

## Crop Update for November 06, 2014

The LERGP Crop Update now has a biweekly distribution.

Look for your next Crop Update in 2 weeks on November 20, 2014.



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## Business Management

#### Kevin Martin Penn State University, LERGP, Business Management Educator

Benchmarking remains an important tool for planning and operating increasingly complicated vineyard operations. As a grower recently observed, "My income is a bit higher than it was ten years ago. Though, I've added a zero to my revenue and expenses to get here." Benchmarking and business analysis is more critical when you have not "gotten here". Growers that have done the analysis and are not planning significant changes can monitor their whole farm income and key indicators of enterprise performance and call it a day. Growers in a tough financial spot, or growers significantly changing enterprises within their farm, need to look beyond indicators and measure actual and expected performance.

A simple change in enterprise might be harvester replacement. Self-propelled, modern harvesters may be nearing the end of their useful life. One option as Mecca owners can attest, is to extend machines well beyond their useful life. Of course, the \$300,000 savings comes at the expense of reliability, performance and repair costs. Given the considerable changes in harvester prices over the last 15 years, one needs to take a critical look at the enterprise and compare all options before making an investment like this. For growers harvesting less than two hundred acres, the best option might be to extend the harvester's life. Given the current cost of custom harvesting, the venture can be a profitable one but one needs to maximize the use of the harvester. Given the short window of time to use the valuable asset, 16 hour days covering 250 - 350 acres can be a necessity in justifying its presence. Some growers seeking a less hurried pace may use see an unreliable harvester as a frustration and the work of making a new harvester justify itself as onerous. For growers with less than 100 acres, hiring custom harvesters offers the potential to save money. For growers between 100 - 200 acres, it offers a known price and less work. Benchmarking your costs in this example is straightforward. The goal is to operate the enterprise for 15% less than custom harvest would cost. This provides a nice return on investment over a reasonable period of time.

For more information regarding benchmarking take a look at the attached slides and feel free to contact me with any questions. Let the already pervasive Christmas music serve as a reminder that it is business planning season.

# Benchmarking for Commercial Grape Production:

Leading Indicators and Planning for Success



Kevin Martin

## **Fixed Expenses**

- Large variance amongst farms \$400 \$800 per acre
- Capital investment per acre
  - Harvester
    - 2001: \$170,000
    - 2014: \$390,000
  - Average new Vineyard Tractor
    - Tier 1: \$38,000
    - Tier 4 Final: \$47,000
- Insurance costs
  - Financial Crisis and credit ratings increased underwriting costs relative to risk
  - Liability insurance costs continue to increase
- Debt

## Fixed Expenses: Penny wise, pound smart

- Beat the average and target the benchmark: \$350 \$450
- Right size capital investment
  - One harvester per 300 400 acres
  - One useful life tractor per 35 50 acres
    - 0 10,000 hours
    - 0 10 years
  - Maximum of two tractors beyond useful life per farm
- Insurance costs
  - Crop Insurance: Minimize expense by avoiding revenue insurance and 85% levels of coverage
  - Limit liability costs by reconsidering operations that increase the likelihood of claims.
- Debt

## Benchmarking for a new enterprise

### Debt Service w/ Start up assistance

- 0% rate for 10 years
- Use of machinery



## Benchmarking for a new enterprise

## Debt Service w/o Start up assistance

- 5% rate for 30 years
- 40 Acres





## Benchmarking for a new enterprise: Saving (or not) by investing



## Variable Costs: \$600-\$800

- Labor \$192 \$450
  - Mechanized pruning shifts labor costs to fixed costs (equipment)
  - Custom harvest also lowers labor costs
- Chemical and fertilizer: \$355 per acre
  - Soil & Vine health first, benchmark second
  - Catching up/Maintenance \$790/390
    - Nutrients: \$500/225
    - Chemicals: \$290/165
- Fuel \$75 \$90
- Trellis \$90
- Yield Dependent Categories
  - Chemicals, Crop Load Management, Fertilizer & Custom Harvest
- Acreage Dependent Categories
  - Trellis, Fuel, Depreciation, Repairs and maintenance

## Depreciation

- Average Schedule F depreciation exceeds \$1,200 per acre
- Accelerated deprecation separates growers and farmers from business reality.
- Numerous studies indicate accelerated deprecation increases capital investment without justification but shifting back toward standard deprecation methods is inefficient from a tax perspective.

# Cyclical Grape Market

- Planning for the bottom
  - Lowering debt
  - Increasing cash reserves
- Diversified amongst processors
  - Creates exposure to cancellation, depending on structure
  - Exposed to different businesses
  - Exposed to different consumer markets

# Macro-economy, inflation, and employment



## **Cultural Practices**

Luke Haggerty Viticulture Extension Associate Lake Erie Regional Grape Program

#### Time to Replenish your Soil

With back-to-back years of heavy crops, your soils are in need of replenishment. Now that harvest is complete it's time to take a break and go over the year's soil and petiole tests. Fall application of potash (potassium) and lime (calcium and magnesium) help give these immobile nutrients time to settle into the soil. Most of the soil tests that come across my desk have a pH below 5.0 and are in need of a lime application. Research has shown that Concord prefer a soil pH of 5.5 and is what you should shoot for. Adjusting your pH helps other

Lbs/Acre used by 3-year-old Concord		
Nitrogen	(N)	36.7
Phosphorus	(P)	31.2
Potassium	(K)	18.6
Calcium	(Ca)	7.2
Magnesium	(Mg)	5.7
Boron	(B)	0.1
Iron	(Fe)	0.7
Manganese	(Mn)	0.7
Copper	(Cu)	0.7
Zinc	(Zn)	0.2

nutrients become more available (see chart below) and being that lime is relatively cheap, it will give the biggest bang for your buck. However, if you are applying lime you should also apply potassium or vice versa in order to keep your soil balanced. Application of one could lead to a vine deficiency in the other. Bottom line is get your soil tested and take action to bring up your soil health. If you haven't taken soil tests yet look at the October 23Crop Update

<u>http://lergp.cce.cornell.edu/newsletter.php</u> . If you have soil tests and want nutrient recommendations, bring the results into my office and we will go over them.

If you have questions about your soil or petiole test, make an appointment with me and we will create a plan of action. Call me at (716) 792-2800 Ext. 204 or email me at <u>llh85@cornell.edu</u>



LERGP Website Links of Interest:

Table for: Insecticides for use in NY and PA: http://lergp.cce.cornell.edu/submission.php?id=69&crumb=ipm|ipm

Crop Estimation and Thinning Table: http://nygpadmin.cce.cornell.edu/pdf/submission/pdf65\_pdf.pdf

Appellation Cornell Newsletter Index: http://grapesandwine.cals.cornell.edu/cals/grapesandwine/appellation-cornell/

Veraison to Harvest newsletters: http://grapesandwine.cals.cornell.edu/cals/grapesandwine/veraison-to-harvest/index.cfm

Go to http://lergp.cce.cornell.edu/ for a detailed calendar of events. Please remember to RSVP for those events that require one!







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