



# Understanding The Risk And Reward Equation

## – Cost Forecasts for 2016

NEIL CAMERON, BIDWELLS



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THE  
POTATO  
INDUSTRY  
EVENT

BP2015

HARROGATE  
NOVEMBER 12 & 13

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# Introduction

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- Cost of Production Changes for ware and processing
- Reasons for those changes
- Monitoring & Managing Cost of Production
- Future Trends
- What is success?



# Cost of Production - Context

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- The Benchmarking data has been updated to provide a report on anticipated result 2015 and to forecast a 2016 cost of production
- The profiles reflect a mix of “mid term storage crop” and “off the field” to provide a balanced view.
- The data should be treated in context and used as a guide to trends in the movement of cost elements and not as a definitive cost of production.
- Cost of Production data includes market value land rental charged across the entire potato crop area.
- Use this as a trend guide – your own costs are what matter



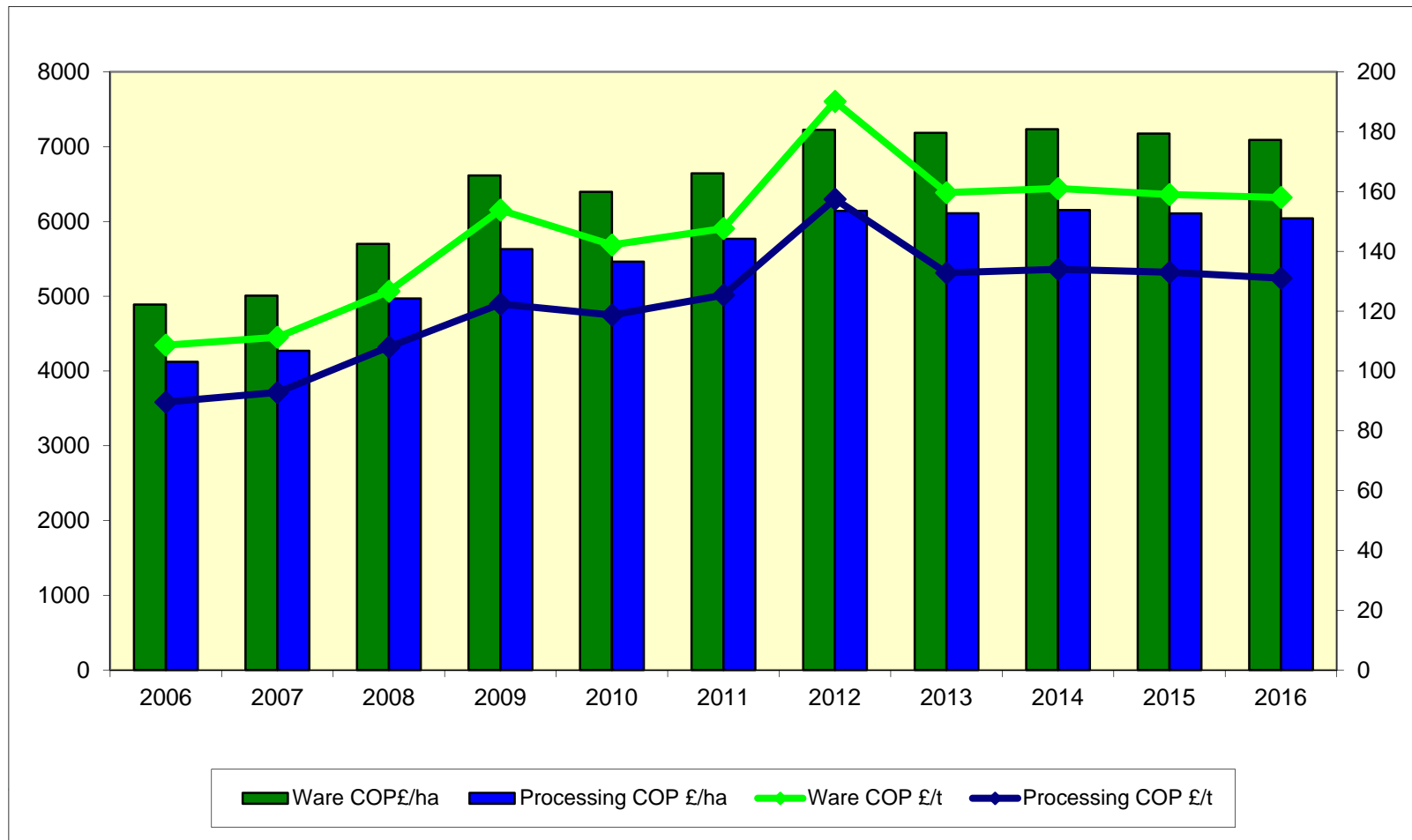
# Key Drivers of Change

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- On the whole costs have been much more stable for the last two years
- Fertiliser prices have softened on the back of reduced manufacturing costs and demand – in particular nitrogen
- Fuel prices have dropped sharply
- Euro exchange rate
- Replacement costs of machinery



