GRAPE FARM BUSINESS SUMMARY

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GREAT LAKES REGION GRAPE FARM BUSINESS

SUMMARY AND ANALYSIS, 1981

This is a summary and analysis of the 1981 farm business records from 15 commercial grape farms in the Great Lakes Region of New York. The summary was prepared by Linda D. Putnam and Gerald B. White, Department of Agricultural Economics, Cornell University; and Trenholm D. Jordan and David G. Himelrick, former and present Great Lakes Regional Grape Specialist, respectively.

The main purpose of this study is to help the cooperators in this project and other grape growers to improve their skills as farm managers. The objective is to demonstrate the importance of good business records and to show how they can be used as a base for sound management decisions.

The summary and analysis presented in this publication should also be useful to agribusinessmen and agricultural teachers. However, caution should be exercised in using data from this book. These data were not obtained by using a random or representative sample of all grape farms in the Great Lakes Region. This publication, therefore, should not be used as an exact representation of the entire Great Lakes Region grape farm industry.

This report has been prepared for use in a systematic study of individual farm business operations.

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The 1981 Crop Year

Grape production in New York State was 147,000 tons in 1981, 14 percent below 1980 but well above the disastrous crop yields in 1977. The four counties which comprise the Great Lakes Grape Region (Chautauqua, Cattaraugus, Erie, and Niagara) had a 18 percent decrease in total production. Prices were, in general, up from 1980. The average price paid to New York growers increased from $213 to $234 per ton for all varieties. However, the price for Concords declined from $187 to $185 per ton.

	1976	1977	1978	1979	1980	1981
Tons of grapes produced, all varieties						
Great Lakes Region	113,495	62,086	114,350	104,036	114,036	93,553
State of New York	164,492	97,209	181,911	158,966	171,000	146,500
Tons Concord grapes produced						
Great Lakes Region	100,089	53,417	98,657	94,959	102,304	82,015
State of New York	123,277	67,407	125,243	119,875	123,121	102,914
Average price paid by wineries and processors						
Concords, NYS ($/ton)	163	224	217	204	187	185
All varieties, NYS ($/ton)	178	240	241	225	213	234

Source: New York Crop Reporting Service, Fruit, selected reports from 1978, 1979, 1980, 1981, and 1982.

A comparison of selected measures from the grape farm business summaries is shown below. Labor and management income per year was -$17,005 compared with -$20,292 in 1980. Investment per acre and cash expense per acre decreased somewhat, a change in trend from previous years where there was a steady increase due to inflation.

COMPARISONS OF SELECTED MEASURES, 1977-1981

	1977	1978	1979	1980	1981
No. farms	14	13	12	10	15
Acres bearing grapes	87.2	87.2	85.8	84.6	71.0
Worker equivalent	3.8	3.9	3.5	3.6	2.8
Total farm investment	$268,811	$278,396	$290,728	$328,696	$264,197
Investment/bearing acre	$3,083	$3,193	$3,388	$3,884	$3,719
Tons grapes harv./worker	75	121	120	110	121
Grape yield/bear. acre (T)	3.2	5.5	4.9	4.7	4.7
Grape rec./bearing acre	$712	$1,323	$1,138	$1,057	$1,085
Average price/ton grapes	$219	$245	$232	$225	$229
Cash expense/grape acre	$623	$856	$881	$983	$937
Net cash farm income	$5,274	$34,170	$34,317	$16,841	$19,680
Labor & mgmt. inc./farm	$-8,188	$28,262	$413	$-20,292	$-17,005
Rate of return on equity capital including apprec.	3.0%	16.7%	6.4%	1.1%	-.56%

Summary of the Farm Business

The first part of this publication summarizes the fruit business in a systematic, orderly manner. It provides an opportunity to study physical resources, capital investment, receipts, and expenses.

Physical Resources

Knowledge of what resources are employed and how they are combined is fundamental to sound business planning. This includes both the physical and financial resources of the business. Below are listed the physical resources for this group of grape farms.

