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GRAPE FARM BUSINESS SUMMARY

GREAT LAKES REGION 1983

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GREAT LAKES REGION GRAPE FARM BUSINESS

SUMMARY AND ANALYSIS, 1983

This is a summary and analysis of the 1983 farm business records from 13 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 David G. Himelrick, Great Lakes Regional Grape Specialist.

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 1983 Crop Year

Grape production in New York State was 186,500 tons in 1983, 21 percent above 1982. The four counties which comprise the Great Lakes Grape Region (Chautauqua, Cattaraugus, Erie, and Niagara) had a 34 percent increase in total production. Prices were down from 1982. The average price paid to New York growers decreased from $230 to $223 per ton for all varieties, and the price for Concords decreased from $194 to $177 per ton.

	1978	1979	1980	1981	1982	1983
Tons of grapes produced all varieties						
Great Lakes Region	114,350	104,036	114,036	93,553	94,452	126,679
State of New York	181,911	158,966	171,000	146,500	154,000	186,500
Tons Concord grapes produced						
Great Lakes Region	98,657	94,959	102,304	82,015	83,244	111,273
State of New York	125,243	119,875	123,121	103,077	105,840	128,390
Average price paid by wineries and processors						
Concords, NYS ($/ton)	217	204	196	187	194	177
All varieties, NYS ($/ton)	241	225	220	243	230	223

Source: New York Crop Reporting Service, Fruit, selected reports from 1979, 1980, 1981, 1982, 1983, and 1984.

A comparison of selected measures from the grape farm business summaries is shown below. Labor and management income per year was (-)$2,480 compared with (-)$7,398 in 1982. Much of this change can be attributed to a new method of assessing the cost of equity capital. (For further explanation, see the discussion of labor and management income on page 8.) Investment per acre increased. Cash expense per acre also increased in 1983, a change in trend from 1981 and 1982 where there were decreases.

COMPARISONS OF SELECTED MEASURES, 1979-1983

	1979	1980	1981	1982	1983
No. farms	12	10	15	16	13
Acres bearing grapes	85.8	84.6	71.0	67.7	67.2
Worker equivalent	3.5	3.6	2.8	2.8	2.8
Total farm investment	$290,728	$328,696	$264,197	$271,267	$269,897
Investment/bearing acre	$3,388	$3,884	$3,719	$4,005	$4,016
Tons grapes harv./worker	120	110	121	109	154
Grape yield/bear. acre (T)	4.9	4.7	4.7	4.5	6.3
Grape rec./bearing acre	$1,138	$1,057	$1,085	$1,079	$1,195
Average price/ton grapes	$232	$225	$229	$238	$189
Cash expense/grape acre	$881	$983	$937	$926	$967
Net cash farm income	$34,317	$16,841	$19,680	$26,193	$23,091
Labor & mgmt. inc./farm	$413	$-20,292	$-17,005	$-7,398	$-2,480
Rate of return on equity capital including apprec.	6.4%	1.1%	-0.56%	0.63%	0.48%

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
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average	Range
Labor:			
Number of operators	_____	1.0	1.0 - 1.0
Months of:			
Operator's	_____	8.32	1.0 - 12.0
Family paid	_____	2.62	0.0 - 15.0
Family unpaid	_____	2.46	0.0 - 12.0
Regular hired	_____	5.40	0.0 - 36.0
Seasonal hired	_____	13.39	0.0 - 77.0
Other	_____	1.08	0.0 - 14.0
Total	_____	33.27	4.6 - 94.0
Worker equivalent (total months ÷ 12)	_____	2.77	0.39 - 7.83
Land and Crops (acres)			
Bearing grapes:			
Harvested	_____	66.40	23.0 - 222.0
Not harvested	_____	0.81	0.0 - 8.4
Nonbearing grapes	_____	2.01	0.0 - 10.7
Total Acres in Grapes	_____	69.22	23.0 - 230.0
Total Crop Acres	_____	91.72	23.0 - 300.0
Crop Acres Rented	_____	9.94	0.0 - 70.0
Total Acres Owned	_____	122.41	0.0 - 300.0

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
13 Great Lakes Region Grape Farms

Item	My Farm 1/83	My Farm 1/84	Average per Farm 1/83	Average per Farm 1/84
Land & buildings	$_____	$_____	$211,343	$211,362
Livestock	_____	_____	0	0
Machinery & equipment	_____	_____	58,680	55,180
Supplies & crops	_____	_____	2,595	3,355
TOTAL FARM INVENTORIES	$_____	$_____	$272,619	$269,897

