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

Date: March 28, 2007

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

From: Les Malcovitch

Subject: Focus Group Session #3
Young Growers Under 37
North East, Pennsylvania
Wednesday, March 14, 2007 – 9:00 a.m. – noon.

Participants: 21

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Tim Weigle, thw4@cornell.edu
Winery owner – late comer – did not sign in

Moderator: Les Malcovitch

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

- a. Not real good after last night's meeting
 - i. (Meeting that National Grape Co-op [Welch's] held with grower members
 - 1. Told them they had been paid too much for crop last August
 - 2. The next three payments from the crop would be very low
 - 3. One dollar a ton for the next installment)
- b. Prices will be low for a long time
- c. Wine juice, wine market is going up every year
 - i. And is still growing
- d. You've got to be so small you can do it all yourself, or so big you can cover out costs
- e. Economies of scale
- f. Coming into a severe labor shortage
- g. Headline: "Going Broke"
- h. Unpredictable weather changes
- i. In the juice market, outside competition
 - i. National, from Washington, California
 - ii. International
 - 1. China red grape juice
 - 2. Argentina
- j. No money – lack of
- k. All processors outside of Welch's have unified prices
 - i. Can't go to them for higher prices to dump grapes
- l. Increased costs of production
- m. Interest rates going back up
- n. Soft market; bad credit
- o. Going to be very different in five years
- p. No good news yet
 - i. Too early in the year
- q. Got to get past the frost stage
- r. We have a potential good crop hanging out there
 - i. Wood looks good

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

- a. **Strengths:**
 - i. Long established market
 - 1. Always going to be sales
 - ii. Core producers have become more efficient
 - iii. Love what we do
 - 1. And wish we could get paid for it
 - iv. Very beneficial product for health
 - v. Wine sales at record high
 - 1. US industry is growing (160 billion barrels)
 - 2. Pennsylvania wine and grape 700,000

- a. New York 6 billion
- 3. Market studies from California, Washington, Ohio, New York, Pennsylvania
- 4. Grapes Number 5 agricultural product in value nationally
- vi. More people embracing alternative viticulture
 - 1. Different varieties
- vii. Better than milking cows
- viii. Family tradition
 - 1. Second generation now farming
 - a. 3rd generation will go on
 - i. Do it better
- ix. Regional pride in what we do

b. **Weaknesses:**

- i. Price
 - 1. For bulk is low
 - a. But finished products at all-time high
- ii. Reliance on processing management
 - 1. Co-op
 - 2. Mismanage day-to-day operations
 - 3. Their product – juice – at all-time high
 - 4. You don't know when you deliver your grapes what you'll get for them
 - a. Get payment 27 months later
- iii. Grower who sells in the cash market, knows by August 15 (of growing year)
 - 1. Co-op: 27 months before last payment
- iv. Last night, we were told they miss-estimated
 - 1. The next three payments may be little or nothing
- v. Some of the better sites are being taken out of production
 - 1. Development
 - 2. Or out of grapes
- vi. Next payment in East will be \$1.00 per ton
- vii. In Michigan, guys are going out of business
 - 1. Co-op management calls this "Strategic Attrition"
- viii. This is a phenomenon in many grape growing regions
 - 1. The government has a vine pull plan
 - a. Pays growers a small amount to pull out their vines
 - i. Australia – it's Shiraz
 - 1. Also South America
 - 2. California
 - 3. France
 - ii. Canada had this program with Labrusca
- ix. Vinifera a very slow mover from time to produce after planting
- x. We're independent
 - 1. Slow to change or react

