

# Economics of Commercial Grape Production

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## Objectives

- ▶ Grower Goals
- ▶ Budgeting
- ▶ Financial Analysis
- ▶ Sample Model

## What are grower's goals?

- ▶ Grapes can be substitute and a small farm enterprise
- ▶ Inherited or purchased a farm, wants to derive income from land.
- ▶ Interest in wine. Grape growing is a horticultural expression of that interest
- ▶ There are intensive labor and capital demands

## What are enterprise budgets?

- ▶ Enterprise budgets –
  - An organized listing of your estimated gross income and costs which can be used to determine the expected net income for a particular enterprise
  - Budget on a per unit basis
    - – ex 1 acre, 1 bushel, 1 ton
  - Sections include
    - Income, Costs, Profit

- ▶ Traditional Crops
  - Very detailed, more accurate
- ▶ Livestock
  - Dairy
  - Beef
- ▶ Forages
- ▶ Specialty crops
  - Less detailed, less accurate

## Who can use these budgets?

- ▶ Agricultural producers
- ▶ Extension specialists
- ▶ Financial institutions
- ▶ Governmental agencies
- ▶ Advisors of food & fiber

## Budgets are used to:

- ▶ Itemize the receipts (income) received for an enterprise
- ▶ List the inputs and production practices required by an enterprise
- ▶ Evaluate the efficiency of farm enterprises
- ▶ Estimate benefits and costs for major changes in production practices
- ▶ Provide the basis for a total farm plan
- ▶ Support applications for credit
- ▶ Inform non-farmers of the costs incurred in producing crops
- ▶ Not an exact science – drought, disease etc.

## 6 Parts of a Budget

- ▶ Investment/Capital
- ▶ Gross Income
- ▶ Variable Costs
- ▶ Fixed Costs
- ▶ Net Income

## Costs

- ▶ Variable costs - These are expenses that vary with output within a production period
  - Fuel, Fertilizer/Lime, Disease/Insect control
- ▶ Fixed Costs- Fixed costs are expenses that do not vary with the level of output.
  - Depreciation, Interest, Repairs, Building costs, Machinery Costs, Taxes, Insurance

## Net Income

- ▶ Income over variable costs
- ▶ Income over variable and fixed costs
- ▶ Decision making time....

## Assumptions used in financial analysis

- ▶ Land is owned; purchase price not included in budgets
  - Have a \$63 land charge
- ▶ Models based on 1 acre + *Vitis vinifera* vineyard
- ▶ Excellent site, no crop reduction
- ▶ Labor at \$8.00 (unskilled) or \$18.00 (skilled)
- ▶ Operating expenses borrowed at 9% interest for 6 months of expenses.
- ▶ Excellent vineyard management, including consultant
- ▶ Irrigation is included, Deer fence is not
- ▶ Fixed costs are calculated from custom rate charges
  - You should use your actual fixed costs
- ▶ Grapes valued at \$600 to \$2,000/ton

	Tons	Price/Ton
Red	3-5 Tons	\$1,600-2,000
White	3-5 Tons	\$1,200-1,600
Hybrid	4-7 Tons	\$600-1,200

## Model values used in financial analysis

Vineyard acreage	1
Training system	VSP
Row / vine spacing (feet)	10 x 6
Variety	White
Tons/acre at full crop	4.0
Value of crop (\$/ton)	\$1,450
Skilled labor (\$/hr)	\$18.00
“Unskilled” labor	\$8.00
Picking labor (\$/lug)	\$1.25

## Generalized Equipment Inventory

55-hp, 4-wd tractor w/spraycab	\$30,000
4-wd pick-up truck	\$20,000
50-gal herbicide sprayer	\$2,700
300-gal airblast sprayer	\$12,500
5-ft rotary mower	\$1,600
Fertilizer spreader/broadcaster	\$1,500
Post driver*	\$2,000
Auger	\$1,200
Trailer (harvest, etc.)*	\$2,000
	<b>\$73,500</b>

Budgets include worksheets on:

- List of production inputs
- Establishment
- Year 1-5
- Summary Table

These are estimates based on information provided to the University of Maryland Extension.

Your costs will be different and should be calculated using this as a reference and/or template.