# Cost of Production

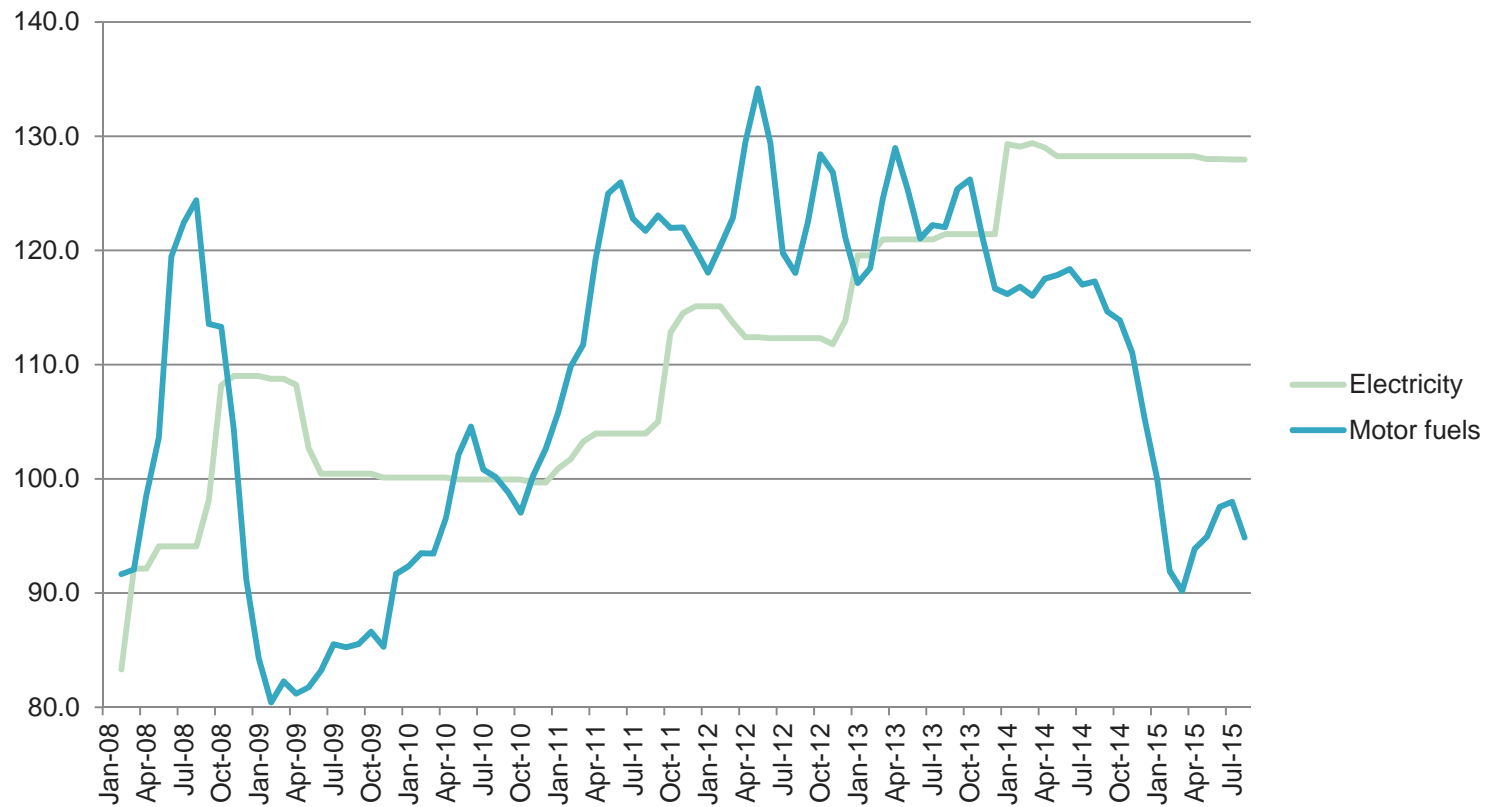


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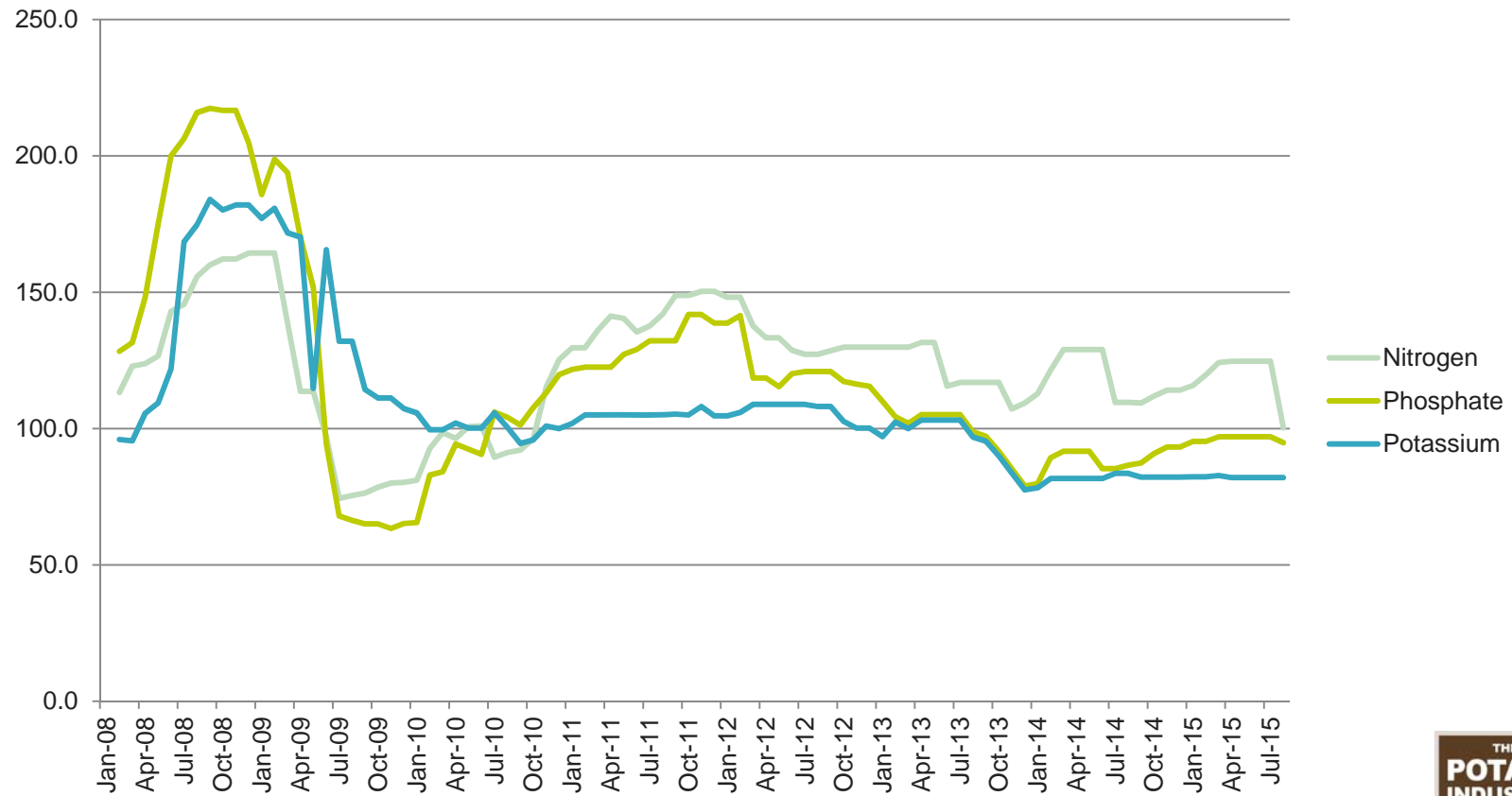
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# Fuel and Electricity



# Fertiliser



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# Future Trends

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# What Does Success Look Like

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- Profitable and Competitive
- Top quartile performance
- Technical efficiency
- Full understanding of costs and drivers
- Appropriate long term investment
- Appropriate risk management
- Strong Market relationship



# Benchmarking

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- Online tool available for all levy payers
- VC – normally well understood by growers – crop records
- FC – more difficult to allocate
- Many FC are spread across crops and enterprises
- Facilitation helps to provide reasoned approach to FC allocation

<http://potatoes.ahdb.org.uk/online-toolbox/business-improvement>



# Conclusions

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- Potato Cost of production has increased considerably over the last ten years
- However we have seen a small cost reduction in the last two years
- We appear to be in a period of greater price stability for inputs but more volatility on crop value
- Reduced consumer demand and a strong pound will both put pressure on prices in the short term.
- The industry as a whole must strive to create value from the crop
- Growers must continue to drive technical excellence and unit cost efficiency.



