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For Twenty Successful Years: "We Sharpen Your Competitive Edge"®

Date: March 27, 2007

To: Tim Weigle,
IPM Manager
Lake Erie Grape Laboratory
Fredonia NY

From: Les Malcovitch

Subject: Focus Group Session #1
Growers and Industry Representatives
JCC Conference Room
Fredonia NY
Tuesday, March 13, 2007 – 12:00 noon – 2:30 p.m.

Participants: 13 + 1 Lake Erie Grape Team Members
Mark Amidon, National Grape Co-op, mamidon@welchs.com
Herb Barber, Herb Barber and Sons, herb@herb-barber-sons.com
Jim Bedient, NY State Wine Grape Growers, jimbedient@yahoo.com
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Tim Martinson, Cornell Cooperative Extension, Geneva NY
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Timothy A. Moore, Centerra Wine Co, tim.moore@wine.com
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John Walker, Cliffstar, John.Walker@cliffstar.com
J. Joy, National Grape, jjoy@welchs.com
Tim Weigle. LEGP, thw4@cornell.edu

Moderator: Les Malcovitch

1. Situation Appraisal: What's Going On In Your Industry?

- a. Economic slump
- b. Restructuring (of farms)
 - i. Consolidation
- c. The world is flat
 - i. Global competition
 1. This makes things here stagnant

- d. Development
- e. Financial institution lending practices
 - i. Lending less
 - 1. Changing lending as regards operating loans
 - ii. This is driven through the FAA and New York State
 - 1. Hangover from ENRON
 - a. 75 cents on the dollar
 - 2. Farm equity is eliminated as justification for loan
 - a. Do it now on cash flow
- f. Immigration policy makes getting labor a problem
- g. Increased governmental regulation
 - i. Regulate use of pesticides
 - ii. Regulations regarding water
- h. Lack of control
- i. The low calorie/low carb. craze has a negative effect on the juice market
- j. High cost of energy
 - i. Affects every segment of the business
 - 1. Farm costs
 - 2. Transport
 - 3. Supplies like fertilizer
- k. Climate change
 - i. Both a positive and a negative
- l. A weather disaster is a negative
- m. Lots done in knee-jerk reaction rather than planned changes
- n. Change in transition of farm from generation to generation
- o. Some growers blame the processors for low prices
 - i. But they don't look at their farm
- p. Real strong apathy in this industry
- q. Too many uneconomic vineyards
- r. A 70,000 ton drop in demand for Concords since 1999
 - i. Out of 500,000 tons production

2. S.W.O.T. Analysis: Strengths, Weaknesses, Opportunities, Threats

- a. **Strengths:**
 - i. Health and nutrition news of Concord grapes and juice
 - ii. Moderate strength
 - iii. Unique product
 - 1. Concord is unique in the world agricultural environment
 - a. Very few places can grow it
 - i. This, right here, is the best place
 - 1. For Quality
 - 2. For consistent supply
 - iv. Land reasonably priced to produce on
 - v. Well-established, mature industry
 - vi. Local market
 - 1. Processing plants are here

- a. Number One winery in the world
- b. Number One Grape Processor
- c. Number One Non-Citrus Juice Processor
 - i. All are here
- vii. Strong, committed industry
 - 1. Involvement
 - 2. Research
 - 3. Cornell Cooperative Extension
- viii. Nearness to market
- ix. Easy crop to grow
- x. Concord is hardy
- xi. New technology
- xii. Great way of life
- xiii. You can ride through vineyards with a Gator

b. **Weaknesses**

- i. Some lacking the whole picture
- ii. Subject to a lot of competition
- iii. This reflected in returns on investment
- iv. Not as much support as needed
- v. Price sensitive
 - 1. Cost of Goods Sold (COGS)
- vi. Limited new food products to use
- vii. Pessimistic attitude of all in the industry
- viii. Growing group of dysfunctional growers
 - 1. Becomes very obvious when profits low
- ix. Increase consumption to penetrate new markets
- x. Resistance to change
 - 1. Using 30 to 40 year-old methods
 - a. Can't compete
- xi. Non-replenishable growing land
 - 1. Once a house, always a house
- xii. Limited areas of adequate micro-climate on which to grow grapes
- xiii. We need to do a better job of getting the word out about the uniqueness of our product
- xiv. Not a lot of industry unity
- xv. Only National Grape/Welch's doing any product development
 - 1. No one else doing product development
 - a. Not working together
- xvi. High yield growers at 8 (tons per acre) way above state average (of 4.5 to 5 tons per acre)
 - 1. To survive, grower must raise yield per acre
- xvii. Business management and cost accounting skills
- xviii. Changing dynamic of the farm family
 - 1. Average age of grower is 58
 - a. Ten years ago was 53