- a. In product
- b. In growing practices
- c. In wine making
- xi. Welch's slow to react to pressure from other juices
- xii. Very expensive to change varieties
- xiii. Highly specialized in equipment
 - 1. Hard to change to other crops
 - a. Expensive

c. **Opportunities:**

- i. Gravel pit
- ii. We have grapes on our farm
 - 1. What can you do?
- iii. Not like you can change what you grow
 - 1. It's a perennial crop
 - a. Permanent vines
 - i. Trellises
- iv. Diversification should have taken place years ago
- v. We grow peaches
 - 1. Make a killing
 - a. This is our third year
- vi. Blueberries are coming
- vii. In Concord, you get a lot of health benefits
 - 1. High consumer preference for high price option
- viii. Changing how marketing is done
 - 1. Print ads
 - 2. Coupon
 - 3. Displays in stores
- ix. Smaller on-farm winery if area with high saturation
 - 1. Grapes as a finished product
- x. Small wineries – sell far afield
 - 1. Juice from wine grape varieties
 - 2. Native varieties
 - 3. Limited number of processors
 - a. Limited tonnage
 - i. But it's growing every year
- xi. Wine is viewed by consumers as a positive
 - 1. Gives us opportunities
 - a. Of the growers at this session,
 - i. Seven growing wine grapes
 - ii. 16 are juice growers
- xii. Wineries created their own opportunities
 - 1. The juice industry grower depends on someone else to create opportunities
- xiii. In past years, a belief that alcohol, wine – helps the heart
- xiv. The fashionable thing to do is drink wine

- xv. More agritourism draw
 - 1. State money
 - a. How to tap in?
 - 2. Culinary tourism
 - a. Grape juice and its products promoted
 - 3. Big time – New York backs over backwards
 - a. Look at the Canada model
 - i. New York is a pretty good model
 - ii. Pennsylvania is pretty much riding the short bus
 - 1. Only two counties in the whole state grow grapes
 - a. Mario: There are lots of new ones
 - i. Grow 5 to 10 acres
 - ii. Vinifera for wine
 - b. Mario: People start as a hobby
 - i. Change to full time
 - c. But there are still some hobbyists

d. **Threats:**

- i. Maybe a big “For Sale” sign
- ii. The future – what happens to Welch’s
- iii. Welch’s has been in business since 1869
 - 1. We’ve owned them since 1954
 - a. National Grape Co-op bought Welch’s
- iv. The farmer
 - 1. The bulk juice grower pushes the vine to get maximum tonnage
 - a. You can’t grow vinifera that way
- v. Not sure of the acreage of Labrusca in Pennsylvania
 - 1. If growers went to wine varieties
 - a. There’s not enough use of the grapes they’d produce
 - i. You’d get a glut
 - 1. Price would crash
 - 2. Change over to vinifera from labrusca would not happen at once
 - 3. Slow reduction in labrusca acreage
 - a. Coupled with slow rise in that acreage planted to vinifera
- vi. Banks don’t want to lend us money
 - 1. Banks in North East
- vii. We suffer from a lack of capital

1. If you want to diversify, it just costs so much
 - a. The cost to tear out native grape vines
 - b. Cost to buy new vinifera vines
 - c. Cost to plant
 - d. Wait a couple of years for a crop
 - i. Minimum of three years
- viii. Labrusca at \$100 a ton
- ix. Pull an acre
 1. For five years, get zero dollars
 - a. Wine grapes have a nasty habit of dying back
 - b. Vinifera growing still in its infancy
 - i. Still too much experimentation with varieties
 1. They don't grow well in cool climate
 - a. Cool
 - b. Wet
- x. Guys not taking out existing vineyard
 1. Planting in new sites
 - a. Getting outside of the good growing acreage
 - i. Microclimate is only 3 to 4 miles
 2. For wine grapes, have to rip out the best sites for growing
- xi. Good growing sites are the ones desirable for houses
 1. Farmer can get \$20,000 to \$30,000 for a lot
- xii. Bio-fuels
 1. Corn hit high last year at over \$4.00 per bushel
 - a. Now, a lot of farmers pull
 - i. Corn costs more to raise
 1. Corn is intensely Nitrogen dependent
 2. Corn rather costly to grow
 - ii. Jack the prices of inputs across the spectrum
- xiii. Small farms
 1. Run by part-time farmers
 - a. Apathy
 - b. Have the same vote in the co-op as full-time farmers
 - i. Same vote in co-op whether you have 5 acres or 1000 acres
 1. % acre guy has an outside source of income
 - a. Price he gets doesn't matter to him
- xiv. China
 1. A big-time threat
 - a. Produce wine
- xv. Also South America
 1. Chile