FARM ORGANIZATION
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average	Range
Labor:			
Number of operators	_____	1.07	1.0 - 2.0
Months of:			
Operator's	_____	10.48	5.0 - 20.0
Family paid	_____	2.52	0.0 - 15.0
Family unpaid	_____	1.33	0.0 - 6.0
Regular hired	_____	7.23	0.0 - 48.0
Seasonal hired	_____	11.76	1.0 - 34.0
Other	_____	0.16	0.0 - 2.4
Total	_____	33.48	11.0 - 95.0
Worker equivalent (total months ÷ 12)	_____	2.79	0.92 - 7.92
Land and Crops (acres)			
Bearing grapes:			
Harvested	_____	71.04	23.0 - 222.0
Not harvested	_____	0.00	0.0 - 0.0
Nonbearing grapes	_____	1.30	0.0 - 8.1
Total Acres in Grapes	_____	72.34	23.0 - 222.0
Total Crop Acres	_____	78.50	23.0 - 232.0
Crop Acres Rented	_____	8.81	0.0 - 80.0
Total Acres Owned	_____	129.85	32.0 - 320.0

Capital Investment

Management of the capital resources of a farm business is becoming increasingly important. To measure the complete financial progress of a farm, year to year changes in the capital structure must be considered. In this report, borrowed as well as owned capital is included, and the end-of-year farm inventory is used as the measure of capital investment.

FARM INVENTORY VALUES
15 Great Lakes Region Grape Farms

Item	My Farm 1/81	My Farm 1/82	Average per Farm 1/81	Average per Farm 1/82
Land & buildings	$_____	$_____	$210,420	$213,103
Livestock	_____	_____	594	400
Machinery & equipment	_____	_____	47,959	47,497
Supplies & crops	_____	_____	2,866	3,197
TOTAL FARM INVENTORIES	$_____	$_____	$261,839	$264,197

In many farm businesses, poor capital efficiency is a major cause of low profits. The following measures of capital efficiency will help evaluate overall capital management.

INVESTMENT ANALYSIS
15 Great Lakes Region Grape Farms, January 1982

Item	My Farm	Average per Farm
Total invest./worker equivalent	$_____	$94,701
Total investment/acre of bearing grapes	$_____	$ 3,719
Land & buildings/total acres owned	$_____	$ 1,641
Capital Turnover*	_____ yrs.	3.02 yrs.

* Calculated by dividing the total year-end investment by the total cash receipts for the year. Rapid capital turnover is more desirable than a slow rate of turnover when similar farm businesses are compared.

Sources of Income

A successful farm business requires a level of gross earnings great enough to pay all costs, both operating and overhead, and leave a margin for the operator's labor and management. Here we examine the sources of receipts for this group of grape farms.

FARM RECEIPTS
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average per Farm	Percent of Total
Grapes:			
Primary market	$_____	$63,011	72.1
Distress market	_____	453	0.5
Total 1981 Payments Received	$_____	$63,464	72.6
Previous year's payments, certificates	_____	$19,599	22.4
Machine work and trucking	_____	437	0.5
Other crop receipts	_____	300	0.3
Work off farm	_____	220	0.3
Livestock and livestock product sales	_____	1,068	1.2
Rent	_____	1,013	1.2
Other	_____	1,333	1.5
Total Cash Receipts	$_____	$87,434	100.0
Total Cash Receipts	$_____	$87,434	
Less previous year's payments	- _____	- 19,599	
Plus anticipated 1981 payments	+ _____	+ 13,600	
Increase in crop and supply inventory	+ _____	+ 331	
Total Farm Receipts	$_____	$81,766	

Grape income accounted for 95 percent of cash receipts. An average of 337 tons of grapes per farm were harvested and sold. Cash grape receipts for the 1981 crop totaled $188 per ton.

Where the Money Went

With the large amount of cash flowing through a farm business today, it is important that the farm operator study expenses closely.