- xix. Inability to attract, nurture, retain young people
 - 1. Yet, there's a peer group of the best and brightest who work together
- xx. Lack of public support
 - 1. The Cornell Cooperative Extension budget in the county is less today than it was in 2000
- xxi. Trade-off between quality and yield
- xxii. Variability of what is considered a grower
 - 1. Let's say 2 or 3 small farms sell, and they are next to a large grower
 - a. The farmers used to take care of their own zoning
 - b. A couple of small building lots can change a whole area
- xxiii. Lack of planning for retirement by growers
- xxiv. Overwhelming emphasis on one variety of grape
 - 1. A lack of diversity in the crop
 - a. A lack of money to enable diversification
- xxv. Why not more wine grapes in this area?
 - 1. Tonnage in Finger Lakes was enough
- xxvi. This is a Concord Region
 - 1. Concord was here for 100 years plus
 - a. That's going to be it
 - b. We don't get told by the winery (Taylor) as they were in the Finger Lakes – We don't want this
- xxvii. There's not another region in the world that hasn't changed
 - 1. Yet we're the way we are

c. **Opportunities**

- i. Great opportunity to capitalize on health
- ii. Great tourist opportunity
- iii. Expansion of product in the global market
- iv. Improved wine quality in local farm wineries
- v. Improved Concord quality
- vi. Room for expansion
 - 1. Not much here
 - 2. Most of the better sites are already developed
- vii. Could switch to new variety
 - 1. Limited varieties
 - a. Could switch to fruit, corn, blueberries
- viii. The good growing land is now already in grapes and other commodities
 - 1. What's left is marginal land
 - a. Would take a major investment to “convert or correct”
- ix. Diversification
- x. Niche market

- 1. Small opportunity for niche items
- xi. Local processor export opportunity to other states
 - 1. Grapes for small wineries
 - 2. Farm wineries of other states buy here
- xii. Big push on grape juice
 - 1. When was this last done?
- xiii. USDA buying lots of Concord
 - 1. Military
 - 2. WIC hurt
 - a. This is a low profit business
- xiv. Farm and school program
- xv. Pride of grower
- xvi. Pride of heritage
- xvii. Concord and Labrusca flavors are very popular
 - 1. Exploit this

d. **Threats:**

- i. The INS
- ii. DEC
- iii. New York State
- iv. China – if they do to grapes what they did to apples
- v. All offshore producers – global producers of concentrate
 - 1. California concentrate producers
 - 2. Washington has the highest yields of Concord
- vi. Washington, but DC kind
- vii. Price ceiling for juice
- viii. Low cost alternative products
 - 1. It's not as good
 - 2. But it costs a lot less
- ix. Bad press – like e. coli on lettuce
- x. NRDC – National Resource Defense Council
- xi. Lawyers
- xii. Loss of federal research dollars
 - 1. Ours dried up for 2007

3. What Will The Industry Look Like In 2-5-10 Years?

- a. Will continue to fluctuate
- b. Fewer farmers
 - i. Now, 30% of growers grow 80% of production
- c. Marginal sites and producers will be gone
 - i. 2-5-10 years out
 - 1. If don't adopt new techniques, will be gone
- d. Accept current level or gone
- e. Fewer growers means less supply, means the price will go up
 - i. No, price just maintained
- f. Fewer growers, less voice

- g. There are only 36,000 farmers in New York
 - i. 500 per year less each year
 - 1. That's what – a two percent a year reduction?
 - a. Lots of that is consolidation
 - i. The Ag. Assessment cutoff is \$10,000
 - ii. We live in an economically stagnant part of the State
 - 1. That will continue
 - iii. Fewer juice processors
 - 1. More small farm wineries
 - iv. More grapes purchased by small farm wineries
 - v. Locally based juice products marketed in a different way
 - vi. Hopefully, lots more people Mark's age (young)
 - 1. Good to see youth
 - a. Youth getting in to the industry
 - i. Run bigger operations
 - vii. Big push from older generation who say "Less hours, more money"
 - 1. Parents don't encourage their young people to go into this industry
 - viii. You need passion to do it (grow)
 - 1. If parents don't have passion
 - a. They pass on a negative attitude
 - ix. The older guys who own farms are not ready to retire
 - 1. Many have 20 years left to continue growing

