

THE UNITED KINGDOM EXPERIENCE IN THE PRIVATIZATION OF EXTENSION

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In the United Kingdom, in 1985, the decision was made that farmers could bear part of the cost of the extension services provided in England and Wales by the Agricultural Development and Advisory Service (ADAS) of the Ministry of Agriculture, Fisheries and Food (MAFF). Charging began in April 1987. Throughout that period, and until November 1988, the writer was part of the ADAS management team, first as a member of the Steering Group which planned the change and then of the Board of Management which implemented it.

In making the change from a free extension agency to a business charging commercial fees for its advice, products, and services ADAS has been remarkably successful. Despite being part of a government department with the constraints that imposes, and despite some reservations that an agency of government could be sufficiently aggressive to succeed in a commercial environment, ADAS has consistently met its financial targets and is still the major advisory agency operating in England and Wales.

The Background

Extension services in the United Kingdom have always attracted interest from workers in other countries. On the mainland of Great Britain there are two models. One is that in Scotland, based upon a number of agricultural colleges, the staff of which do research, teach, and provide extension services. In England and Wales, by far the largest of the advisory and extension services in the United Kingdom, the model is different. It is this service, once ADAS of the MAFF, with which I have been particularly concerned and which has led the way in commercializing extension work in the United Kingdom.

Parts of the advisory service in England and Wales have a long history, dating back as far as 1822. In 1946 government added the National Agricultural Advisory Service formed from the County Advisory Services developed during the war to promote food production. All the government services in England and Wales were brought together in 1971 to form the Agricultural Development and Advisory Service. This comprehensive organization was intended to provide independent and impartial advice and services and to conduct experimental work for the agricultural, land-based, and allied industries. It also carried out a substantial volume of statutory work on behalf of government, for example, the control of animal disease, and made technical input into the development of agricultural policy.

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By 1978 ADAS comprised about 5,400 staff. Of these 1,100 were agriculturalists, 730 agricultural scientists providing backup services or engaged in research, 265 were professional officers in the land service, 40 were drainage engineers, 600 were veterinary surgeons, and there were 40 professional civil servants in central units. In addition there were about 2,500 technical support and industrial staff.

At this time ADAS operated through a structure of six regions made up of twenty-four divisions with twelve experimental husbandry farms, seven experimental horticultural stations, four central scientific laboratories, and twenty specialist units of various kinds. The costs of the service at that time were about £60 million a year, receipts were about £3 million giving a net cost of about £57 million. Of its total activity about 43 percent was in statutory work, very much of this being from the veterinary service, 35 percent in research and development, 17 percent in advice, and about 5 percent on policy activity.

The extension activity of ADAS was carried out mainly by the qualified agriculturalists of the agricultural service supported by the 730 research and backup scientists of the agricultural science service. These groups together formed a potent unit for the provision of free advice to farmers. The service had good laboratory facilities to support advice, it embraced a very wide range of disciplines from plant pathology to farm business management and was able to deal with virtually any query on farm production.

Though ADAS was the biggest extension service in England and Wales there were at the time independent groups selling advice to the industry. These were in the main relatively small, often one-man units, but their presence and their continued existence clearly showed some farmers were prepared to pay for advice and these units did from time to time remind government that the provision of free advisory services was, in their view, unfair competition.

A New Approach

During the early 1980s in the United Kingdom the government, headed by Prime Minister Margaret Thatcher, introduced a new attitude to its role. When in 1984 MAFF appointed a new Director General of ADAS he was asked to give attention to developing the future shape and direction of ADAS, in particular considering whether some services could be provided by the private sector and how far there was scope for transferring to the user the cost of the services that ADAS provided. In short the new Director General, Professor Ron Bell, was asked to consider whether ADAS advisory services could be commercialized.

He reported in 1984 recommending, among other things, a marketing approach should be adopted in the provision of all advice to the industry involving continual consideration of what the customer wanted and was prepared to pay for. Also wherever there was a clearly identifiable and substantial benefit to the customer, ministers might like to consider whether the customer should bear part or all of the cost of providing the service. This conclusion, that in principle it was appropriate for farmers and others who used these services to contribute to their cost, was endorsed by the ministry in 1985. The Director General was then asked to do further work that involved the setting up of a Steering Group to develop these ideas and plan a timetable.

