

Joint Ventures for Landowners and New Farmers



**Farm
Advisory
Service**

National Advice Hub

T: 0300 323 0161

E: advice@fas.scot

W: www.fas.scot

Case Study

**Craig Grant,
Neil Ironside,
Derek Robson**



L-R - Craig Grant, Derek Robson, Mark Grant and Neil Ironside

“Make a decision and then make it work”

“Constant communication and compromise between all parties is key to success”

Contract Farming -

Three young entrepreneurs making a success in pig farming

A short biog...

Three young entrepreneurs make a winning formula by combining assets, labour and skill through joint venture farming.

A contract farming agreement was established in early 2017 after Craig Grant and Neil Ironside were introduced, which subsequently led to the formation of GIP (Grant and Ironside Pigs). Neil is in his early 40's while Craig is 35. Neil's main business is in construction but he also owns farms near Turriff, Aberdeenshire, producing arable crops. Three of these farms have pig accommodation, but he neither has the time or current knowledge to operate such an enterprise himself, due to being fully occupied off farm.

The opportunity to contract farm finishing pigs came at the perfect time for Craig as his brother, Mark, had just returned home from the oil industry and was looking for an opportunity to work at home on the family business.

Meanwhile, Derek Robson (35) was a new entrant tenant pig farmer producing weaners for a finisher. Derek had additional weaners available. After discussions, they all came to the arrangement for this 'overspill' of weaners to be finished by GIP.

After proving the relationship worked they realised further synergies. Derek was limited for space to expand his sows numbers, while GIP were keen to rear more weaners.

After discussing this problem with Neil, Derek was offered the opportunity to use pig buildings at one of the other farms. In return, Derek would be the dedicated supplier of weaners to GIP.

GIP now purchases 300 weaners every 5 weeks from Derek's 100 sows that are dedicated to GIP. It is working extremely well, building on everyone's strengths, there are now plans in place to double the capacity within the next 12 months.

The “GIP” Agreement

Both Neil and Craig put £25,000 in to establish GIP from the outset. In return Neil Ironside and CJ Grant Ltd both own 50% of GIP shares. This £50,000 of capital was used to purchase stock.

Neil supplies the buildings and infrastructure, while Craig supplies the labour and management. Generally anything a pig can touch, GIP maintains e.g. gates, feeders, etc. Anything a pig can not touch is maintained by Neil e.g. roof, etc.

The duo have agreed that for every finished pig, Neil invoices GIP £5/pig for accommodation as a “retention fee”, while Craig invoices £5/pig for labour as a “contractors fee”.

The grain for feeding the pigs is produced on the farm, Neil supplies this and invoices GIP for the supply of the grain. All protein, oil, vet and medicines, purchase of pigs, etc. is paid for directly by GIP.

At the end of the year, the surplus is divided between the two parties in a 50/50 split.

The Supply of the Weaners Agreement

With Derek now supplying the weaners to GIP, it has allowed him to expand his own business - increasing his sow herd and employing staff.

In return GIP purchases pigs with a known health status from the neighbouring farm, reducing animal transportation time and animal stress.

Derek owns the farrowing unit but rents the site on which it stands from Neil - freeing capital otherwise required to buy the required land.

Derek uses this site to have a dedicated sow herd for GIP, with all progeny going through their finishing system. He can purchase grain and straw directly from Neil, reducing the carbon footprint for haulage while having the peace of mind that it has all been sourced locally. In return, Neil gets the pig manure back to apply to cropping land.



The “GIP” Business

Weaners are taken on to the unit at approximately 7.50kg directly from Derek Robson’s farrowing unit. The pigs are housed on straw bedded courts and offered a ration specific to weaners, growers and finishing pig requirements. Pigs are finished and sold once they reach 17-20 weeks of age or 85-90kg deadweight. The pigs are marketed through Scottish Pig Producers.

Scottish Pig Producers provide an impartial reference from which the transfer price is set between Derek and GIP - setting the price of the weaner as an average of the market trend at the point of sale.

Technical performance of GIP is very good, reaching daily liveweight gains of 820 grams/day. Craig and Mark are routinely weighing the pigs to ensure the best nutrition, health and management is being delivered to each batch of pigs. Regular weighing is aiding decisions on when to market the animals to ensure GIP is supplying what the market requires. This has been a great success with, to date, 82% of the finished pigs achieving Q-grade, which presents a 3p/kg bonus.