4. Our Product: What the Consumer Wants:

- a. It's a healthy food
- b. Consumer knows where it came from
- c. For eaters
 - i. It's affordable
 - 1. Cheap
 - 2. Low cost
 - a. But quality
- d. Offers convenience
- e. Consuming is an experience
 - i. Look at *Sobee*
 - 1. Market as energy drink
- f. Products that meet their lifestyle
- g. Variety (new every day)
- h. Safety
- i. Consistent
- j. Not up to the growers to do the
 - i. Marketing
 - ii. Advertising
 - iii. Media promotion and placement
 - 1. Manufacturers should do this

- a. The State of New York gave \$300,000 seed money for promotion of Concord grapes
- k. As a grower, I sell my product to a processor
 - i. He's my customer
 - 1. I'm proud of what's in the bottle
- l. The processors: not all have passion for product raised here
- m. Our product is juice
- n. Also fresh grapes
- o. One of our products is Wild Irish Rose (wine brand)
 - i. It's viewed as an inner city beverage
 - 1. Not viewed as source of pride
- p. Could be promoted like the Starbucks Experience
- q. Not much (market for) fresh (grapes)
- r. A threat is that the local product is not used by (supermarket) chains
- s. How close are we tied ?
 - i. We own the cooperative
 - 1. Pride in the product we deliver
 - ii. We deliver to the cash market
 - 1. Unsolicited good comments
- t. Hard to stay ahead of consumer needs
 - i. Brand advertising at National/Welch's
 - 1. Welch's is a gold standard brand
- u. Herb: Once, nearly 100 percent of Concord was sold fresh
 - i. To the city
 - ii. That opportunity is still there
- v. There is a potential for fresh market sales
- w. In Ontario, they sell an Early Fresh Concord, a new variety
- x. In the Finger Lakes, a small grower sells to the fresh market
 - i. California Korean market
 - ii. Mennonites in Wisconsin
- y. Harvesting is easy on the Concord, for juice
 - i. Hand-picked is hard

5. Our Product: What the Producer Wants

- a. As a processor, the lowest possible price that gives the quality you need
 - i. Wherever they originate
- b. Growers don't want to try to grow best in the area
 - i. Forget the processor minimum
 - 1. Tonnage
 - 2. Quality minimum
- c. Taylor had "New York State" on the label
 - i. Today, Canandaigua is world wide
 - 1. No marketing to the local market
- d. Tim Moore: New York State identification still there
 - i. Half a million cases of *Taylor Lake Country Red*
 - ii. *Harbor Mist – Elvira* is American appellated

- iii. *Brickstone* carries New York State appellation
- e. New York State diminished by 75 percent
 - i. Jay: Why?
 - 1. Millions of cases sold in the North East
 - a. In Pennsylvania
 - ii. Tim: Taylor ports and sherries are a declining market
 - 1. Young consumers are not drinking them
- f. The grower should manage farms to what is best for your farm
- g. Andy: Processor is also necessary to increase efficiency

6. What Can Be Done to Promote the Area?

- a. Agritourism
 - i. Need it to market wine
 - 1. Need 2-year, 5-year, 10-year plan
 - 2. Bring people in from out of the area
 - a. A busload of people equals a busload of money
- b. Winery with a casino
- c. Small winery
 - i. Lets people see how product is made
 - 1. Insurance issues are huge
 - 2. Who does this?
 - a. Factory or farm?
- d. Need a niche to attract visitors
- e. A positive is small family farms
- f. The (New York State) Thruway runs through our back yard
 - i. We're close to major population centers
- g. We have a huge traffic flow
 - i. But how to get them off? (the Thruway)
 - 1. Free grape juice
 - 2. An Information Center
 - 3. A Welcome Center
 - a. That offers free Grape Juice
 - 4. Farm Markets
 - 5. Authentic Small Town America
 - 6. Lake Erie
 - a. Scenic Vistas
 - 7. Chautauqua
 - 8. Lucille Ball
 - 9. Five Gallons of *Westfield Red* to hunters
 - 10. The new Lab facility
- h. There has to be some coming together
 - i. Chautauqua Institution
 - ii. State of New York
 - iii. County chamber of Commerce
 - iv. New York State Wine and Grape Foundation
 - 1. How would this help us?

