

Reviewing your table grape costs makes cents

Alison MacGregor, October 2009

Two neighbouring table grape vineyards look the same from the road. One is a sustainable business. The other is not. The differences seem small but the consequences are huge.

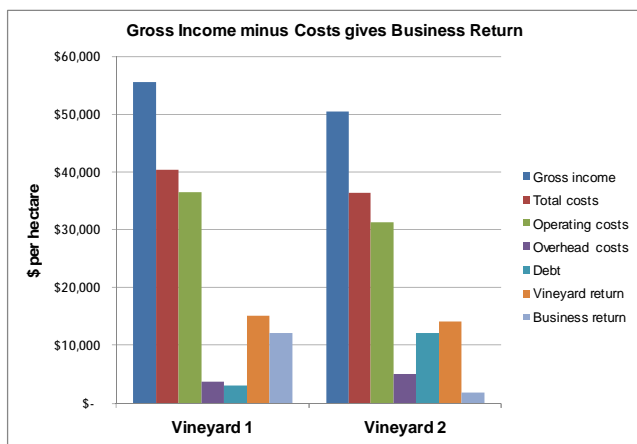
This article compares the incomes and costs for two vineyards, to highlight what it is that makes one business secure while the other will struggle.



From the road, the businesses look similar. Both look very well managed. Both have impressive cool-rooms and do a mix of shed and field-packing. Both growers claim to have good relationships with their agents in the markets – one has agents in Sydney and Melbourne. The other has agents in Adelaide, Melbourne and Brisbane. One grower is aiming at the high end of the market. The other vineyard struggles to get fruit to colour evenly, and the slightly lower prices reflect this. The grower compensates by growing more fruit per vine.

The graph below shows the income, costs, debt and resulting business returns for each vineyard.

At a glance, the incomes from fruit sales are within 10% of each other. The totals of operating and overhead cost are also similar. Both families are hoping that returns this year will allow them to upgrade the family car. One family also wants a holiday. The other family hopes to rework some older vines.



Now look more closely. Debt repayments for Vineyard 2 are much higher than for Vineyard 1. The high cost of servicing the debt leaves very small net business return per hectare for Vineyard 2.

Business Return is one indication of how secure a position each business is in.

Vineyard 1 is making a reasonable profit. Vineyard 2 is in a more precarious position because their profit is a small proportion of the gross income.

$\text{\$ Business Return} = \text{Income}(\text{\$}) - \text{Expenses}(\text{\$})$ $\text{Income} = \text{yield (boxes/ha)} \times \text{price (\$/box)}$ $\text{Expenses} = \text{operating \& overhead costs \& debt repayments.}$

What are the ideal proportions of costs to income, or asset to debt in a strong business? When financial advisors help you review your business situation, they look at the ratios of your income to costs, and also look at the ratios of your debt to assets. Some of these ratios are explained below, together with the values calculated for our example Vineyards 1 and 2.

Ratio	Explanation	Ideal Ratio (%)	Ratio Vyd 1	Ratio Vyd 2
Cost Ratios				
<u>Operating costs</u> Gross income	Your Operating Cost compared to Income is a measure of your efficiency. It varies depending on the intensity of management, and yields and prices. This ratio is much higher for table grapes than other grape crops.	< 70%	66%	62%
<u>Overhead costs</u> Gross income	Your Overhead Cost compared to Income is one of the most manageable aspects of a grape business.	< 30%	7%	10%
Profit Margin Ratio				
<u>Business return</u> Gross income	Your Profit Margin Ratio indicates profitability of your vineyard; profit (before drawings and tax) compared to income.	> 10%	22%	4%
Earnings Ratio				
<u>Vineyard return</u> Debt servicing cost	Your Earnings Ratio indicates your ability to cover interest payments (finance costs). It is a measure of the amount of money left over after operating and overhead expenses (other than interest), that is available to cover your financial commitments.	> 150%	505%	115%
Net Equity				
Total asset – Total liabilities	Your Business Equity is determined by looking at the total value of your asset after deducting the amount you owe (your liability). This includes off farm assets.			
Percent Equity				
<u>Net equity</u> Total asset	Percent equity is the proportion of your asset that you own. This includes off farm assets	> 80%	85%	39%
Debt to equity ratio				
<u>Total debt</u> Net equity	This ratio will influence your capacity to borrow for redevelopment or expansion, or to extend existing loans.	<100%	18%	157%

What does the future hold for Vineyard 2? Despite a good income and reasonable production costs, Vineyard 2 must strive to reduce their debt before they consider any further developments, such as re-working older vines, or purchasing the new family car. Streamlining overheads (which have been higher than average) will allow extra repayments to be diverted to reducing debt. Once their equity position improves, which may take three or four years, they will be able to renegotiate loans, for example to begin the program of redevelopment.

Do you know your own business position? One of the most valuable steps you can take is to spend time reviewing your own business position – your income, your costs, your equity and your liabilities. Table grape growers also benefit from reviewing the impact on income of subtle changes in yields and returns.

What help is available?

- Service providers who can help you with this type of review include accountants, financial advisors, the rural counselling service or horticultural consultants.
- Computer Programs are available to help you review your own business. There are several programs available that summarize your business position. A day spent entering all your details into a program might sound boring, but once the information has been entered, the information is there at your fingertips to manipulate and review.
 - VineBiz¹ - a 'Ready Reckoner' for managing the vineyard business. VineBiz is a computer spreadsheet developed by Scholefield Robinson to assist grapegrowers to review their own businesses. VineBiz is available from on CD from Scholefield Robinson or from Murray Valley Wine Growers.
 - AgriGater for horticulture is a similar (although more generic) program available for free download from <http://www.agrigater.com.au/>

¹ VineBiz was prepared by Scholefield Robinson Horticultural Services on behalf of Wine Grape Growers Australia and the Australian Government Department of Agriculture Fisheries and Forestry.