- 2. Argentina
- 3. Brazil
 - a. Brazil and the soy bean
 - i. Government controlled
- xvi. Labor
 - 1. Getting it
 - 2. Paying for it
 - a. Workers realize they are worth a lot more
 - i. California unions
 - 1. If we had them here, they would break us

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

- i. In two years pretty much the same
 - 1. Or worse
 - a. Farmers are not proactive; they are reactive
- ii. Public will be friendly
 - 1. If we don't get the neighbors on our side, we're in deep trouble
 - a. Must make public realize what they've got in the farmer
- iii. Some farms will disappear
 - 1. It will be survival of the fittest
- iv. My Dad is 60
 - 1. He works harder at 60 than he did at 40
- v. Farms and houses will be abandoned
 - 1. And the risk from an abandoned vineyard is disease from not treated vines
- vi. On the wine side, there will be legal challenges
 - 1. Especially in Pennsylvania
 - a. Government offices will take away advantage
 - i. Direct ship
 - ii. Extension of premises
- vii. Push for more federal grants
 - 1. Push us into being like dairy
 - a. Government payments
 - i. Government payments should only be for weather anomaly
 - 1. Not to prop up weak businesses
 - b. I see this coming
 - 2. Disincentive to change
- viii. Diversification
 - 1. We'll still be in grapes
 - a. Or in perennial crops
 - i. Our land levels are too high
 - 1. And our fields too small

- a. For field crops
- ix. More cooperation between growers
 - 1. Strategic buying
 - 2. Getting together to cooperate
- x. Find a way to keep people drinking Welch's grape juice
 - 1. Welch's at \$8.00 a gallon versus cheap juice
 - a. Cheap stuff uses apple juice or pear juice as fillers
 - b. It can be labeled "100 Percent Juice" and it's not "100% Grape Juice"
 - i. Even 100% Grape Juice doesn't mean 100% Concord
 - c. Keep this market based on Concord
- xi. Other growing areas around the country and the world grow plants that were shipped from here
 - 1. They have the advantage of
 - a. Their cheaper labor
 - b. Their dryer weather
 - c. Use a lot more products for spraying than we are allowed to use
 - i. Yet they let this sprayed stuff into the US
- xii. New York state is more restrictive on chemicals
 - 1. Especially concerning waterways
- xiii. In this room, there are three growers who grow in the two states
 - 1. New York and Pennsylvania
 - a. They must deal with two sets of taxes
 - i. Two sets of forms, papers
 - ii. Two rigmaroles of regulations
 - 1. And 15 mile tractor trips

4. Where Will Your Own Business Be In 2 – 5 – 10 Years?

- a. Out actively looking to buy farms
 - i. Price down to an all-time low
 - 1. Lack of capital still a problem
- b. We should be out buying
 - i. There won't be any start-ups
- c. Farm with money or for money
- d. It's hard to plan down the road if you haven't finished paying for trimming
- e. If you went out of business, you probably couldn't sell for what you have in it
 - i. Unless you sell for houses
- f. Well, it costs money to subdivide
 - i. Deal with township planning
 - 1. And you're going to get new neighbors
 - a. Who don't like sprayers
 - b. They like the country

- i. But no smells
 - c. They fight you if you want to do something else
- g. Neighbors cost a lot of peace
 - i. As long as you're doing proper farming practice, you can't be cited
 - ii. Can't be cited for proper farming practices