# Thank You.

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# Understanding the risk/reward equation

MARK TAYLOR

BUSINESS UNIT DIRECTOR

INTERNATIONAL PROCUREMENT AND LOGISTICS



# The move to IPL

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- What?
- Why?
- When?



# IPL potato & Onion Supply Chain Vision

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- To create a unique supply chain capability for Asda/Walmart.
- Buy directly from growers and create strategic partnerships.
- Longer and improved planning which can support sustainability strategies.
- Create new opportunities to sell more
- Give Asda customers a great offer .



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# A vibrant industry! But what do we need to consider?

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- One industry voice
- Relevance of UK?
- Quality & Consistency
- Consumer choice & shopping habits
- Relationships
  - Growing to a plan and being in someone's plan
- “Rewards”
- The Future





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# ONE VOICE

Together we can make a difference



# AHDB

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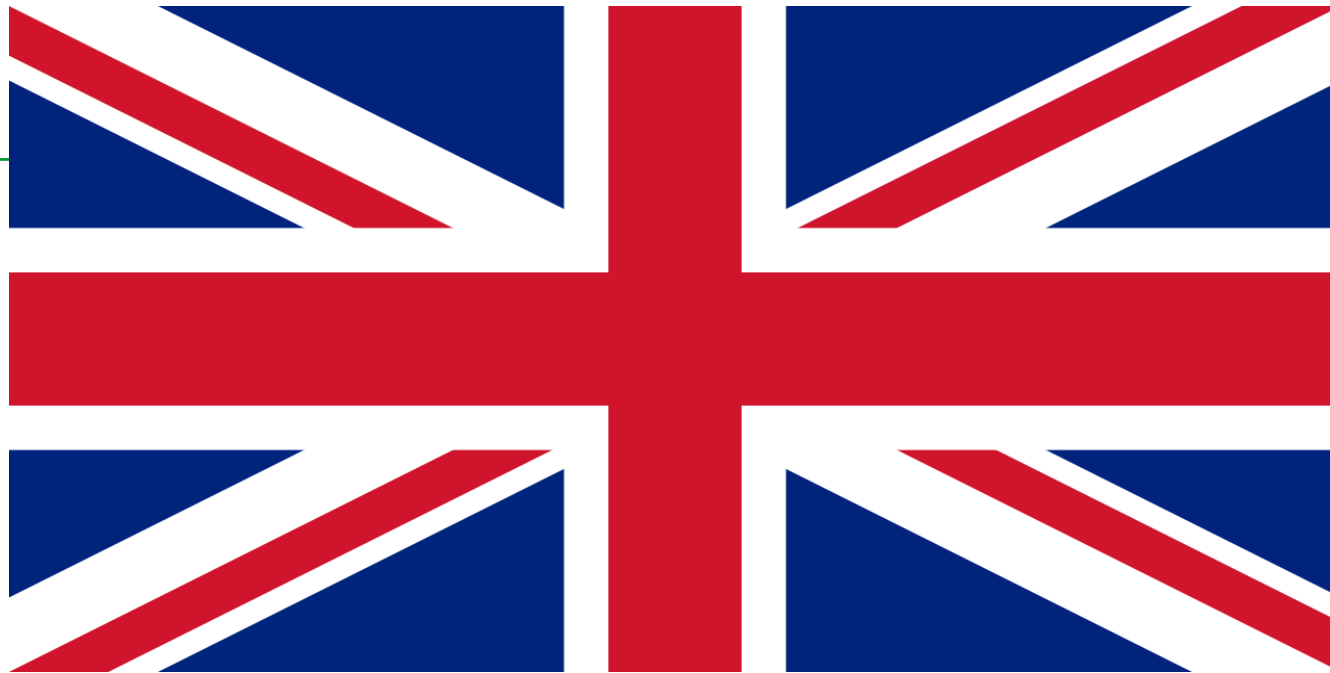


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# IPL™

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Yes, but not at any cost

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# The major risk?