This policy decision was entirely in keeping with government policy at the time that "the frontiers of government should be rolled back" and the best determinant of what services government supplied was the willingness of customers to pay for them. At the same time it provided the

opportunity to revitalize the advisory service which, apart from bringing together its component parts in 1971, had operated in a very similar way for about 35 years. The general agricultural environment was also encouraging. The imperatives to develop food production were less convincing. With the entry of the United Kingdom into the European Community, farm product prices had risen and a considerable stimulus had been given to agricultural output. Farmers in the United Kingdom had relatively large operations, were technically well developed, and increasingly good business managers. There were clear signs that the community was developing considerable food surpluses and, although government saw opportunities for increasing production in the United Kingdom, it was necessary that any increase should be in response to the needs of the market.

As one would expect there were, within ADAS, some reservations about the need for, or the potential success, of a policy directed toward charging customers for advice. The initial targets set were, however, modest; it was envisaged that roughly 20 percent of the total cost of ADAS might be met by selling services to customers by the year 1987-88.

The Work of the Steering Group

This small internal group had to make some early decisions. It was seen at once it would be difficult to run services that were charged for in parallel with services that were not. An early decision was taken that as far as commercial advice was concerned there would be no special categories of farmers, such as small farmers or farmers in disadvantaged areas, who would continue to receive free or subsidized services in comparison with farmers elsewhere. It was accepted that government should continue to supply some free advice on such matters as control of pollution, the conservation of the countryside, and animal welfare.

The Steering Group decided that a new management body was required for ADAS and there should be immediate market research into the needs, attitudes, and willingness of farmers to pay for services. There also was a need for parliamentary legislation to give ADAS the necessary authority to charge for its services; this was eventually provided in the 1986 Agriculture Act. This empowered the minister to supply services relating to the production and marketing of agricultural produce and other food, countryside conservation, and other rural activities by providing information, advice, instruction and training, undertaking research and development, and laboratory work of various kinds. The minister was required to establish an organization through which these services could be delivered and was allowed to provide them either free of charge or for such reasonable charge as he might decide.

Early in its work the Steering Group recommended, and it was agreed, that a board of management be formed for ADAS. This would be chaired by the Director General, and made up of his heads of service, a few other senior departmental heads in the ministry and, a considerable innovation, three appointments from outside the ministry. One was made from a large international company, another from a company concerned with developing new technology, and the third was a farmer with particular interests in environmental conservation. At the same time it was decided to set up a marketing unit in ADAS, a decision, which in the light of experience, reflected the real change in culture from a public service to a commercial organization.

The Marketing Approach

In 1985 ADAS carried out market research to explore the potential customer base for charged ADAS services. A random stratified sample of 1,000 farmers, out of the customer base of about 180,000, were interviewed and asked their opinion of products and pricing policies. The services offered to them included (a) subscription services, allowing a relatively small annual payment for the provision of telephoned or postal information, (b) consultancy, allowing the farmer to buy advisory time at an hourly rate, (c) contracts, allowing the farmer to negotiate a price with ADAS for a particular bundle of services over a period of time, and (d) specific products aimed at identified needs within the industry.

The attitudes of farmers revealed in the market research were sufficiently supportive to confirm the board's belief we were moving in the right direction. It seemed likely ADAS would prosper best by pitching itself at the quality sector of the market and would maximize its revenues by charging higher rather than lower prices. On this basis, analysis showed ADAS could move quite quickly to an advisory income of £5 million a year and the total market was at that time estimated at £12 million which could be achieved in a few years time.

As soon as the small marketing unit was established it was able to identify a number of potential considerations to be dealt with before chargeable services were launched at some time in 1987. These included the organizational structure of the service, segmentation of its market, the identification of products, customer needs and internal issues such as billing and accounting procedures, and the training of its staff in the marketing of products and services.

The Use of Consultants

In the time between the decision to begin charging, taken in 1985, and the commencement of charging on 2 April 1987, ADAS employed a number of consultants to assist in developing its policies and changing its attitudes. The marketing consultants found the ADAS situation somewhat difficult. This was because the service was embedded in a major civil service department with some noncommercial constraints on the way in which it could behave. The responsibility of ministers to Parliament for instance and the concerns of Treasury about management of public expenditure meant that ADAS could not do all of the things a comparable commercial organization might do. The consultants nevertheless made a considerable number of recommendations.

Most importantly they identified the need to change the ethos of the organization. To this end ADAS next used consultants in marketing and selling techniques who trained over 2,000 ADAS personnel before the launch of commercial services. This training included sales management, marketing and selling skills, customer service skills, and negotiation and presentation. The relatively long development period, from 1985 to 1987, was particularly valuable in allowing the whole organization to undertake this essential training.