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
13 Great Lakes Region Grape Farms, January 1984

Item	My Farm	Average per Farm
Total investment per worker equivalent	$_____	$97,336
Total investment per acre of bearing grapes	$_____	$ 4,016
Land & buildings per total acres owned	$_____	$ 1,727
Capital Turnover*	_____ yrs.	3.0 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
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average per Farm	Percent of Total
Grapes:			
Primary market	$_____	$73,444	81.6
Distress market	_____	351	0.4
Total 1983 Payments Received	$_____	$73,795	82.0
Previous year's payments, certificates	_____	$ 8,942	9.9
Machine work & trucking	_____	717	0.8
Other crop receipts	_____	1,595	1.8
Work off farm	_____	1,866	2.1
Livestock & livestock product sales	_____	673	0.7
Rent	_____	979	1.1
Other	_____	1,482	1.6
Total Cash Receipts	$_____	$90,049	100.0
Total Cash Receipts	$_____	$90,049	
Less previous year's payments	- _____	- 8,942	
Plus anticipated 1983 payments	+ _____	+ 6,543	
Increase in crop & supply inventory	+ _____	+ 759	
Total Farm Receipts	$_____	$88,408	

Grape income accounted for 92 percent of cash receipts. An average of 426 tons of grapes per farm were harvested and sold. Cash grape receipts for the 1983 crop totaled $173 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
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average per Farm	Expense per acre of grapes (total)
Hired labor	$_____	$25,757	$ 372
Machine hire	_____	5,523	80
Machine repair & farm share of auto expense	_____	4,432	64
Gasoline & oil	_____	2,407	35
Spray	_____	2,707	39
Fertilizer	_____	3,714	54
Seeds & grape roots (replacements)	_____	28	<1
Posts and wire	_____	684	10
Other crop expense	_____	2,446	35
Real estate upkeep	_____	687	10
Taxes	_____	4,157	60
Insurance	_____	2,275	33
Rent	_____	1,311	19
Utilities	_____	528	7
Interest paid	_____	8,007	116
Miscellaneous	_____	2,295	33
TOTAL CASH & OPERATING EXPENSES	$_____	$66,958	$ 967
Machinery depreciation	_____	6,568	95
Real estate depreciation	_____	4,830	70
Decrease in supply inventory	_____	0	0
Unpaid family labor	_____	1,231	18
Interest on equity capital @ 5%	_____	11,301	163
TOTAL FARM EXPENSES	$_____	$90,888	$1,313

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
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average
End of year market value	(A)$_____	$55,180
Beginning market value	$_____	$ 58,680
Plus machinery purchases	+_____	+ 3,527
Less machinery sales	-_____	- 341
Less depreciation*	-_____	- 6,568
Net end investment	(B)$_____	55,298
APPRECIATION [(A)-(B)]	$_____	(-)$ 118

The average machinery depreciation of $6,568 is 11 percent of the beginning inventory plus machinery purchases.

REAL ESTATE INVENTORY
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average
End of year market value	(A)$_____	$211,362
Beginning market value	$_____	$211,343
Plus cost of new real estate	+_____	+ 1,863
Less real estate sold	-_____	- 135
Less depreciation*	-_____	- 4,830
Net end investment	(B) _____	208,241
Appreciation [(A)-(B)]	$_____	$ 3,121

*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
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average per Farm
Total Cash Receipts	$_____	$90,049
Total Cash Operating Expenses	_____	66,958
NET CASH FARM INCOME	$_____	$23,091
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 five percent real rate of interest or opportunity cost for the use of equity capital. This real rate of interest represents the long term average rate of return that a grower could expect to earn on investments with comparable risks to farming, in an economy with little or no inflation.

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 1983 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
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average per Farm [Method 1]	Average per Farm [Method 2]
Total Farm Receipts	$_____	$88,408	$90,808
Total Farm Expenses	_____	90,888	90,888
LABOR & MANAGEMENT INCOME PER FARM	$_____	(-)$ 2,480	(-)$ 80

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. However, the average number of operators for 1983 was 1.0; therefore labor and management income per operator was the same as labor and management income per farm.

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 $226,021 per farm.