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# Quality & Consistency

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# The changing Fresh customer

2011

28.8



2.1 Kg



£0.74



2015

26.4



1.9 Kg



Frequency  
of purchase

Average weight  
of purchase

Average  
price

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# Relationships - Friend or Foe!

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# Its your choice!

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# “Rewards”

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- ££/contracts
  - Deal directly if possible
  - Recognise your costs
  - One plan/structure does not fit all
  - Clarity of message and a clear plan
  - The value of certainty?
    - The cost of “not knowing”
  - Over production or contingency – waste in all its forms
  - Too many fingers in too many pies!
  - Making hard decisions
-



# The Future?

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- Develop your relationship – deal direct
- Recognise your market and its future needs
- Recognise and manage your cost base – we are
- Identify and develop your part in the supply chain – add value
- Don't worry about the rest, focus on your business being the best
- Choose your attitude – cooperation or adversarial? Everyone has choices!
- Acknowledge that your crop may well get to the customer in a different way in the future
- Be ready for more change!!

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## HSBC AGRICULTURE

- Bankers assessment of risk
- Gordon Whitford
- Regional Agriculture Director
- North & Northern Ireland

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HSBC **Business**

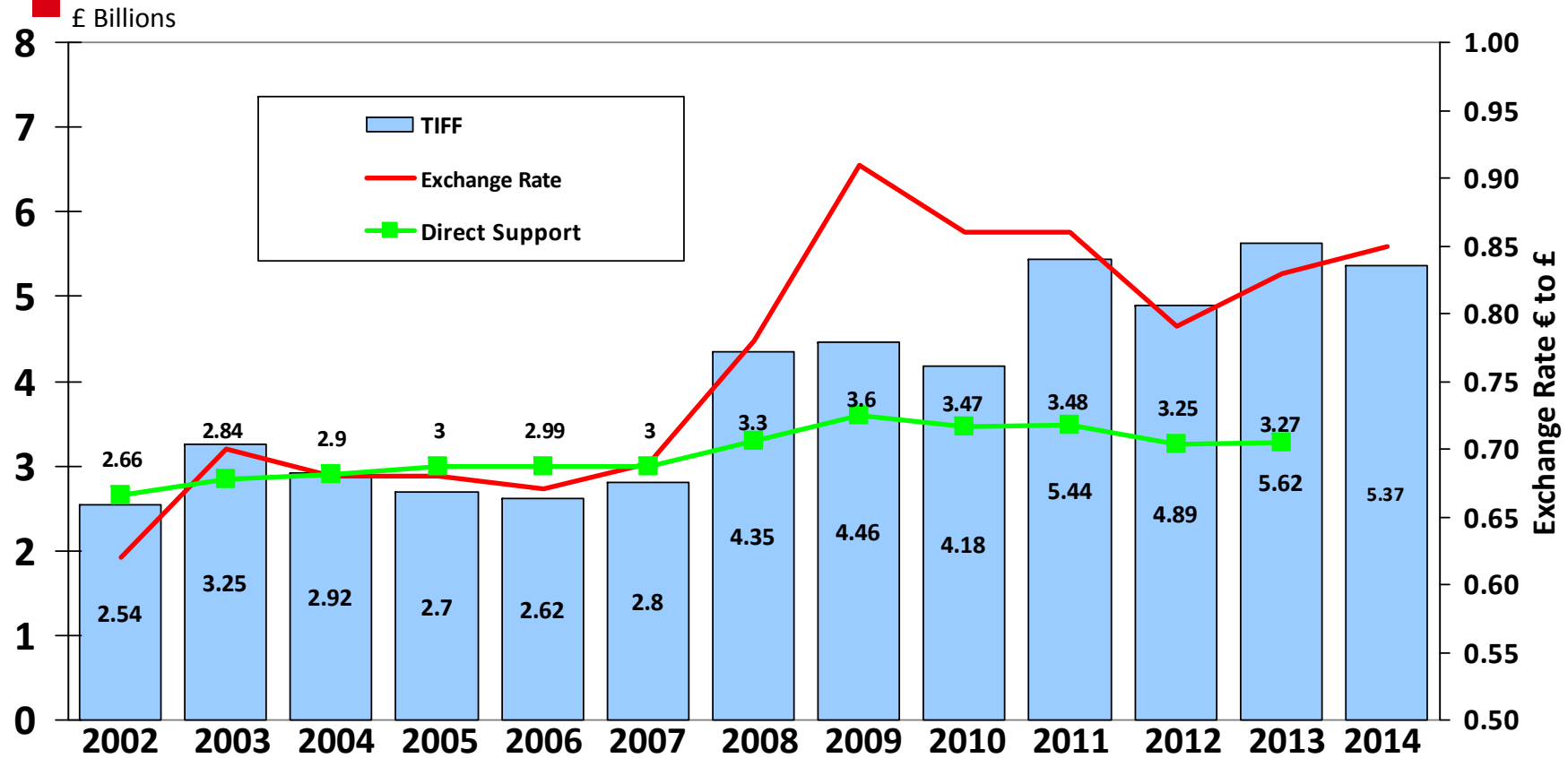
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Commercial Banking