There was some resistance to the ideas presented to the staff but in most cases consultants were able to convince staff that success depended upon the adoption of these proposals. Throughout this phase groups of board members spoke to staff to explain what was happening and what would be expected of them.

Selling Commercial Services

When ADAS began charging for the majority of its advisory services on 2 April 1987 staff had clear objectives, had been trained in new skills, and knew what products they could offer to farmers. ADAS had adopted as its mission being the leading consultants to land-based industries in the United Kingdom working with clients for the provision of quality services for the benefit of their businesses. In order to do this the field staff of ADAS, used to working as extension officers promoting new techniques and offering free advice to farmers, had to begin selling and asking farmers to pay for what was provided. Although ADAS now had a corporate image, product literature, a pricing schedule, and had decided to sell subscription schemes, consultancy, contracts, and products in ten service areas success was to depend upon the efforts of individuals and their relationship with customers.

The existing organizational structure of ADAS was maintained throughout this transition. This presented some problems in defining the roles of certain parts of the organization but with the exception of combining some units previously located in different services of ADAS into one new unit, the Farm and Countryside Service, no other changes were made.

The role of middle management in making this change was crucial. At divisional level, a unit of about eighty staff, it was the role of the head of the division to direct, encourage, and monitor performance. At this stage, though the service had overall revenue targets, individual targets were not set for particular officers in the service. It was felt this would be counterproductive when managers had no real assessment of the market in particular areas or the selling abilities of individuals on their staff. Some members of staff took to the new regime very easily, others not surprisingly had difficulties with it. Perhaps the main problem from converting from an extension service to a commercial consultancy was that advisors were diffident about charging sufficiently high prices for their services. There was a definite tendency to underprice and overdeliver.

The run-up phase to charging, in addition to allowing ADAS to train its staff, had provided time to prepare the industry for the change that was being made. Before the actual date on which charging began local advisers had spoken to farmers with whom they already had relationships and explained to them how they could benefit from the new situation. Initially, subscription schemes introduced many farmers to ADAS-charged services. These were particularly suitable for smaller farmers who could not justify the cost of a consultant visiting the farm but who could get the essential information they needed from newsletters or telephone contacts. Larger and more sophisticated businesses were quite willing to enter into tailored contracts with ADAS for the supply of a range of service timed to be relevant to their business enterprises.

From the beginning of ADAS charging there were very few complaints about the service and very few refusals to pay the charges that were applied. Farmers continued to express reservations about the service provided but only in general terms. There was still some concern that ADAS was a "civil service" organization displaying noncommercial values. ADAS worked hard to show the industry it was determined to make its commercial future a success.

The market research that had been carried out gave ADAS confidence in its prospects and at the same time allowed it to negotiate revenue targets with the ministry and Treasury. It was a considerable comfort to managers in the service when targets were met in the first year but they have in fact been exceeded in every year since then. The commercial performance of ADAS advisory services and the percentage recovery of costs are set out in table 1.

Table 1. ADAS Advisory Services and the Percentage Recovery of Costs

<i>Year</i>	<i>Target £m</i>	<i>Revenue £m</i>	<i>Cost £m</i>	<i>Percent</i>
1987-88	5.0	5.4	29.7	18.0
1988-89	6.0	8.6	45.0	19.8
1989-90	9.9	11.3	45.5	24.8
1990-91	13.7	14.1	47.5	29.6

In achieving this performance ADAS increased its penetration of the market in terms of numbers of customers and the range of products and services it provided. By April 1990, ADAS had in fact provided services to 85,000 customers of various kinds. Many of these were of course farmers but they included local government authorities and major national oil companies. The services provided ranged from advice on the production of conventional farm crops to such things as the reinstatement of land around major oil pipelines and the development of land for major leisure complexes.

The Key Elements of ADAS Experience

The successful conversion of ADAS from a public good organization supplying free services to a commercial consultancy highlights issues still of concern within ADAS on which progress is still being made. As soon as the ADAS Steering Group was set up in 1985 it was apparent that no one on it, and very few people in the organization, had any commercial experience in the sense of having sold services. ADAS was very strong on technical expertise and had contacts with a very high proportion of the farmers in England and Wales who had been recipients of free advice or information, but it was soon realized that technical expertise was not all that was going to be required in future.