LABOR, MANAGEMENT AND OWNERSHIP INCOME
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average per Farm [Method 1]	Average per Farm [Method 2]
Labor & Management Income Per Farm	$_____	(-)$ 2,480	(-)$ 80
Add: Real Estate Appreciation	_____	3,121	3,121
Add: Machinery Appreciation	_____	(-) 118	(-) 118
Add: Interest on Equity Capital @ 5%	_____	11,301	11,301
LABOR, MANAGEMENT & OWNERSHIP INCOME PER FARM	$_____	$11,824	$14,223
PER OPERATOR	$_____	$11,824	$14,223

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
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average per Farm [Method 1]	Average per Farm [Method 2]
Labor & Management & Ownership Income	$_____	$11,824	$14,223
Less: Value of Operator's Labor & Management*	_____	10,746	10,746
Return on Equity Capital	_____	$ 1,078	$ 3,477
Rate of Return on Equity Capital (equity capital = $226,021)	_____ %	0.48%	1.54%

* 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
13 Great Lakes Region Grape Farms, 1983

Item	My Farm	Average per Farm
Assets		
Total farm inventory	$_____	$269,897
Accounts receivable	_____	6,780
Co-op investment	_____	17,645
Cash & checking account	_____	7,024
TOTAL FARM ASSETS	$_____	$301,346
Liabilities		
Real estate mortgage	$_____	$ 42,624
Liens & secured loans	_____	15,131
Installment contracts	_____	346
Accounts payable	_____	4,642
Other farm debt	_____	12,582
TOTAL FARM LIABILITIES	$_____	$ 75,325
FARM NET WORTH (Farm assets less liabilities)	$_____	$226,021
Percent Equity (Farm net worth ÷ total farm assets)	_____%	75.0%
Farm Debt Per Worker Equivalent	$_____	$ 27,165
Farm Debt per Bearing Acre of Grapes	$_____	$ 1,121

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 $31,098. 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
13 Great Lakes Region Grape Farms, 1983

Item	Average per Farm	My Farm
Measures of Size		
1. Acres in bearing grapes	67.2	_____
2. Acres of grapes harvested	66.4	_____
3. Acres in nonbearing grapes	2.0	_____
4. Worker equivalent	2.8	_____
5. Tons of grapes harvested	426.0	_____
6. Tons of grapes grown	427.7	_____
Labor Efficiency		
1. Acres in grapes harvested per worker	23.9	_____
2. Tons of grapes harvested per worker	153.6	_____
Production Factors		
1. Grape yield per acre (tons) of bearing grapes	6.3	_____
2. Grape receipts* per acre of bearing grapes	$1,195	$_____
Price		
1. Average price per ton of grapes sold**	$ 189	$_____

*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 $21,534.

POWER AND MACHINERY COSTS
13 Great Lakes Region Grape Farms, 1983

Item	Average per Farm	My Farm
Machinery depreciation	$ 6,568	$_____
Interest at 5% average inventory	2,846	_____
Gas & oil	2,406	_____
Auto	296	_____
Truck, tractor & equipment repair	4,136	_____
Machine hire	5,523	_____
Utilities	528	_____
Total Machinery Costs	$22,303	$_____
Income from machine work	- 717	_____
Gasoline tax refund	- 52	_____
NET MACHINERY COSTS	$21,534	$_____
Net Machinery Costs:		
Per acre of bearing grapes	$320	$_____
Per worker equivalent	$7,766	$_____
Per ton of grapes harvested	$51	$_____

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 $320.

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
13 Great Lakes Region Grape Farms, 1983

Item	Average per Farm	My Farm
Value of operator's labor*	$ 6,243	$_____
Hired labor	25,757	_____
Unpaid family labor	1,231	_____
TOTAL LABOR COSTS	$33,231	$_____
Total net machinery cost	21,534	_____
TOTAL LABOR & MACHINERY COSTS	$54,765	$_____
Labor cost:		
Per worker equivalent	$11,984	$_____
Per acre of bearing grapes	$494	$_____
Per ton of grapes harvested	$78	$_____
Labor & machinery cost:		
Per worker equivalent	$19,750	$_____
Per acre of bearing grapes	$815	$_____
Per ton of grapes harvested	$129	$_____

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

MISCELLANEOUS COST MEASURES
13 Great Lakes Region Grape Farms, 1983

Item	Average per Farm	My Farm
Crop expense per acre of bearing grapes**	$143	$_____
Spray expense per acre of bearing grapes	40	$_____
Taxes per total acres owned	34	$_____
Taxes per $1,000 of end real estate inventory	20	$_____
Taxes & insurance per $1,000 real estate inventory	30	$_____

**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 $269,897. About 78 percent of this total is represented by vineyards, land and buildings.

