

Building a robust gross margin plan



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PAUL PICKFORD

Following a bruising 2026 harvest, a guide to whole farm gross margins is indicating some rays of hope, with financial planning increasingly important in de-risking farm businesses against ongoing volatility. *CPM* speaks to one specialist advisor to find out more...

By Rob Jones

According to advisor Paul Pickford, no business can protect itself fully from the impacts of fluctuating market prices, adverse weather conditions and global political turmoil, with 2026 a great example of that.

While 2027 could prove another challenging year, understanding the factors that can be controlled at farm-level and making the subsequent right decisions could help inject a critical layer of much required stability, he raises.

“Good crop planning decisions have a major effect on gross margins and are the fundamental building blocks for optimising farm business profit as well as being an invaluable help in

projecting cashflow requirements.

“Focusing on reducing fertiliser costs, for example, managing cashflow as carefully as possible, and marketing crops more efficiently, are all critical areas for businesses looking to shore up their foundations for the future.”

SCRUTINISE CROPPING

Paul, who consults for Agrii, highlights that naturally, rotations require careful consideration. “While we’re yet to see a significant reaction in grain values due to the current turmoil in the Middle East, the outlook based on future prices towards the end of next year is starting to show some upward movement.

“Grain values based on November

2027 ex farm prices have mostly increased by around 4%, but oilseed rape has, however, jumped by 15% while pulses have fallen back by 4%.

“Against this trend, all the fertiliser values being applied in Agrii’s 2027



Getting the fundamentals right

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Crop marketing

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gross margin guide – used by the firm's advisors to prepare individual gross margin analyses for farms – have increased. Nitrogen-based products are showing rises of above 40% or more with straight N (34.5%) increasing by nearly 45%," he comments.

The effect of rising fertiliser prices on overall gross margins on UK farms has been profound, highlights Paul. "2027 winter cereal gross margin projections show the continuing decline started in 2026, predominantly due to these increased fertiliser costs which is only marginally offset by the small increase in crop futures value for November 2027.

"Oilseed rape bucks this trend and a strong improvement in crop value has overcome the increase in fertiliser cost. Equally, spring cereal gross margins for 2027 are showing a small improvement over those for 2026 too, due to reduced reliance on fertiliser. Spring beans have continued to decline as crop values have dropped back.

"While a lot is still far from certain, there are some priority areas emerging that producers could consider if they wish to build sustainable businesses for the future."

As well as crop choice, growers could focus on other ways of using fertilisers more effectively if they're to boost gross margins, believes Paul.

"The uncertainty regarding future input values remains a constant topic of discussion with fertiliser at the heart of the debate. Fertiliser purchasing strategy is still important, but the market

continues to see a greater number of innovative products coming to light that can have a benefit in improving the efficiency of nutrient use.

"Technologies such as slow release fertilisers, high efficiency foliar feeds and Liqui-safe urease inhibitors combined with the latest soil, grain and tissue testing can have a profound effect on NUE and help to reduce the fertiliser bill considerably," he says.

"It's also important to invest in a good nutrient management plan (NMP) to ensure nutrients are being used as cost-effectively, as well. This applies not just to those farming in an NVZ, but across the whole of England."

The use of a crop marketing strategy is more important than ever, with a well-planned approach continuing to have a significant impact on gross margin and profitability, he suggests. "Lack of knowledge of grain values day-to-day, and a thorough understanding of market trends remains a major weakness for many farmers.

"Even a simple strategy based on selling a percentage of the crop through the year can help to reduce the increasingly significant risks from fluctuating prices."

STRATEGY

Therefore, a full understanding of the real cost of production for each crop on the farm is the single most effective marketing tool that any business can develop, he stresses.

"Producers should determine a long-term marketing strategy for their crops and be looking to implement this strategy having taken into consideration the best market information available. Those businesses less willing to get more involved in marketing, however, should still be looking to marketing pools to help reduce the impact of price volatility."

While the demand for a solid grain marketing plan has never been greater, Paul acknowledges that selling decisions are often driven by the demands for cash on the business. "The importance of understanding the cashflow requirements for Harvest 2027 can't be underestimated, with most producers increasingly aware of this on the back of lower yields and prices from both 2025 and 2026 crops.

"Growers should plan how they're going to manage cashflow – it's obviously not always easy, but it can be a self-perpetuating issue if not addressed. As well as grain

marketing implications, it can extend across many areas of the business.

"With fertiliser purchasing, for example, poor cashflow can stop producers taking full advantage of the lower price window and potentially drive them to accepting higher costs, which in the current economic climate can have severe gross margin implications.

"Then, continuing uncertainty and reluctance in the grain market will pile further pressure on these businesses, compounded by the attitude of some banks with regard to extended borrowing. If this is becoming an issue and placing a stranglehold on the business, don't forget many growers are now successfully finding sources of finance away from the traditional high street banks."

Farm overheads saw a significant increase between 2022 and 2024, arising from the start of hostilities in the Ukraine (33%). While there was some scale back in 2025 (3%), this saving has now been completely eroded away, notes Paul.

"Overheads are pretty much back at 2023 levels. The recent turmoil in the Gulf has seen many costs rise significantly and while some stabilisation will occur, it's very likely that overhead costs will see a further increase in 2027.

"For a well-structured arable business, the total variable costs should account for around 30% of output, the overheads – labour, machinery and other, but not rent – typically account for 40%," he explains.

Although overheads are often referred to as fixed costs, nothing could be further from the truth, argues Paul. "In most situations, optimising the overheads of the business can have a far greater improvement on overall profitability than attempts to reduce variable costs that often only lead to reduced output and corresponding falls in profit.

"Understanding not all overheads are fixed is also a vital step in understanding the implications for a business of not cropping. With the current pressure on output prices and input costs some businesses are understandably considering alternatives. In these situations, it's vital that the business understands which of its overheads it can save and which will remain," he argues.

"The projected gross margin may not be that high for a particular crop, but that gross margin still pays for most of the overheads. Without that, how much of a farm's total overheads will be left to be paid for?" he concludes. ●