Some new needs very soon became apparent. It was obvious the service would need a working accounting and billing system once charging was introduced. This might seem like a simple mechanical operation, but in the case of a large organization operating over a wide geographical area and dealing with a very large number of customers it proved to be a complex operation. It was also obvious that the service would find itself in a new kind of relationship with its customers even though the nature of that relationship was not at that time fully understood.

The key lessons included, if commercial activity is to succeed, management needs to make a wholehearted commitment to commercial principles; anything less is likely to mean failure. Management then has to carry the rest of the organization with it. A marketing approach, with the absolute acceptance that the values of the organization must change to become those of the customer and not the organization itself, is absolutely essential. This cannot be stated too often or too strongly.

Old habits die hard and there must be constant review of the motives for the activities of the organization.

The market has to be defined in terms of customers, products, and prices. ADAS apparently had an obvious market but there has been continual work in defining both its old customers and new ones in ways which would assist the development of the business. If the organization is to be successful it must develop skills in marketing and selling. Extension workers, though used to persuading farmers to adopt new practices, may not easily accept that they should sell commercial products. Building these new skills into ADAS meant a large program directed toward conviction and skill development. A commercial organization must be active and not reactive. It is necessary to seek work. Products have to be developed that have definition and identity in the eyes of the customer. Pricing policy, though determined by the market place, needs careful monitoring to be sure services are not sold too cheaply. An organization of the size of ADAS has continuing needs for consultancy and market research. Commercial organizations must be lean, fast on their feet, and continually innovative.

The major change for ADAS in becoming a commercial organization, leaving aside the internal organizational changes necessary in its relationship with government, is the change in relationship with the customer who now pays for services. As soon as the recipient becomes a paying customer, expectations alter. The providers of services have to realize they must sell what the customer wants, not what the providers might have on the shelf, might want to sell, or might think the customer either wants or needs. New standards of service are required both in speed of reaction, definition of contracts, presentation of the selling stage, and quality and delivery time of the product. Individuals in the organization continually need to strengthen their skills and attitudes in relation to customers, marketing, selling, negotiating, and delivery.

The Next Steps

In 1987 the United Kingdom Government, as part of its drive to introduce market forces into government activity introduced proposals known as "The Next Steps." These required departments of state to identify those parts of their activity which could not be merely commercialized but also moved to an arms length relationship with government in the form of executive agencies.

The ministry of agriculture decided that ADAS in its various parts would progressively move to agency status. For the Advisory Service this change is planned to be achieved by April 1992 under the management of a new Director Designate, Dr. Julia Walsh, who was appointed in 1991. Dr. Walsh came to the government service from industry, having been the managing director of a commercial firm in the scientific sector. The planned move to agency status, associated with which are targets for a self-financing service in the long-term and possible privatization, has been the catalyst for further major changes in the organization. These concern improving the organizational structure and achieving material savings in cost.

The immediate cost and revenue target for ADAS services is to recoup 50 percent of total costs by the year 1993-94. The change to agency status and the detailed plans now in hand will certainly help achieve that aim. In broad terms it will require, for instance, a 15 percent saving in costs and an 80 percent increase in revenue or some equally effective combination of the two. It is worth noting that achieving 100 percent cost recovery would require a cost saving of about 30 percent and a 300 percent increase in current revenues.

So far ADAS has been addressing itself to issues on the revenue side, particularly relationships with customers. These will certainly not disappear and ADAS in addition will continue its concentration on product development, quality assurance, and market analysis and development. ADAS already, for instance, provides consultancy and services to overseas markets. Having successfully met its revenue targets in the first 4 years of charging, ADAS is now making a determined assault on costs. The savings proposed mean that ADAS, basically the farm and countryside service formed in February 1987, will become a very different organization from the one it was when the process began in 1985. Several tiers of management are to be removed. From having had six regions and twenty-four divisions, the whole commercial activity will, in 1992, be focused on thirteen business centers located in England and Wales. Management will be further devolved with considerable savings in senior posts being made in the head office structure. At the same time the marketing element of ADAS management is to be strengthened, clearly expressing the change in focus from a technical extension service to a commercial consultancy.

Everyone associated with the conversion of ADAS, from management to field staff and including its customers, would say the change had been made successfully. This is not to say it was easy either at board level or for extension workers being asked to change their method of operation or for farmers used to the free support of a very well-equipped service. Though ADAS has felt some stresses, its success is the result of very early determination to succeed and to do so by basing the work of the organization on the wants of its customers rather than on any internal priorities. If this has not always been successful it seems not to have shown on the surface or to have discouraged its customers from continuing to use ADAS advice.