- a. You could associate the product with the experience
 - i. For years, the people around Chautauqua Lake understood new money for marketing would get people to come to the area
 - i. The payback was 12 to 1
 - j. The scale
 - i. We now get 100,000 visitors
 - ii. We now market (Welch's) to 300 million people in the USA
 - k. Create a Concord Grape Museum
 - i. A Heritage Center
 - l. We all have to work together
 - i. That's why it works
 - m. There's no place for a visitor to load up
 - i. Get a bargain
 - l. At an outlet
 - a. Not a Walmart

7. Where Do You See Your Own Business/Farm/Enterprise in Five Years?

- a. New Lab. Works with a wider range of people
- b. Land will be sold
- c. Farm will be 25 percent bigger in terms of acreage
 - i. Additional 50 acres of Geneva Double Canopy vine
 - ii. Average yield raised to 10 or 11 tons per acre
 - iii. More mechanized than we do today
- d. Bigger, better operation
 - i. Better prices
 - ii. More diversity with wine grapes
- e. Shift from 65% juice/35% wine today to just the opposite – 35% juice/65% wine
 - i. Increase gross by \$100,000 per year
 - ii. Sell to four additional markets
- f. Uncertain:
 - i. Four kids college age
 - l. Don't know if any will ever come back to the farm
 - ii. Some increase in yield
 - iii. Some diversification
- g. Grape related
 - i. There must be a Visitor's Center
 - l. Or the Association will be defunct
- h. We'll be purchased by Budweiser
 - i. Same quantity of grapes
 - l. Fewer number of growers

8. After You, Who Follows Along in Your Business/Farm?

- a. Family Member: 4
- b. Don't Know: 5
- c. No One: 4 (the three Tim's are here)

- d. Why do we always think of a son taking over the family farm?
 - i. Why not a daughter?
- e. Why don't kids want to take over?
 - i. Could we have worked them too hard when they were young?
- f. You've got to plan for this succession
- g. Form an LLC
 - i. Transfer in such a way as to limit tax
 - 1. You need an attorney
 - 2. A consultant
- h. The farmer who is working the farm now won't let go

9. What Would Your "Ideal World" Look Like?

- a. 40 hour week
- b. Good weather
- c. Concord juice can cure everything
- d. Better business environment in New York State
 - i. New York state is inimical to business
- e. Regional institutions support local products
- f. "Buy Local" is more important than "Buy Organic"
- g. Growers make decisions based on "What's Right" rather than just "What's Economic Sense"
- h. Regional organization that supports marketing of New York grapes
- i. Ideal would be small farm winery
 - i. On farm product
 - 1. Development of region into premium wineries
 - a. 2 or 3 varieties
- j. Global scales
 - i. Jay: We have to produce premium products
 - 1. Premium products of our grapes
- k. Juice – an ultra-premium juice
 - i. Versus a Napa-type premium wine
 - 1. Get 50 times more
- l. Australian drought
- m. Bob: with Geneva Double Canopy giving us increased yield, we can produce Concord for less money than Washington state
 - i. We will continue to strive to be better than anyone else
- n. In an ideal world, the consumer would know the value of Concord juice versus Juicy Juices

10. What Can the Lake Erie Grape Program do to Help Get You To that Ideal World?

- a. Come up with an environmentally friendly way to spray that's
 - i. Cost efficient
 - ii. Acceptable to housing close to vineyard
- b. More parties instead of meetings
- c. They need to supply leading growers with cutting edge technology

- d. Easy, sustainable method to educate growers in business economics
- e. Need someone to spread message re:
 - i. Attitude
 - ii. A “Grower Shrink”
 - iii. Inspirational, motivational
- f. Like when we had Gerry Snider
 - i. He opened up grower’s eyes
 - 1. That was a good idea
 - a. It was eye-opening
- g. Profit per acre is not what it can be in this area for grapes
- h. Business has always been cyclical
- i. Got to move it (the harvest)
 - i. Marketing is Number One
- j. Cornell Cooperative Extension has access to Cornell
 - i. To help it grow
- k. Producers have more stake in the business than growers
 - i. They need a bigger stake
- l. Jay: To LEGP: Don’t do marketing for farmers
 - i. But instead, educate them about marketing
- m. Cornell Cooperative Extension is there to help educate us
 - i. What we need is how to get product to market
 - 1. The reality is that there are 400,000 tons of grapes
 - a. Have to assess need on a world-wide scale
 - i. The amount of money it takes to go after this market
 - ii. We spend a million dollars a year on advertising
 - 1. We need very talented marketing people
 - a. The Brand owners need to do this on a large scale
 - iii. How can growers pick up extra cash on fresh grape market?
- n. There is a potential for diversification in this area
 - i. What are those opportunities?
 - 1. What can the growers take advantage of?
 - a. To make more money?
- o. Cornell Cooperative Extension foster leverage between different institutions
 - i. Local schools
 - 1. All teaching institutions

11. What Did The LEGP Team Do Last Year

- a. **That You Liked?**
 - i. Training with the DEC
 - 1. Pesticides
 - a. Storage rules
 - ii. Two years ago, ran classes on computer literacy
 - iii. Weekly Coffee Pot meetings
 - iv. Their electronic newsletter