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WINE GRAPE ESTABLISHMENT		PER ACRE FOR 2014		
ITEM	UNIT	QUANTITY	PRICE	TOTAL
GROSS INCOME				
YIELD	TON	0	1450	0
<b>VARIABLE COSTS</b>				
SOIL TEST	ACRE	1	2.33	\$2.33
GRASS SEED - FESCUE K-31	POUND	60	1.20	\$72.00
GRAPEVINES	UNIT	860	3.75	\$3,225.00
FERTILIZER (4OZ 10-10-10 PER VINE)	POUND	215	0.59	\$126.85
LIME	TON	0.5	45.00	\$22.50
HERBICIDES	ACRE	1	21.11	\$21.11
INSECTIDES	ACRE	1	126.67	\$126.67
FUNGICIDES	ACRE	1	274.45	\$274.45
<b>TRELLISING MATERIALS</b>				
3"x4"x8' TREATED POSTS CCA	ACRE	150	5.99	\$898.50
5"x10' TREATED END POSTS CCA	ACRE	20	17.05	\$341.00
12.5 GAUGE ALUMINUM CLAD WIRE	FEET	4500	0.03	\$135.00
14 GAUGE ALUMINUM CLAD WIRE	FEET	5000	0.07	\$350.00
TIGHTENERS	UNIT	38	5.50	\$209.00
WIRE CRIMPING SLEEVES	UNIT	6	6.60	\$39.60
BAMBOO SUPPORTS	UNIT	1500	0.16	\$243.60
EARTH ANCHORS	UNIT	75	8.00	\$600.00
TAPENERS & VINE TIES	UNIT	2	55.57	\$107.13
<b>TRELLISING LABOR</b>				
FIELD PREPARATION (UNSKILLED)	HOUR	20	8.00	\$160.00
LAYOUT, DISTRIBUTE AND DRIVE POSTS (SKILLED)	HOUR	15	18.00	\$270.00
LAYOUT, DISTRIBUTE AND DRIVE POSTS (UNSKILLED)	HOUR	20	8.00	\$160.00
AUGER AND SET END POST (SKILLED)	HOUR	3	18.00	\$54.00
AUGER AND SET END POST (UNSKILLED)	HOUR	3	8.00	\$24.00
MARK LINE POST FOR WIRES (UNSKILLED)	HOUR	2	8.00	\$16.00
DRILL END POST FOR WIREVISES (UNSKILLED)	HOUR	4	8.00	\$32.00
INSTALL LINE POST STAPLES FOR WIRE (UNSKILLED)	HOUR	8	8.00	\$64.00
INSTALL END POST ANCHOR STRUCTURE (SKILLED)	HOUR	10	18.00	\$180.00
INSTALL BAMBOO STAKES (UNSKILLED)	HOUR	6	8.00	\$48.00
VINE PLANTING (UNSKILLED)	HOUR	55	8.00	\$440.00
INTEREST ON OPERATING CAPITAL		\$8,242.74	0.6%	\$445.11
TOTAL VARIABLE COSTS LISTED ABOVE				\$8,687.85
<b>FIXED/OVERHEAD COSTS (USING CUSTOM RATES)</b>				
FERTILIZER APPLICATION	ACRE	1	6.90	\$6.90
DRILL SEED PLANTING	ACRE	1	17.30	\$17.30
PESTICIDE APPLICATIONS	ACRE	7	7.90	\$55.30
INTEREST ON CUSTOM CHARGES		\$79.50	0.6%	\$4.29
HAND TOOLS	UNIT	1	550.00	\$550.00
SAFETY EQUIPMENT	UNIT	1	250.00	\$250.00
LAND CHARGE	ACRE	1	63.00	\$63.00
TOTAL FIXED COST LISTED ABOVE				\$946.79
TOTAL VARIABLE AND FIXED COST LISTED ABOVE				\$9,634.64
NET INCOME OVER VARIABLE & FIXED COSTS LISTED ABOVE				-\$9,634.64
Assumptions:				
1 ACRE 10' BETWEEN ROWS AND 6' WITHIN ROWS = 860 VINES				
FERTILIZER 4OZ OF 10-10-10 WITH EACH VINE				