CAPITAL INVESTMENT AND CAPITAL EFFICIENCY FACTORS
13 Great Lakes Region Grape Farms, 1983

Item	Average per Farm	Percent of Total	My Farm
Land & buildings	$211,362	78.3	$_____
Livestock	0	0.0	_____
Machinery & equipment	55,180	20.5	_____
Supplies	3,355	1.2	_____
Total Farm Inventories	$269,897	100.0	$_____
Worker equivalent	2.8		_____
Investment per worker equiv.	$97,336		$_____
Acres of bearing grapes	67.2		_____
Machinery & equipment investment per acre of bearing grapes	$821		$_____
Land & building investment per acre owned	$1,727		$_____
Total farm investment per acre of bearing grapes	$4,016		$_____
Total farm investment per ton of grapes sold	$634		$_____
Capital turnover (years for cash receipts to equal capital)	3.0		_____

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 $1,073 to $8,944.

1983 Production and Marketings

ACRES IN VINES AND MARKETINGS
13 Great Lakes Region Grape Farms, 1983

Item	Number of Growers Reporting	Average of All Growers
Bearing vines:		
Harvested, sold in primary market	13	65.86
Harvested, sold in distress market	3	0.53
Not harvested	2	0.81
Total Bearing	13	67.20
Nonbearing Vines	6	2.02
Total Acres in Vines		69.22

Total acres in vines averaged 69.22 acres per farm. Ninety-five percent of this total acreage produced a crop which was harvested and sold in the growers' primary or usual markets. The growers reported about 0.8 percent of the acreage in vines was harvested and sold in the open market. Three growers had sales in the open market.

GRAPES HARVESTED & SOLD IN THE USUAL MARKETS
13 Great Lakes Region Grape Farms, 1983

Variety	Acres	Tons	Average Yield/Acre
Concord	47.0	319.5	6.8 Tn.
All other varieties	18.9	104.4	5.5 Tn.
Total	65.9	423.9	6.4 Tn.

Concords were an important variety on all farms. This variety accounted for 71 percent of the acreage harvested and 75 percent of the tonnage. The average yield of Concords was 6.8 tons per acre, compared with 5.5 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.

ARRAY OF SELECTED BUSINESS FACTORS
13 Great Lakes Region Grape Farms, 1983

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

Grape Acres Harv.	Tons Grapes Harv.	Worker Equiv.	Tons Grapes Harv./ Worker	Tons Grapes/ Grape Acre	Total Farm Invest./ Grape Acre	Grape Receipts/ Grape Acre	Total Cash Oper. Exp./ Total Crop Acres
222	1,440	7.8	452	9.1	$8,944	$2,275	$1,815
148	903	5.0	231	8.0	7,653	1,701	1,812
82	620	4.5	209	7.0	6,745	1,284	1,166
77	467	3.8	201	6.9	5,288	1,277	1,000
65	332	2.7	201	6.8	4,698	1,257	907
45	309	2.7	195	6.5	4,115	1,115	835
40	279	2.6	184	6.2	4,052	1,069	816
40	257	2.0	161	6.1	3,903	1,048	804
40	216	1.9	125	5.7	3,510	1,014	801
38	209	1.0	125	5.4	3,444	926	673
28	195	1.0	105	5.3	3,144	901	608
26	174	0.7	99	5.1	3,048	772	595
23	137	0.4	56	4.9	1,073	742	555

Custom Harvesting Enterprise

Five 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
Five Great Lakes Region Grape Farms, 1983

		Average per Farm	Range
Receipts		$6,621	$0 - 12,480
Expenses			
Hired labor	$2,234		
Machine hire	111		
Machine repair & farm share of auto expense	688		
Gasoline & oil	806		
Real estate upkeep	0		
Insurance	107		
Utilities	19		
Interest paid	0		
Miscellaneous	190		
TOTAL CASH EXPENSES	$4,155		
Machinery depreciation	1,367		
TOTAL EXPENSES		$5,522	
Net Income for Enterprise		$1,099	(-)$10,628 - 9,487

The average net income was $1,099. These growers had investments in machinery of $24,183 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.