FARM EXPENSES
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average per Farm	Expense per acre of grapes (total)
Hired labor	$_____	$25,046	$ 346
Machine hire	_____	5,679	78
Machine repair & farm share of auto expense	_____	3,810	53
Gasoline & oil	_____	3,074	42
Spray	_____	3,251	45
Fertilizer	_____	3,171	44
Seeds & grape roots (replacements)	_____	199	3
Posts and wire	_____	1,216	17
Other crop expense	_____	1,273	18
Real estate upkeep	_____	471	6
Taxes	_____	3,912	54
Insurance	_____	2,672	37
Rent	_____	945	13
Utilities	_____	908	13
Interest paid	_____	10,344	143
Miscellaneous	_____	1,783	25
TOTAL CASH & OPERATING EXPENSES	$_____	$67,754	$ 937
Machinery depreciation	_____	5,125	71
Real estate depreciation	_____	4,304	59
Decrease in supply inventory	_____	0	0
Unpaid family labor	_____	667	9
Interest on equity capital @ 9%	_____	20,921	289
TOTAL FARM EXPENSES	$_____	$98,771	$1,365

Machinery and Real Estate Inventory Calculations

Capital outlays for machinery, buildings and land improvements (including drainage and vineyard establishment) usually occur in large, uneven amounts, but depreciate gradually over a period of time. Depreciation is the annual charge for the use of the machinery complement and real estate improvements in production. Depreciation was taken from the farm depreciation schedule. Appreciation, which results from inflation, is calculated as a residual.

MACHINERY AND EQUIPMENT INVENTORY
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average
End of year market value	(A)$_____	$47,498
Beginning market value	$_____	$ 47,959
Plus machinery purchases	+_____	+ 2,826
Less machinery sales	-_____	- 380
Less depreciation*	-_____	- 5,125
Net end investment	(B)$_____	45,280
APPRECIATION [(A)-(B)]	$_____	$ 2,218

The average machinery depreciation of $5,125 is 10 percent of the beginning inventory plus machinery purchases.

REAL ESTATE INVENTORY
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average
End of year market value	(A)$_____	$213,103
Beginning market value	$_____	$210,420
Plus cost of new real estate	+_____	+ 2,520
Less real estate sold	-_____	- 338
Less depreciation*	-_____	- 4,304
Net end investment	(B) _____	208,298
Appreciation [(A)-(B)]	$_____	$ 4,805

*Depreciation (excluding additional first year depreciation) from tax records.

Financial Summary

The net returns for any business can be measured in several different ways. Each measure calculates the net return to a selected resource or group of resources such as labor or capital. Some of the common farm business measures are given below.

Net cash farm income reflects the cash available from the year's operation of the farm business for family living, payments on debt principal, and new purchases or investments. A family may have had additional cash available if members had nonfarm income.

NET CASH FARM INCOME
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average per Farm
Total Cash Receipts	$_____	$87,434
Total Cash Operating Expenses	_____	67,754
NET CASH FARM INCOME	$_____	$19,680
Family Living Expenses	_____	
CASH FOR INVESTMENT AND PRINCIPAL PAYMENTS ON DEBTS	$_____	

Labor and management income is the return to the farm operator for labor and management. It is the measure most commonly used when comparing the profitability of farm businesses. Labor and management income is the amount left after paying all cash operating expenses and deducting charges for depreciation, unpaid labor, interest on equity capital and losses in fruit and supply inventories. The business is charged a 9 percent interest rate or opportunity cost for the use of equity capital, assuming an alternative investment would return as much.

Labor and management income; labor, management and ownership income; and return on equity capital are computed in the following three tables. The computations are done by two different methods. These methods are as follows:

Method (1) Total receipts is the sum of total cash receipts minus grape payments from previous years plus anticipated 1981 payments plus or minus the increase or decrease in the crop and supply inventory. This method is the one which has been used in the most recent years in Cornell grape farm business summaries.

Method (2) Total receipts is the sum of total cash receipts in the calendar year (including grape payments from previous years) plus or minus the increase or decrease in crop and supply inventory. Using this method, net income did not depend on growers estimates of future receipts for the current crop.

LABOR AND MANAGEMENT INCOME
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average per Farm [Method 1]	Average per Farm [Method 2]
Total Farm Receipts	$_____	$81,766	$87,765
Total Farm Expenses	_____	98,771	98,771
LABOR & MANAGEMENT INCOME PER FARM	$_____	(-)$17,005	(-)$11,006

It is common to compute labor and management return per operator as well as per farm because most studies include some farms with more than one operator. The average number of operators was 1.07; therefore labor and management income per operator was -$15,893 and -$10,286 for Method 1 and Method 2 respectively.