<i>TRELLISING MATERIALS</i>	Unit	Quantity	Price	Total
3"X4"X8' TREATED POSTS CCA	ACRE	150	5.99	\$898.50
5"X10' TREATED END POSTS CCA	ACRE	20	17.05	\$341.00
12.5 GAUGE ALUMINUM CLAD WIRE	FEET	4500	0.03	\$135.00
14 GAUGE ALUMINUM CLAD WIRE	FEET	5000	0.07	\$350.00
TIGHTENERS	UNIT	38	5.50	\$209.00
WIRE CRIMPING SLEEVES	UNIT	6	6.60	\$39.60
BAMBOO SUPPORTS	UNIT	1500	0.16	\$243.60
EARTH ANCHORS	UNIT	75	8.00	\$600.00
TAPENERS & VINE TIES	UNIT	2	53.57	\$107.13
<b>TOTAL</b>				<b>\$2,923.83</b>
<i>TRELLISING LABOR</i>	Unit	Quantity	Price	Total
FIELD PREPARATION (UNSKILLED)	HOUR	20	8.00	\$160.00
LAYOUT, DISTRIBUTE AND DRIVE POSTS (SKILLED)	HOUR	15	18.00	\$270.00
LAYOUT, DISTRIBUTE & DRIVE POSTS (UNSKILLED)	HOUR	20	8.00	\$160.00
AUGER AND SET END POST (SKILLED)	HOUR	3	18.00	\$54.00
AUGER AND SET END POST (UNSKILLED)	HOUR	3	8.00	\$24.00
MARK LINE POST FOR WIRES (UNSKILLED)	HOUR	2	8.00	\$16.00
DRILL END POST FOR WIREVISES (UNSKILLED)	HOUR	4	8.00	\$32.00
INSTALL LINE POST STAPLES FOR WIRE (UNSKILLED)	HOUR	8	8.00	\$64.00
INSTALL END POST ANCHOR STURUC. (SKILLED)	HOUR	10	18.00	\$180.00
INSTALL BAMBOO STAKES (UNSKILLED)	HOUR	6	8.00	\$48.00
VINE PLANTING (UNSKILLED)	HOUR	55	8.00	\$440.00
<b>TOTAL</b>		<b>146</b>		<b>\$1,448.00</b>

## 2014 Summary

- ▶ Establishment Cost - \$9,634.64 Cost, \$0 Income
- ▶ Year 1 - \$3,055.18 Cost, \$0 Income
- ▶ Year 2 – \$4,059.11 Cost, \$725 Income
- ▶ Year 3 - \$2,031.48 Cost, \$4,350 Income
- ▶ Year 4 - \$4,038.03 Cost, \$ 5,800 Income
- ▶ Year 5 - \$2,209.92 Cost, \$ 5,800 Income

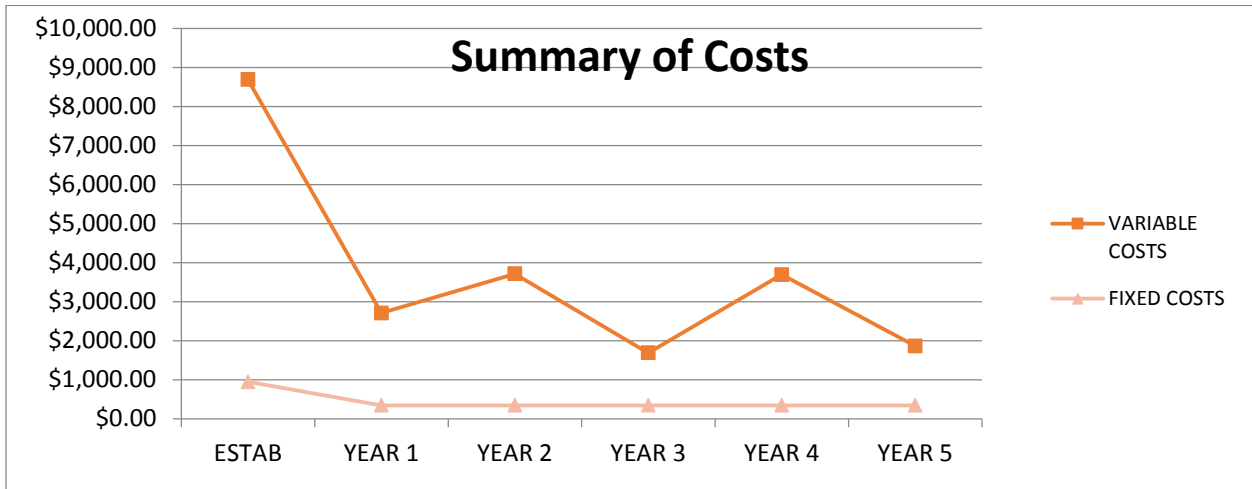
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Positive Cash Flow in Year 3