- v. Barry Shaeffer's work on the farm management side
 - 1. He can do even more
- vi. Planning and budget management
 - 1. Actually, this stuff is lacking

b. **That You Didn't Like?**

- i. Mixed messages about nutrition
 - 1. This created distrust
 - a. Nitrogen recommendations
 - i. For lower nitrogen or no nitrogen
- ii. Growers told me
 - 1. That a bulletin came out that said no powdery mildew spray was needed
 - a. This can be misinterpreted
 - i. The LEGP team "must speak idiot but not be insulting"
- iii. How do we on the team differentiate information we give
 - 1. To high-skill growers versus the beginning grower?
 - a. Sometimes, the reason growers don't come out to the meetings is because they already know it

c. **What Could The Team Do That They Didn't Do?**

- i. Once, in our industry, you could talk to any farm supplier, and get the same message
 - 1. The base of their information was Extension
 - a. Now, this is lacking
 - i. This lends to confusion
- ii. Extension should make basic recommendations
 - 1. All know them
 - 2. All promote them
- iii. You have the problem of bogus information
 - 1. Snake oil
- iv. Tim Moore: Extension can never make a recommendation
 - 1. They say go get information
- v. They still have field meetings
 - 1. But should be more often than once

12. Around the Table:

- a. Extension's role is to continue to promote the sustainability and viability of the industry
 - i. Through breeding and genetics
- b. This meeting is a good thing
 - i. We spoke our minds
 - 1. That's very good
 - a. Cornell Cooperative Extension has to take the lead
- c. Lots of growers have no goal in mind

- i. They need to know the direction of where to go in
 - 1. Cornell Cooperative Extension can give this to growers
 - a. Ask them: “Where do you want to be in five years?”
- d. Need to know how Extension views situation if we lose 50 percent of the growers
 - i. Extension has lots of information
 - 1. But who’s going to use it?
- e. The grape industry in New York State still has lots of opportunities
 - i. The Grape Team from Extension is the key to using those opportunities
- f. Sustainability is the key
 - i. Cultural practices
 - ii. Promotion
 - iii. Marketing
 - 1. the ties to the educational resources that Extension team has
 - a. There are lots of branches at Penn State and Cornell
 - i. They are not now brought in
- g. Greater use of farmland preservation
- h. This has been an extremely interesting exercise
 - i. Extension should follow the bulk market
 - 1. More focus on supply/demand factors
- i. Extension’s role is a tremendous responsibility
 - i. They’ve done a good job in the past
 - 1. I’m confident that it will prevail
 - ii. I have great confidence in the industry
 - 1. “This, too, will pass.”
- j. Technology and science will change rapidly
 - i. Think of the cell phone and the bar code
 - 1. But the USA is Number 17 in cell phone use
- k. Excellent programs could be
 - 1. Mock inspection for Labor Department regulations
 - 2. Mock inspection for OSHA regulations
 - ii. (National Grape is) Big supporter of Concord industry here
 - 1. It’s been around for 100 years
 - a. Some transition into
 - i. Fresh grapes
 - ii. Small farm winery
 - iii. In Ohio, National Grape has only three growers left east on Cleveland
 - 1. Urban pressure on grapes
 - iv. In Geneva O (???), 50 juice growers
 - 1. Under 40
 - a. None see family succession
 - v. Yet, all growing land has opportunities

1. Extension has the right people
 - i. Extension has people in the right positions
 - ii. In the past, there was some lack of leadership
 - iii. Cornell uses teams to be better educators
 1. The team needs support, help and guidance from above
 - iv. Nelson Scholles years ago said the industry will destroy itself if there is distrust and lack of respect by folks in the industry
 1. Cornell Cooperative Extension has role in bringing the industry together and building trust
- m. The research lab is going up
 1. The state has invested 5 million dollars in the new lab
 - a. What do we do with the new lab?
 - b. How do we change agriculture in Chautauqua County?
 - i. Don't do just what we did in the last four years
 1. Go in a new direction
 - c. Forge profitable agriculture
 - i. Not all on grapes?
 1. Wine grapes?
 - ii. *Note: the group had several discussions going on here – someone said “Extension work as critical as research.”*
- n. We are developing vine mapping software
 - i. We are working on wood quality based on color
 1. To decide which canes to retain on the vine
 - ii. We are developing a robotic pruner
- o. Tim W: The name of the new lab will be Cornell Lake Erie Research and Extension Lab
- p. Les M: If there is something you'd like to add to this discussion, please phone me anytime, seven days a week, between 5:00 a.m. and midnight, or e-mail me at lmalcovi@stny.rr.com

Meeting broke up around 2:45 p.m.