In addition to labor and management income, the owner-operator of a farm business should receive income for his capital investment in the business. He receives this income in the form of interest on equity in the business and real estate and machinery appreciation. These three "ownership income" items are added to labor and management income to determine labor, management and ownership income. This indicates the total return the owner-operator receives for owning and operating the business.

The growers who participated in this summary submitted balance sheets and net worth or equity capital was easily computed. Average equity capital was estimated as $232,461 per farm.

LABOR, MANAGEMENT AND OWNERSHIP INCOME
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average per Farm [Method 1]	Average per Farm [Method 2]
Labor & Management Income Per Farm	$_____	(-)$17,005	(-)$11,006
Add: Real Estate Appreciation	_____	4,805	4,805
Add: Machinery Appreciation	_____	2,218	2,218
Add: Interest on Equity Capital @ 9%	_____	20,922	20,922
LABOR, MANAGEMENT & OWNERSHIP INCOME PER FARM	$_____	$10,940	$16,939
PER OPERATOR	$_____	$10,256	$15,880

Return on equity capital can be computed with or without real estate appreciation. To calculate return on equity capital (including real estate appreciation) the value of operator's labor and management is deducted from labor, management and ownership income. This return to equity capital is divided by the owner's equity investment in the business to compute the rate of return on equity capital. Owner's equity investment used here is total end of year farm inventories less total farm liabilities.

RETURN ON EQUITY CAPITAL
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average per Farm [Method 1]	Average per Farm [Method 2]
Labor & Management & Ownership Income	$_____	$10,940	$16,939
Less: Value of Operator's Labor & Management*	_____	12,233	12,233
Return on Equity Capital	_____	-$ 1,293	$ 4,706
Rate of Return on Equity Capital (equity capital = $232,461)	_____ %	-.56%	-2.0%

* Values estimated at $750 per month for labor and 5 percent of cash receipts for management.

Farm Family Financial Situation

The financial situation is an important part of the grape farm business summary. It has a direct affect on current cash outflow and future capital investment decisions. A grower may have a good labor income, but a high debt load may seriously restrict his management flexibility.

The balance sheet of the financial situation is provided below.

FARM FAMILY FINANCIAL SITUATION
15 Great Lakes Region Grape Farms, 1981

Item	My Farm	Average per Farm
Assets		
Total farm inventory	$_____	$264,197
Accounts receivable	_____	23,709
Co-op investment	_____	24,285
Cash and checking account	_____	15,059
TOTAL FARM ASSETS	$_____	$327,250
Liabilities		
Real estate mortgage	$_____	$ 60,636
Liens and secured loans	_____	10,715
Installment contracts	_____	580
Accounts payable	_____	1,181
Other farm debt	_____	21,677
TOTAL FARM LIABILITIES	$_____	$ 94,789
FARM NET WORTH (Farm assets less liabilities)	$_____	$232,461
Percent Equity (Farm net worth ÷ total farm assets)	_____%	71.0%
Farm Debt Per Worker Equivalent	$_____	$ 33,977
Farm Debt per Bearing Acre of Grapes	$_____	$ 1,334

Payment ability is the most important consideration in determining if and how proposed investments should be financed. The farm business must produce enough cash income to meet operating expenses, to cover family living expenses and to make debt payments. The average farm in this study had a net cash flow, excluding interest paid, of $30,024. This amount was available for family living expenses, debt payments, and cash for capital investments during the year.

Analysis of the Farm Business

Some of the business factors which affect profits and which a farmer can control to some degree are: (1) size of enterprise, (2) labor efficiency, (3) yields, and (4) price.

A comparison of your farm with the averages of these factors for these farms can provide valuable clues to the strong and weak points of an individual grape farm business.