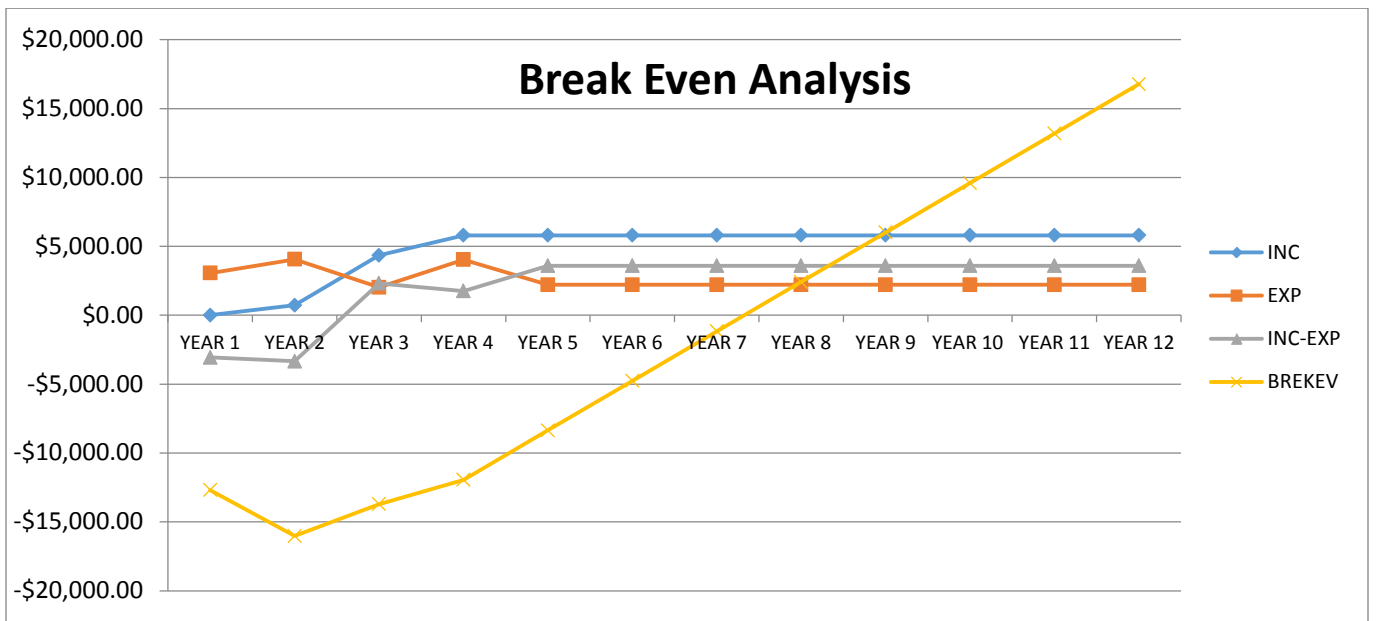
Break Even (without crop reduction) Year 8