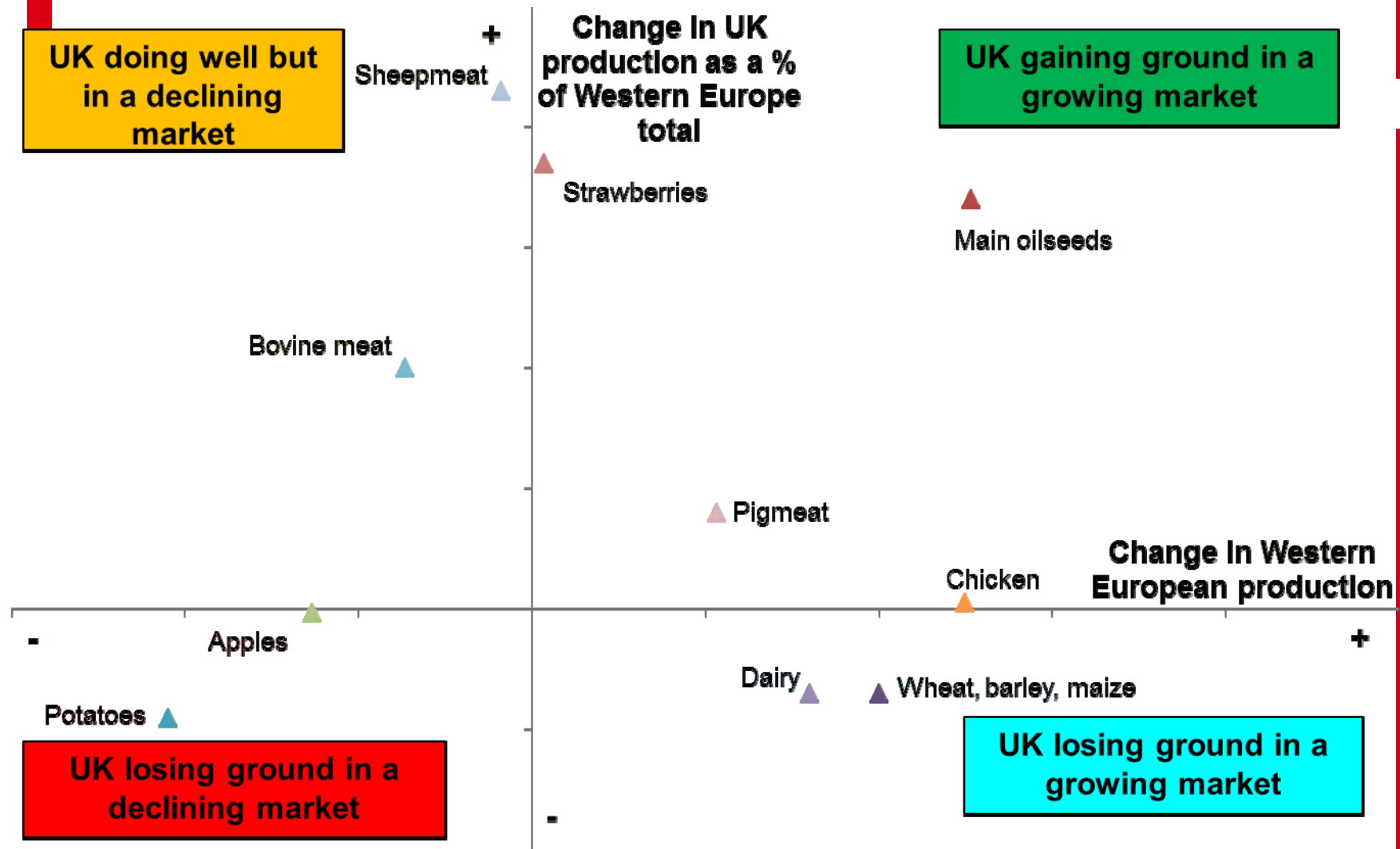
## Lending to successful businesses

- Your objective is to provide evidence to demonstrate to the bank that your business will be successful going forward.