SELECTED FARM BUSINESS MEASURES
15 Great Lakes Region Grape Farms, 1981

Item	Average per Farm	My Farm
Measures of Size		
1. Acres in bearing grapes	71.0	_____
2. Acres of grapes harvested	71.0	_____
3. Acres in nonbearing grapes	1.3	_____
4. Man equivalent	2.8	_____
5. Tons of grapes harvested	336.7	_____
6. Tons of grapes grown	336.7	_____
Labor Efficiency		
1. Acres in grapes harvested per man	25.5	_____
2. Tons of grapes harvested per man	120.7	_____
Production Factors		
1. Grape yield per acre (tons) of bearing grapes	4.7	_____
2. Grape receipts* per acre of bearing grapes	$1,085	$_____
Price		
1. Average price per ton of grapes sold**	$ 229	$_____

* Cash receipts from sale of grapes plus anticipated payments from current grape crop.

**Grape receipts ÷ tons of grapes harvested.

Cost Control

Power and machinery costs were major expenses on these grape farms. Net operating and investment costs averaged $22,396.

POWER AND MACHINERY COSTS
15 Great Lakes Region Grape Farms, 1981

Item	Average per Farm	My Farm
Machinery depreciation	$ 5,125	$_____
Interest at 9% ave. inventory	4,295	_____
Gas and oil	3,074	_____
Auto	493	_____
Truck, tractor & equip. repair	3,318	_____
Machine hire	5,679	_____
Utilities	908	_____
Total Machinery Costs	$22,892	$_____
Income from machine work	- 437	_____
Gasoline tax refund	- 59	_____
NET MACHINERY COSTS	$22,396	$_____
Net Machinery Costs:		
Per acre of bearing grapes	$ 315	$_____
Per worker equivalent	$ 8,028	$_____
Per ton of grapes harvested	$ 67	$_____

Since power and machinery costs represent a substantial portion of total costs, efficiency in use is an important factor affecting profitability of the business. Net machinery costs per acre of bearing grapes averaged $315.

Most farm operators justify major machinery purchases as a way to save labor and increase productivity. How well labor and machinery are combined has an important bearing on farm profits.

LABOR AND MACHINERY COSTS
15 Great Lakes Region Grape Farms, 1981

Item	Average per Farm	My Farm
Value of operator's labor*	$ 7,861	$_____
Hired labor	25,046	_____
Unpaid family labor	667	_____
TOTAL LABOR COSTS	$33,574	$_____
Total net machinery cost	22,396	_____
TOTAL LABOR AND MACHINERY COSTS	$55,970	$_____
Labor cost:		
Per worker equivalent	$12,035	$_____
Per acre of bearing grapes	$ 473	$_____
Per ton of grapes harvested	$ 100	$_____
Labor and machinery cost:		
Per worker equivalent	$20,062	$_____
Per acre of bearing grapes	$ 788	$_____
Per ton of grapes harvested	$ 166	$_____

* Valued at $750 per month for operator's labor (value of management and owned capital excluded).

MISCELLANEOUS COST MEASURES
15 Great Lakes Region Grape Farms, 1981

Item	Average per Farm	My Farm
Crop expense per acre of bearing grapes**	$128	$_____
Spray expense per acre of bearing grapes	$ 46	$_____
Taxes per crop acre owned	$ 30	$_____
Taxes per $1,000 of end real estate inventory	$ 18	$_____
Taxes and insurance per $1,000 real estate inventory	$ 31	$_____

**Includes spray, fertilizer, replacement vines, posts and wire, and other crop expenses.

Capital and Capital Efficiency Factors

The average investment in the farm business was $264,197. About 81 percent of this total is represented by vineyards, land and buildings.

CAPITAL INVESTMENT AND CAPITAL EFFICIENCY FACTORS
15 Great Lakes Region Grape Farms, 1981

Item	Average per Farm	Percent of Total	My Farm
Land and buildings	$213,103	80.7	$_____
Livestock	400	0.1	_____
Machinery and equipment	47,497	18.0	_____
Supplies	3,197	1.2	_____
Total Farm Inventories	$264,197	100.0	$_____
Worker equivalent	2.8		$_____
Investment per worker equiv.	$ 94,701		$_____
Acres of bearing grapes	71.0		$_____
Machinery and equipment investment per acre of bearing grapes	$ 669		$_____
Land and building investment per acre owned	$ 1,641		$_____
Total farm investment per acre of bearing grapes	$ 3,719		
Total farm investment per ton of grapes sold	$ 785		
Capital turnover (years for cash receipts to equal capital)	3.02		$_____

Investment costs such as depreciation and interest are part of the total cost of operating a farm business. Obtaining efficiency in the use of capital, as measured by investment relative to productive capacity and income, is an important part of managing a farm. The factors calculated in the table above can help a farmer gauge the soundness of his capital investment. On these farms, investment per acre of bearing grapes ranged from $2,361 to $8,729.

