

# Working as a contractor

*Agricultural contracting can be a viable option for enterprising individuals, provided they go in with their eyes open, do the right research and ensure there is a market for the services proposed.*

Getting the costings right is a vital step to make it work. Overheads can be crippling and, with machinery replacement costs escalating each year, it is critical that jobs are carefully calculated to make certain that capital is wisely invested and a return is possible. If it doesn't pay, why are you doing it?

Too many start-up or diversifying contractors simply try to undercut established contractors but this is no way to set up a viable business in the longer-term.

If you can identify an opportunity in your local area, you need to cost out carefully each operation, taking account of your time and machinery costs (see below), to work out how much you need to charge for each operation, and make sure there is a profit margin. Otherwise, when it comes to replacing kit, there will be no money in the business to reinvest, not to mention that you need to draw a wage.

This is a sector that does not receive any direct agricultural subsidy and it, therefore, requires an innovative business focus, always needing to be flexible and looking for the next opportunity, while supplying farmers with a source of skilled labour, often high capital cost machinery and professional services, effectively operating as 'farmer without land'.

It is estimated that 91% of UK farms now use a contractor, with National Association of Agricultural Contractors (NAAC) figures suggesting that contractors apply 70% of slurry, harvest 85% of sugar beet and buy 98% of self-propelled forage harvesters.

Contracting can take a number of formats, from businesses offering individual specialist farming services (such as drilling, harvesting, crop spraying or livestock

services, either uniquely or as a package); to more complex contract, whole farm and joint farming arrangements. Commitment from clients is essential, ideally for five years if whole farm contracting, to allow for confident investment in new machinery and labour.

All contracting approaches have become an integral and important part of farm business management. So, where do you start if planning to become an agricultural contractor?

## NAAC's ten top tips when starting out as a contractor

1. **Identify a market for your services**, before you invest in machinery. Try not to just offer the same services as your local, already established, contractors – a niche market is idea. Competition is healthy but if your local contractor has loyal customers, you may struggle to get work unless you seriously undercut and that is usually dangerously unsustainable (see below).
2. **Know your costs**. Make sure they are your costs, as everyone's business and aspirations are unique, and be certain that you account for everything, including labour (and yes, that includes your time if self-employed), depreciation, fuel, maintenance, tyres, etc.

Account for 'dead time' when you are not directly earning money. As a contractor, especially if employing staff, you can spend considerable time travelling or doing repairs and maintenance work, or standing in the yard waiting for better weather.

Costs need to be worked out to understand the rate each job needs to be charged to break even. A margin must then be added. You should not be tempted to undercut other contractors to gain swathes of hectares, as it can quickly degenerate to a short-term numbers game. Vast amounts of hectares worked mean little if there is no profit or income to reinvest, making the business unsustainable and, inevitably, causing it to fail.

3. **Invoice promptly**. There is nothing to be gained by doing 60+ hours a week in the tractor seat, if your paperwork is weeks out of date and invoices are not being sent out. Your business will not survive without income, as you will continue to be billed for finance, fuel, etc. Prompt invoicing is a sign of a well-organised, professional business. If there is the opportunity, get invoices out as soon as a job is completed. If you are too busy, consider getting outside help to keep on top of paperwork.
4. **Chase payment**. Your customers will expect to pay when a professional job is completed. A creditor's money is a far cheaper source of cash flow to a contractor than a loan from the bank!
5. **Get properly insured**. Inevitably, things can go wrong and you need to be properly insured for the operations you carry out. We all make mistakes but in contracting these can be expensive.

6. **Be safe.** Working alone for long hours can be a perilous occupation, both mentally and physically. Don't take risks, as the time-saving will never be worth the price you pay by cutting corners on safety for you or your employees. Get ahead on the health and safety paperwork before the physical workload becomes too pressured, as it is important to keep up to date, be well aware and avoid risks. Ensure customers provide you with any essential safety information for their premises.
7. **Look after your staff.** Good staff are hard to come by in farming and it is vital that you appreciate their commitment, often working long, unsociable hours, by putting in place contracts of employment that will protect them and your business. Motivate staff by regular reviews and ensure that all necessary training and certification requirements are completed.
8. **Stay on the right side of the law.** Keeping your vehicles on the road is essential to running a professional contracting business. Impounded vehicles can quickly lose income and it is vital to be aware of your legal commitments on- and off-road.
9. **Customer service.** Sensible contracting rates can be charged if you provide your customers with a high-quality, efficient service. The work you do is your calling card and it is vital to build up a good reputation for having well-maintained machinery and doing a professional job. You should also make certain that you have discussions with clients and are fully aware of any specific farm assurance or farm payment requirements.
10. **Be professional.** Training and professional standards can add value to your business and you should regularly review whether your business could benefit. The NAAC's Assured Land-Based Contractor (ALBC) is an independently assured scheme that can take away additional client pressure, if needing to supply paperwork to prove your professionalism <http://www.naac.co.uk/assured-contractors/>

### **Finally... enjoy it!**

Contracting has the potential to prove a fantastic way of life if you are forward-thinking and take a professional approach. Take the opportunity to network with other contractors and get as much information on legislation, safety and technical issues as you can absorb. Join the NAAC to keep up to date on contracting issues, giving you access to a range of services, such as a transport helpline and member's health and safety package. Get involved with meetings and training events to be social, keep you well informed and keep looking ahead to new innovative ideas and technology.

For more information contact the NAAC:

### **National Association of Agricultural Contractors**

<https://ahdb.org.uk/business-planning/changing-your-business/contracting>