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

- a. We did our job the way you told us to do it three years ago
 - i. We'd enjoy a record good year
 - 1. 2003 – record high
 - 2. 2007 –record low
 - a. (prices for Concord grapes per ton)
- b. Get rid of stodgy Board of directors (of grape co-op)
 - i. Two groups
 - 1. Silver hairs
 - a. We've done it before; we can do it again
 - b. Small growers
 - c. Many have pensions from jobs
 - d. Many have Social Security
 - 2. We who still have 30 years of growing ahead of us
- c. No debt
- d. Strong market for the product we raise
- e. No outside competition
- f. Grow our business 5 to 10 percent a year
 - i. If you are not growing, you are shrinking
- g. Low cost of production
- h. Cheaper gas prices
- i. Cheaper inputs in general
 - i. But petroleum drives much of our costs
- j. Insurance costs cut in half
 - i. Why do you stop at only a half?
- k. We would not need to carry so much insurance
 - i. Less legal action
 - ii. Less suing
- l. \$500 a ton
 - i. Steady \$250 per ton lower would satisfy me
 - 1. With a steady increase to cover inflation
- m. Minimum wage – even if it goes up
- n. Sustainable farm without having to cut corners to stay in business
 - i. You can't cut your way to the bank
 - 1. You vineyards can go bad
 - a. You'll hurt your bottom line
 - i. You'll start losing quality
- o. Incentive for being a farmer
 - i. For being able to stomach it
 - ii. For taking the risk

- p. National Grape members receive as much or more as cash as their neighbors get
 - i. Retains certificates
 - 1. over and above what loyalty
 - a. Be a dividend on ownership
 - i. A 30 percent dividend
 - ii. The way to become a member of the co-op is buy a contract and transfer in
- q. National Grape acreage shrinks every year due to attrition
 - i. Mostly in Michigan
- r. More than one Welch's
 - i. 320, 000 tons
 - 1. 180,000 in North East
 - 2. Canandaigua –wine
 - 3. Cliffstar – 40,000 tons in East
 - a. We can't go anywhere
- s. Older crowd in co-op
 - i. The management runs the company
 - 1. Apathy among members
 - a. We have had it before
- t. If our management had competition, they'd do better
 - i. Red Wing and Cliffstar don't set a price
 - 1. They announce it in August
- u. Mass shortage of Concord grapes

6. Talk about the Lake Erie Grape Program

a. What Do They Do That's Good? Positive?

- i. Research
- ii. Lake Erie Notes
- iii. Different tests
- iv. Did lots in last several years to identify ways to help growers cut costs
 - 1. Made possible increase in production
- v. Economic analysis (Barry Shaeffer work)
 - 1. It's good and bad
 - a. No silver bullet
- vi. Found you can help farmers, but show them how to make it work
 - 1. Not only what's always working
 - 2. Don't be afraid to try something new
- vii. Face it – they're ConCORDS
 - 1. You can't kill them
- viii. Growing ConCORDS
 - 1. There's not a whole lot of new stuff
 - a. Better quality
 - b. Higher level of output
 - i. But it's the same 100-year-old root stock

ix. A totally disease-resistant Concord would ruin the industry

b. **Negatives – Didn't Do Right**

- i. The report on cost of ConCORDs grown per ton that Extension did
 - 1. Was not good
 - 2. Publishing the results made processors get away with what they could pay
 - 3. The methods and results were not what was bad
 - 4. But the results were used by processors in a way that was not anticipated
- ii. Does the cost change each year?
 - 1. Yes
 - a. As costs go up
 - i. 5 Year report increments
- iii. Duplication in services
 - 1. Extension team and National Grape
 - a. No reason we should pay for the same thing in the co-op that's located in Extension
 - 2. Westfield for National Grape
 - a. Duplicate lots of research
 - i. We have a man we pay to do the same thing Extension has already done
- iv. I'd like to see "Recommends" come out before I've already bought my supplies
 - 1. I do research on prices and products in November
 - a. Lowest prices from dealer often at end of December
 - 2. Last few years, I just bought what was cheapest because I had to

c. **What Should The Team Not Do?**

- i. Nothing

d. **What Could The Lake Erie Grape Team Do to Help You Get To "Ideal World"**

- i. The biggest problem in this industry is demand
 - 1. That's out of their hands
- ii. Marketing is the problem
- iii. I can grow
 - 1. I need help to sell the crop
- iv. Some research that comes out is not on commercial level
 - 1. Make it relevant to smaller setting
- v. It's somewhat relevant
 - 1. Maybe not the most timely
 - a. There's a pruning meeting today
 - i. Most guys have already done pruning
- vi. Someone to coordinate mass buying