1981 Production and Marketings

ACRES IN VINES AND MARKETINGS
15 Great Lakes Region Grape Farms, 1981

Item	Number of Growers Reporting	Average of All Growers
Bearing vines:		
Harvested, sold in primary market	15	70.8
Harvested, sold in distress market	1	0.2
Not harvested	0	0.0
Total Bearing	15	71.0
Nonbearing Vines	5	1.3
Total Acres in Vines		72.3

Total acres in vines averaged 72.3 acres per farm. Ninety-eight percent of this total acreage produced a crop which was harvested and sold in the growers' primary or usual markets. The growers reported about 0.3 percent of the acreage in vines was harvested and sold in the open market. One grower had sales in the open market.

GRAPES HARVESTED & SOLD IN THE USUAL MARKETS
15 Great Lakes Region Grape Farms, 1981

Variety	Acres	Tons	Average Yield/Acre
Concord	48.4	241.3	5.0 Tn.
All other varieties	22.4	94.2	4.2 Tn.
Total	70.8	335.5	4.7 Tn.

Concords were an important variety on all farms. This variety accounted for 68 percent of the acreage harvested and 72 percent of the tonnage. The average yield of Concords was 5.0 tons per acre, compared with 4.2 tons per acre for all other varieties.

Array of Business Factors

Vineyardists in the management program can determine how their business stands relative to the others in the summary by encircling the factor measurement for their farm in each column of the table below.

AN ARRAY OF SELECTED BUSINESS FACTORS
15 Great Lakes Region Grape Farms, 1981

Note: each column is independent of the others. Do not read across.

Acres	Tons of Grapes Harv.	Worker Equiv.	Tons Per Worker Equiv.	Tons Per Acre	Invest. Per Acre	Grape Rec./ Acre	Op. Exp. Per Acre
222	1,016	7.9	238	6.9	$8,729	$2,368	$2,015
126	651	4.2	190	5.7	7,101	1,395	1,366
106	437	3.8	173	5.6	6,322	1,272	1,088
81	424	3.8	146	5.4	4,961	1,232	989
80	396	3.7	140	5.2	4,945	1,190	976
76	392	2.7	137	4.9	4,395	1,105	965
64	291	2.7	128	4.9	3,558	1,072	962
49	220	2.3	120	4.9	3,428	1,048	867
48	214	2.1	118	4.8	3,375	1,021	843
45	197	2.1	111	4.6	3,262	1,010	804
42	182	1.9	95	4.5	3,055	965	638
41	175	1.5	94	4.3	2,925	945	631
38	159	1.3	82	4.0	2,909	851	621
26	158	1.0	74	3.6	2,872	755	601
23	140	0.9	57	3.3	2,361	659	543

Custom Harvesting Enterprise

Four of the farms in this summary had custom harvesting operations. The receipts, expenses, and machinery used were allocated to this enterprise, and are not included in the computations in the preceding pages.

CUSTOM HARVESTING ENTERPRISE
Four Great Lakes Region Grape Farms, 1981

		Average per Farm	Range
Receipts		$13,025	$3,215 - 31,268
Expenses			
Hired labor	$ 547		
Machine hire	1,336		
Machine repair & farm share of auto expense	2,015		
Gasoline & oil	854		
Real estate upkeep	0		
Insurance	20		
Utilities	56		
Interest paid	8		
Miscellaneous	637		
TOTAL CASH EXPENSES	$5,473		
Machinery depreciation	892		
TOTAL EXPENSES		$ 6,365	
Net Income for Enterprise		$ 6,660	$1,841 - 20,030

The average net income was $6,660. These growers had investments in machinery of $8,213 allocated to custom harvesting. This is not the full value of all machinery used in custom harvesting, but rather it reflects these growers' estimation of what percentage of their machinery should be allocated to the enterprise. The same principle is used for the allocation of other expenses.