Summary of Costs - Years 1-5							
		ESTAB	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
<b>INCOME</b>							
	ACRE	0	0	\$725.00	\$4,350.00	\$5,800.00	\$5,800.00
<b>VARIABLE COSTS</b>							
SOIL TEST	ACRE	\$2.33	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00
GRASS SEED - FESCUE K-31	POUND	\$72.00					
GRAPEVINES	UNIT	\$3,225.00					
FERTILIZER (4OZ 10-10-10 PER VINE)	POUND	\$126.85					
NITROGEN	POUND		\$14.70	\$14.70	\$14.70	\$14.70	\$14.70
PHOSPHOROUS	POUND		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
POTASH	POUND		\$21.60	\$21.60	\$21.60	\$21.60	\$21.60
LIME	TON	\$22.50	\$8.75	\$22.50	\$22.50	\$22.50	\$22.50
HERBICIDES	ACRE	\$21.11	\$24.12	\$24.12	\$24.12	\$24.12	\$24.12
INSECTIDES	ACRE	\$126.67	\$144.73	\$144.73	\$144.73	\$144.73	\$144.73
FUNGICIDES	ACRE	\$274.45	\$313.58	\$313.58	\$313.58	\$313.58	\$313.58
TRELLISING/IRRIGATION MATERIALS	ACRE	\$2,923.83	\$595.00				
VINEYARD LABOR	ACRE	\$1,448.00	\$1,430.00	\$1,190.00	\$1,040.00	\$1,170.00	\$1,210.00
LUGS	UNIT			\$1,773.75		\$1,773.75	
INTEREST ON OPERATING CAPITAL		\$445.11	\$138.91	\$190.35	\$86.47	\$189.27	\$94.90
<b>TOTAL VARIABLE</b>		<b>\$8,687.85</b>	<b>\$2,711.39</b>	<b>\$3,715.33</b>	<b>\$1,687.70</b>	<b>\$3,694.25</b>	<b>\$1,866.13</b>
<b>FIXED COSTS</b>							
		ESTAB	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
FERTILIZER APPLICATION	ACRE	\$6.90	\$6.90	\$6.90	\$6.90	\$6.90	\$6.90
DRILL SEED PLANTING	ACRE	\$17.30					
PESTICIDE APPLICATIONS	ACRE	\$55.30	\$118.50	\$118.50	\$118.50	\$118.50	\$118.50
MOWING	ACRE		\$46.00	\$46.00	\$46.00	\$46.00	\$46.00
IRRIGATION	ACRE		\$95.00	\$95.00	\$95.00	\$95.00	\$95.00
INTEREST ON CUSTOM CHARGES		\$4.29	\$14.39	\$14.39	\$14.39	\$14.39	\$14.39
HAND TOOLS	UNIT	\$550.00					
SAFETY EQUIPMENT	UNIT	\$250.00					
LAND CHARGE	ACRE	\$63.00	\$63.00	\$63.00	\$63.00	\$63.00	\$63.00
<b>TOTAL FIXED</b>		<b>\$946.79</b>	<b>\$343.79</b>	<b>\$343.79</b>	<b>\$343.79</b>	<b>\$343.79</b>	<b>\$343.79</b>
<b>TOTAL VARIABLE AND FIXED</b>		<b>\$9,634.64</b>	<b>\$3,055.18</b>	<b>\$4,059.11</b>	<b>\$2,031.48</b>	<b>\$4,038.03</b>	<b>\$2,209.92</b>

## Total Costs



## Summary



# Interactive Enterprise Budgets

- ▶ Available at <http://extension.umd.edu/smallfruit/grapes>
- ▶ Excel Spreadsheet format or PDF files