# UK TOTAL INCOME FROM FARMING (Real Terms)



# SECTOR ANALYSIS



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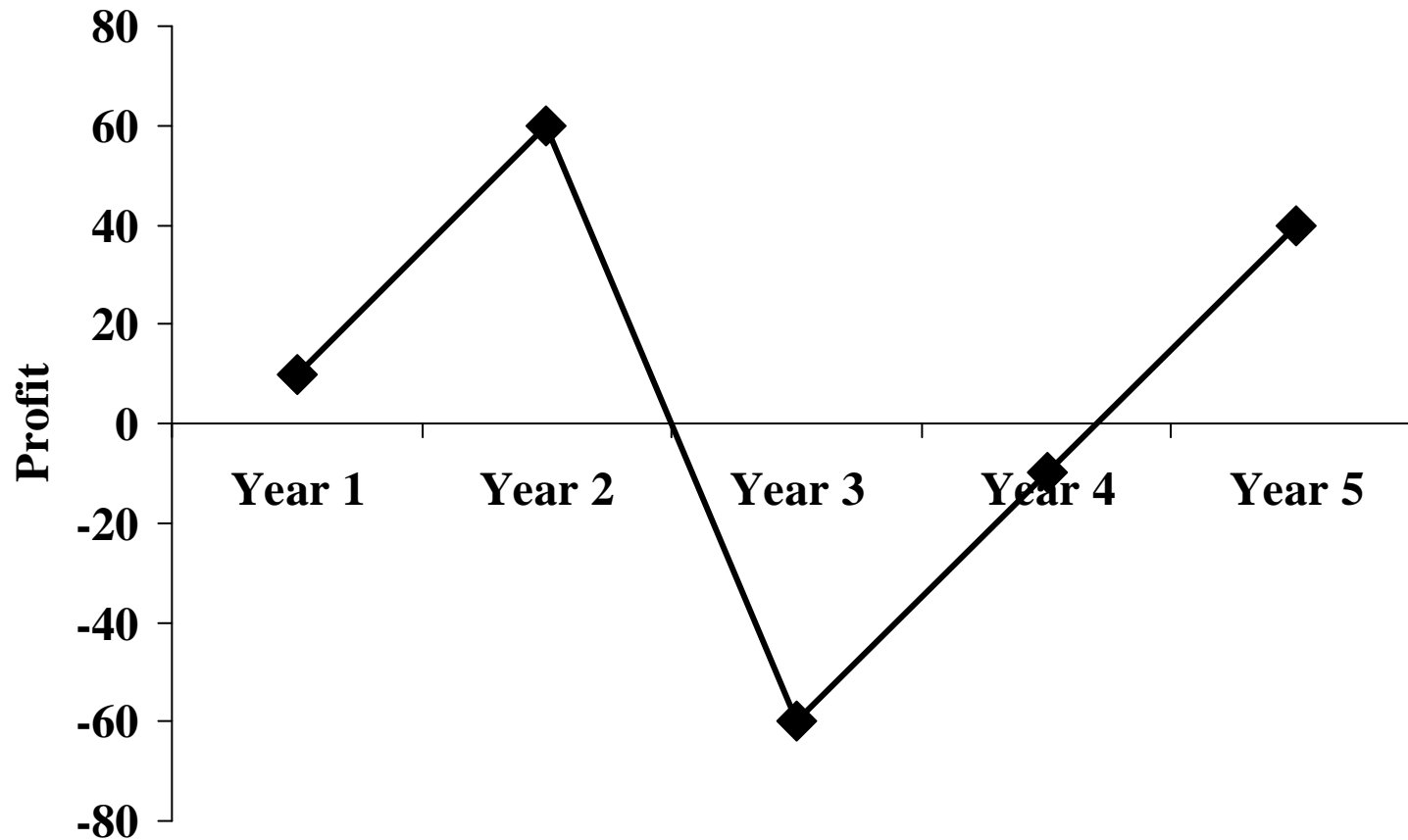
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Source: Medium term changes in production based on official data e.g. Eurostat  
 Western Europe defined as UK, France, Germany, Denmark, Netherlands, Ireland, Italy, Spain, Portugal, Belgium & Luxembourg  
 Strawberries excludes Portugal, Denmark and Ireland. Apples excludes Denmark and Ireland

