CASE STUDY: Diversification in agriculture

Farming is a way of life, but it is a business activity too. Despite the presence of large corporations with an industrial-scale approach to farming, most farms world-wide are owned by families and local co-operatives. Keeping a small farm viable down the generations remains a family priority for many, yet it can be difficult to earn a living from a single farming activity, whether livestock, dairy, grain, fruit or vegetable production. American and European supermarket chains increasingly dominate retail distribution, making the supply of farm produce extremely price-sensitive. Some farmers respond by converting to organic production, hoping to sustain higher selling prices with less competition and better profits. This can be a successful strategy, but because organic yields are typically lower, the revenue potential per hectare of land is not necessarily higher, while consumer demand may decline in recessionary times.

Many family farms have adopted an alternative strategy, that of complementing core activities with some form of diversification. According to research commissioned by the Department for Environment, Food and Rural Affairs (DEFRA)[1] for tax year 2007/8, almost 80% of the English farms that were questioned claimed some income from non-core activities. Net income (in effect, the owner's or tenant's salary) averaged £48,000, of which 14.5% was from diversified activities.

Farm diversification takes three main forms: unusual livestock and crops; 'forward integration'; and alternative use of farm assets.

- ***Unusual livestock and crops*** include llama, bison, butterflies, fish and waterfowl. Unusual crops range from vines and plant seeds to willow and miscanthus for fuels (biomass).
- ***Forward integration*** aims to capture a greater share of the value-added available from farm output. It can include retailing farm produce (at farm shops, farmers' markets and on-line) and creating added-value products from farm output (e.g., processed meat; wine and juices, oils).
- ***Alternative use of farm assets*** such as farm buildings and land may generate income in ways that are somewhat or largely unrelated to core farming activities. Examples include breeding programmes for traditional and rare breeds, tourism (accommodation, camping, visitor centres), nurseries and garden centres, conversion of farm wastes into composts and methane, wind-powered electricity generation, activity centres (e.g., hiking, paintballing), and music festivals.

Examples

Marshfield Farm in Wiltshire, England and Linalla Farm in County Clare, Ireland are family-run dairy farms that have diversified into ice-cream manufacture, using milk from their own herds. Both now have national or regional wholesale distribution in their respective countries. Testimonials suggest they are making excellent products, but building these businesses has created many challenges.[2] Progress can be painstakingly slow for enterprises whose proprietors have strong environmental consciences. Thus, while Marshfield's owners prefer to sell entirely organic products they are constrained because they cannot get all the necessary organic ingredients, such as flavourings, at a viable cost.

Key issues in farm diversification are (a) to obtain finance for what are often medium-to-long term projects and (b) scalability. When a project requires significant investment in production capacity (e.g., land), a farmer needs confidence that the capacity acquired can be fully and consistently utilised.

Tasks and discussion questions

1. If these ice-cream businesses demonstrate sufficient potential, should their owners divert all of their milk output into ice cream production and buy milk from other farms if necessary? (The population of Ireland, North and South, is 6 million, Great Britain 60 million).

2. Should these farms diversify further or stick to milk and ice cream? What are the arguments for and against each option?