The business now aims to increase efficiency further. There are plans in place for Neil to erect an additional pig building on the farm, allowing the business to double the current throughput of finished pigs per year.

Contract Farming - a summary!

A contract farming agreement is the terms of understanding between two parties. That is, a landowner/occupier (known as the “farmer”) who has engaged the services of another (known as the “contractor”) to undertake farming operations over a fixed period (typically 3 to 5 years) on pre-arranged terms. It may be more simply understood as farming with contractors.



The farmer normally provides the land, buildings, fixed equipment (if required or agreed), a dedicated bank account, pay the required bills, finance to administer the agreement, and any farm knowledge. For this, they will receive what is commonly termed a basic retention/fee. This is agreed with the contractor in advance of the start of the agreement.

The contractor provides the labour, machinery (including its incurred costs) and management expertise. The contractor could be a new entrant, a neighbouring farmer, large farming company or traditional contractor. For this, they receive a basic contractors fee (usually quarterly or half yearly).

Via a separate livestock hire agreement, either party can supply breeding livestock (if applicable). Both parties agree farming policy and the share of any divisible surplus in advance and meet regularly to make management decisions and monitor progress.

The mechanics of a contract farming agreement:

- 1) agree a land “retention” and “contractors fee”
- 2) There are three bank accounts
No. 1 Farmers Account
No. 2 Contract Farming Agreement Account
No. 3 Contractors Account
- 3) The farmer establishes a No.2 A/c to be distinct from any other of their activities
- 4) Dwelling accommodation or industrial buildings are excluded from the agreement but may be available by separate negotiation with a residential or commercial lease

Benefits to Neil (land owner/farmer)

Benefits to Neil as the land owner/farmer have included the following:

- His pig buildings are being utilised and being kept in good working order.
- GIP presents a ready market for his grain and straw.
- Neil does not need to employ additional labour.
- The straw is being used for livestock production and then the farm yard manure is being applied to the land, benefiting soil organic matter and returning nutrients to the ground.
- The grain store and feed bins are being utilised and kept in good working order.
- The satisfaction that he is creating opportunities for young enthusiastic people.

Benefits to Craig (contractor)

Benefits to Craig as the contractor have included the following:

- He has generated work to allow his brother to return to the family business.
- It compliments Craig's management of a large poultry unit. Increasing the scale of his business and the quantity of inputs required, has increased his buying power, and reduced input costs.
- It has spread risk and benefited business resilience. In that, he now has enterprises in poultry, cattle, arable and pigs.
- Increased his pig knowledge and skills in building relationships, communication and compromise.



FOR MORE DETAILS SEE THE GUIDANCE NOTE:
<https://www.fas.scot/new-entrants/guidance-notes/>



How to make contract farming work?

The biggest factors in a successful agreement are:

- 1) Trust, honesty and pragmatism
- 2) Robust terms
- 3) Good incentives for the contractor to concentrate their efforts (this will also reward the farmer through a share of higher divisible surplus)
- 4) Third party involvement to set up the agreement

Consideration should be given to profit sensitivity to market price, technical performance and weather impacts since the agreement also needs to work in challenging times. Agreement clauses cannot safeguard against every eventuality but a concise agreement will help structure important, easily omitted, issues such as mutual responsibilities for cross-compliance, health and safety and associated insurance.

The “farmers” overall return under a contract farming agreement can be comparable or better than under an in-hand farming operation as significant capital is released from investment in machinery etc. (enabling investment elsewhere). A contractors costs are invariably also less than the farms existing overheads due to economies of scale.



Top tips

1. Weekly **communication** is essential, between farmer and contractor.
2. Work out what **each party wants** out of the agreement, and then make the agreement fit. Use an accountant and solicitor to formalise the agreement.
3. Be clear with each other, **discuss** all ideas and **compromise**, once a decision is made, make it work.

New Entrants to Farming “get with the” Programme

There is a network of new entrants across the country at various stages of developing their businesses. You can join in:

- www.facebook.com/NewEntrants
- www.fas.scot/new-entrants/
- Regional workshops

For more info contact Kirsten Williams, Consultant, SAC Consulting, Clifton Road, Turriff, 01888 563333, Kirsten.Williams@sac.co.uk

There are useful free resources on the website too:

- Case studies—learning from the experiences of other new entrants.
- Guidance notes—benefit from advice tailored to assist new entrants to farming.
- Also see www.gov.scot/Topics/farmingrural/Agriculture/NewEntrantsToFarming