ITEM	UNIT	QUANTITY	PRICE	TOTAL
<b>WINE GRAPE ESTABLISHMENT</b>				
<b>PER ACRE FOR 2008</b>				
<b>GROSS INCOME</b>				
YIELD	TON	0	1330	0
<b>VARIABLE COSTS</b>				
SOIL TEST	ACRE	1	2.31	\$2.31
GRASS SEED - FESCUE K-31	POUND	60	1.10	\$66.00
GRAPEVINES	UNIT	860	3.56	\$3,061.60
FERTILIZER (40Z 10.10.10 PER VINE)	POUND	215	0.30	\$64.50
LIME	TON	0.3	17.50	\$5.25
GRAMOZONE EXTRA	GALLON	0.25	31.44	\$7.86
SURFLAN	GALLON	0.5	65.45	\$32.73
DEVRINOL 59DF	POUND	3	9.93	\$29.79
NEMACUR	GALLON	1	89.00	\$89.00
CAPTAN	POUND	9	5.13	\$46.17
DITHANE	POUND	28	2.23	\$62.44
SEVIN-4L	GALLON	1.1	39.50	\$39.55
NOVA	OUNCE	10	4.70	\$47.00
SULFUR	POUND	35	1.20	\$42.00
<b>TRELLISING MATERIALS</b>				
3"x4"x6' TREATED POSTS CCA	ACRE	150	5.75	\$862.50
3"x10' TREATED END POSTS CCA	ACRE	20	10.00	\$200.00
12.5 GAUGE ALUMINUM CLAD WIRE	FEET	4500	0.01	\$55.18
14 GAUGE ALUMINUM CLAD WIRE	FEET	5000	0.09	\$44.00
TIGHTENERS	UNIT	38	5.50	\$209.00
WIRE CRIMPING SLEEVES	UNIT	6	6.60	\$39.60
BAMBOO SUPPORTS	UNIT	1500	0.16	\$243.00
EARTH ANCHORS	UNIT	73	8.00	\$584.00
TAPPERS & VINE TIES	UNIT	7	53.77	\$376.39
<b>TRELLISING LABOR</b>				
FIELD PREPARATION (UNSKILLED)	HR	20	8.00	\$160.00
LAYOUT, DISTRIBUTE AND DRIVE POSTS (SKILLED)	HR	11	18.00	\$198.00
LAYOUT, DISTRIBUTE AND DRIVE POSTS (UNSKILLED)	HR	20	8.00	\$160.00
AUGER AND SET END POST (SKILLED)	HR	3	18.00	\$54.00
AUGER AND SET END POST (UNSKILLED)	HR	3	8.00	\$24.00
MARK LINE POST FOR WIRES (UNSKILLED)	HR	3	8.00	\$24.00
DRILL END POST FOR WIREVISES (UNSKILLED)	HR	4	8.00	\$32.00
INSTALL LINE POST STAPLES FOR WIRE (UNSKILLED)	HR	8	8.00	\$64.00
INSTALL END POST ANCHOR STRUCTURE (SKILLED)	HR	10	18.00	\$180.00
INSTALL BAMBOO STAKES (UNSKILLED)	HR	4	8.00	\$32.00
VINE PLANTING (UNSKILLED)	HR	55	8.00	\$440.00
INTEREST ON OPERATING CAPITAL		\$6,378.62	0.6%	\$344.45

## Recommendations

- ▶ A vineyard is a labor- and capital-intensive enterprise.
  - Be sure to record the amount of time spent in the vineyard and take caution in major capital purchases.
- ▶ It takes considerable time (7 to 12 years) for a vineyard to become profitable, perhaps never if scale of operation is too small relative to capital investment.
- ▶ Row spacing and vine training, which affect yield, will have a major impact on vineyard profitability.
- ▶ Continue research and attend trainings on vineyard production and management
- ▶ Do your own budgets
  - estimated budget and an actual budget using
- ▶ Write and implement a farm business plan to set goals, manage finances and develop marketing



## “Ideal” vineyard

- Manage capital assets (purchase used equipment, avoid buying unnecessary equipment, etc.), land expenses
- Use your own equity rather than paying interest
- Excellent site to avoid catastrophic crop loss
- High value crop with “high” yields of high quality fruit (close rows and divided canopy training)
- Acreage of 15 to 30 acres to make most efficient use of capital purchases, such as a sprayer or tractor

## Conclusion

- ▶ Research Training Systems – including yield, labor requirement and establishment
- ▶ Research available markets
- ▶ Crunch the numbers and talk with your family, friends and lender
- ▶ Make decisions on profits, responsibilities and your farm business
- ▶ Enjoy your new Vineyard

## References

- ▶ **Joe Fiola, University of Maryland**
- ▶ **Tony K. Wolf, Professor of Viticulture**
- ▶ **Bill Boyd, Surry Community College**

## Some Helpful Resources

Crop budgets and production information

- [www.extension.umd.edu/smallfruit](http://www.extension.umd.edu/smallfruit)

Business Planning and marketing information

- [www.extension.umd.edu/mredc](http://www.extension.umd.edu/mredc)

Land use, on farm training and certifications

- [www.extension.umd.edu/newfarmer](http://www.extension.umd.edu/newfarmer)

- The Economics of Wine Grape Production in Virginia (1998) VCE Publication #463-008

[www.ext.vt.edu/pubs/viticulture/463-008/463-008.html](http://www.ext.vt.edu/pubs/viticulture/463-008/463-008.html)

- Vineyard Economics, IN: Oregon Viticulture (2003), Oregon State University Press, Corvallis.

- Cost of establishment and production of vinifera grapes in the Finger Lakes region of New York, 2005. White and Pisoni, Cornell University (2005)

- Production budgets for Arkansas wine and juice grapes, #976 (2005)

<http://www.uark.edu/depts/agripub/Publications/bulletins>