in net worth is noted at £79,061 over the actual 6 year period - an average of £13,176 per annum. The projections for the accounting year 2015/16 suggests a decrease in Net Worth of £65,186. This wipes out 82.5% of the previous 6 years gains in one financial period.
- In reality equity will have increased significantly, but only due to land value inflation.
- Net worth according to the projected 2016 annual accounts is £854,364. A Farmers Statement of Affairs notes that this figure is much closer to £2.2m due to undervaluation of land in the balance sheet.
- The business has net negative cashflow of £149,399 over the past 7 years. With £93,758 of that expected to be realised in 2015/16 alone.
- The business has a £188,961 bank loan with c.12 years remaining. It also operates a £100,000 overdraft facility with a balance very close to the limit – this will need to be extended to £150,000 to accommodate current losses projected by the financial year end.
- The bank holds security over the farm for the borrowings.
- Whilst the loan has been reducing, the overdraft has been rising at a faster rate to accommodate the ongoing cash losses.
- In terms of assets the business is not heavily geared, however with a record of cash shortfalls the ability to repay long term debt is in the balance.
- Trading conditions have been relatively benign up until recently.
- The business was most profitable in a topsy-turvy year of 2013/14 which started with a shortage of forage and high feed prices and progressed to a high milk price giving a respectable year-end profit.
- 2014/15 outturn was also very good with another profitable year noted. Milk income held up despite a drop in price as extra litres came through and significant price drops were towards the end of the financial year. Increased store cattle sales also increased output during the year.
- Projections for 2015/16 are looking very concerning at the moment as milk price continues to slide.
- Although this may be the low point of the current trading cycle, there is clearly a long run reduction in those terms of trade. With this in mind we have to ask ourselves, is this business in terminal decline without some action being taken?
CHALLENGES

• What should this business look like to be competitive in a volatile global market?

• How does this business pass over from one generation to the next, is the burden of succession and land ownership holding British dairy farming businesses back and why is that the case?

• How can this business get through to the next upturn in prices and then how can it reorganise to have long term sustainability?

• If this is representative of a typical UK family dairy farm, then what is fundamentally flawed with the structure of the British dairy industry and how can that be improved?
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<table>
<thead>
<tr>
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<td>Cash generated from trading</td>
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<td>Receipts from sale of fixed assets</td>
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<td>Net inflow/outflow from HP</td>
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Thank you for helping generate new ideas.
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## BALANCE SHEET

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<td>845,964</td>
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<td>840,489</td>
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<td>Profit / loss</td>
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<td>81,286</td>
<td>35,280</td>
<td>40,743</td>
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### FINANCIAL SUMMARY NOTES

2009/10

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• Moved milk buyer as Dairy Farmers of Britain went out of business, causing significant business interruption and loss.
• Low labour costs as only one employee plus family including one son.
• Milking 130 cows with 6700 litres per head sold.

2010/11
• Static year with little to talk about.
• Cow numbers static at 130, but genetic improvements giving 100 litres sold per cow increase in yield to 6,800 litres per cow.

2011/12
• Milk price improvement to 28ppl.
• Genetic gains and feed improvements again made, with yields up a further 100 litres per cow to 6,900 litres.
• Cow numbers up by 10 in response to better milk price. Extra cash being generated so a telehandler was changed for £35,000 with a £15,000 trade in with balance financed over 3 years via HP.

2012/13
• Further increase in cow numbers to 150 (+10) with yields now up to 7,000 litres per cow.
• Difficult climatic year so a poor grazing season ensued with higher relative feed costs incurred to compensate.

2013/14
• Opportunity to rent 150 acres of neighbouring land taken.
• Cow numbers increased to 170 (+20) with yields at 7,100 litres per cow.
• Beef X calves retained to make us of extra land.
• John returns home to work.
• Tom leaves farm to work for neighbour for more money.

2014/15

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• Cow numbers now up to 180 (+10) with yields at 7,200 litres per cow.
• Store cattle sales are significantly higher (+£45k).
• Milk price at 30ppl so generating significant cash.
• Tractor changed at £58,000 less £25,000 trade in and financed over 5 years. Helped to keep tax down.

2015/16 (Projected)

• Numbers static but yields up to 7,300 litres per cow.
• Milk price down 30% to 21 ppl.
• Profits down by £100,000 in the year resulting in cash shortfall of £93k.
• Erosion of equity to live and keep business operating.

THE PROBLEM

SIX YEARS OF STEADY PROFITABILITY SEEN, ALTHOUGH ONLY CASH POSITIVE IN ONE OF THOSE YEARS. 2015/16 WILL WIPE OUT 82% OF THE GAINS MADE IN PREVIOUS 6 YEARS.

PLEASE SEND YOUR COMPLETED COMMENTS BY EITHER EMAIL TO r craig@agrihive.co.uk
OR
BY POST TO ROBERT CRAIG, CAIRNHEAD FARM, AINSTABLE, CARLISLE, CA4 9RP

CAPTURE YOUR THOUGHTS ON THE CHALLENGES HERE

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Please feel free to expand your answers beyond the boxes in this study.

What should this business look like to be competitive in a volatile global market?

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