## How do we assess a proposition

- Three Key elements:-
  - Management
  - Affordability – cash
  - Security (second source of repayment)
- Banks are looking to fund the winners

# Long Term Fundamentals Managing Volatility

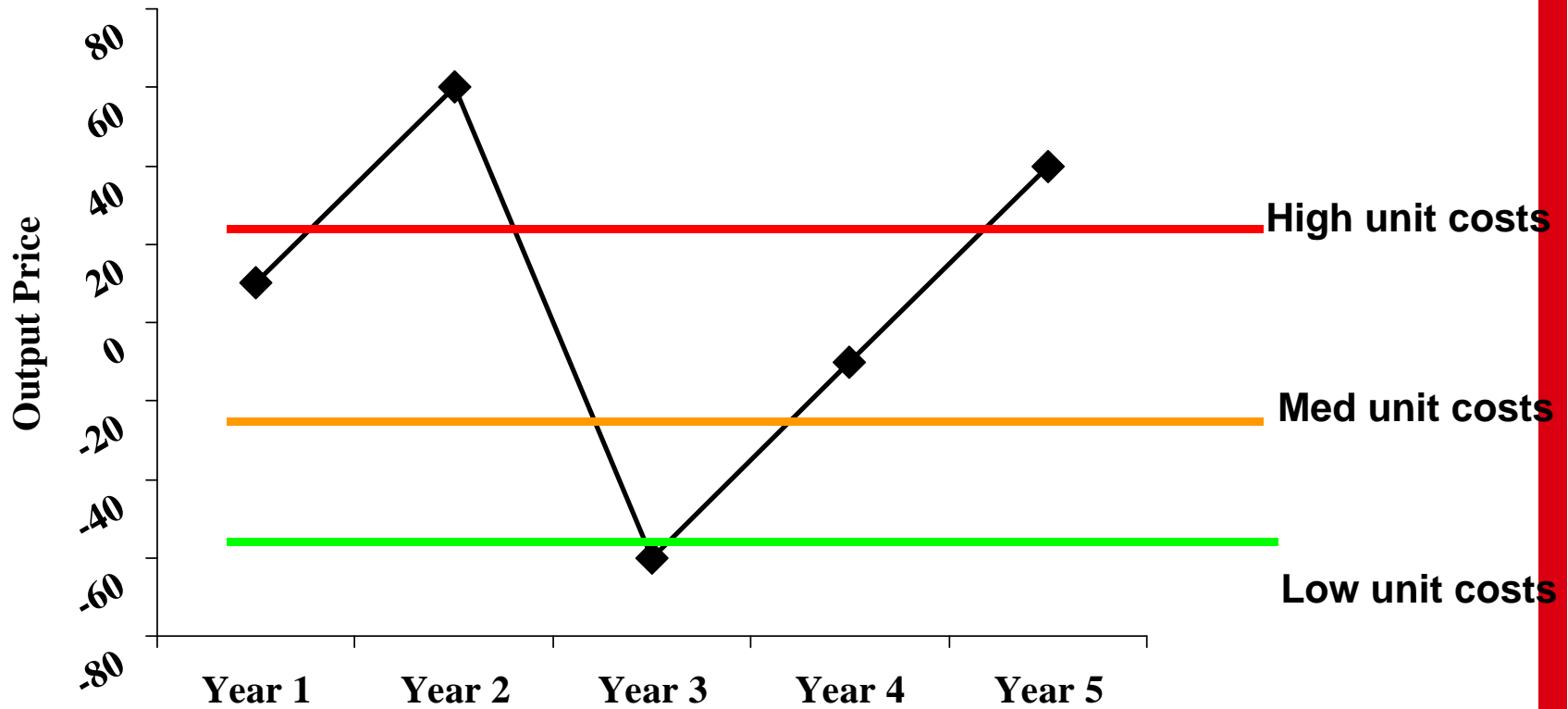


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# Long Term Fundamentals Managing Volatility





## What do the best do

- Benchmarking and Budgeting essential.
- Difference between the best and the worst was large - now its enormous.
- Expansion increases profitability/cash.
- (don't assume all fixed costs are fixed)
- Operate close to their true economic optimum
- Sustainable farming practices (efficiency)
- Provide what the consumer is looking for.

## What do the best do

- Embrace/invest in new technology/new science.
- Adaptable
- Know their competition
- Collaborate – peers of equal ability
- Attention to detail
- Contracts
- Build a strong relationship with the bank and communicate.

- Thank you

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