1. Like Health Insurance
 - a. Welch's offers health insurance, too
2. Concerned with our profit
 - a. Like 10,000 tons of urea
- vii. Have the Lake Erie Grape Team take the Welch's Annual Report
 1. Give it to an industry professional
 - a. Have them read it
 - i. Tell us if good job is being done
 2. Do a study of Welch's business
 - a. Have experts tell the membership what they think
 3. Find some retired CEO's
 - a. Tell us what you think
 - b. Ship this opinion and analysis out to the Old Guard
 - i. Maybe they'd actually believe what concerns us
- viii. The Lake Erie Experimental Facility delivers grapes to National
 1. You get the report
 2. Barry could read it
 - a. Brian Henahan did this
 - i. How would Welch's feel about this?
 1. Bad blood?
- ix. At the meeting, they told us sales were up
 1. The annual report is full of Rah, Rah
 - a. But the numbers say just the opposite

7. Round the Table:

- a. Nope, doesn't seem that way
- b. We sell fresh market
 - i. In Ohio and New York
 - ii. Two pound clamshells
 1. We transport them in our own trucks
 - a. I'm OK for now
- c. Pretty much covered it all
- d. Came here to listen
- e.
 - i. We're competitive
 1. Some are bigger
 - a. There's a few growers on top who produce what Welch's want
 - ii. Hope we're one of the last ones standing
 - iii. Imagine can get lots worse than it is right now
 1. There are going to be guys standing at the end
 - iv. The age of the guys
 1. Most of the members of the coop are a lot older
 2. Attitude: OK is anyone's farm freezes but ours
 - v. There is only so much need for Concord

1. Production can't keep going up
 - a. That's the reason our prices are going down
 - i. There are too many of them
- f. Lots more old buying (farms) than young buying
- g. Farmers will listen (to Extension?), but in the end will do nothing
- h. Concord at \$322 a ton was highest price
- i. Atkins said in 2004 that high carbohydrates were bad
 - i. After that record price in 2003, price went down
 1. That the Atkins that was found dead on the sidewalk outside his New York City office?
- j. The returns to growers has got to increase
 - i. Better management can do it (At the co-op?)
- k. We have to control our own destiny
 - i. I'm bullish
 1. I'm diversifying
- l. Must take all my eggs out of the same basket
 - i. Get diversified
 1. Might be too late to have realized
 - a. Should have been done 10 years ago
 - b. But it's not always that easy to change
- m. I agree with diversification, but in a controlled manner
 - i. Establishing a winery has been a rough road
 - ii. You have to diversify in slow steps
 1. Do what makes economic sense
 2. Learn to increase your knowledge base
 - iii. Walker's example
 - iv. Ourselves – we doubled the grapes we take in
 - v. You Co-op guys
 1. You can be a champion on the inside
 - a. Find a champion on the inside willing to work for you
 - i. A great change for good can start with one champion
- n. Look at Jim Tresize in New York
 - i. See what he could do to Welch's
 - ii. We got out of Welch's ten years ago
 - iii. Now we're completely in wine
 1. Wine continues to grow
 2. Concord is limited
- o. We need some kind of program available to guys like us
 - i. To help us with diversification
 - ii. The banks, 9 times out of 10, will say NO to us
 - iii. I lack the amount of capital
 - iv. The bank's answer to a small amount or a large amount is NO
- p. I've gotten the NO
 - i. I go in with a plan

1. It looks good on paper
 - a. But banks are not local as much as they used to be
 - b. The decision on my loan is made in Iowa
- ii. I've been helping my Dad do grapes for one year
 1. I'm expanding into pigs and goats
 - a. In Iowa, 57 pigs is a guy in his back yard
- q. What's the incentive to stay in the business?
 - i. Why stay in?
 1. Right now I'm in
 - a. But what's the future?
- r. We here have the vision
 - i. We need the capital
 1. We're not asking for free money
 - a. Just to be able to pay it back
- s. Make every motion 100 percent efficient
- t. Transition
 - i. There are no silverbacks in here –this meeting
 1. We need help deciding –will this be profitable business for us to go in?
 2. Needs help in transition to the younger from the older
 3. The older- believe stay with Concord
 4. The younger – believe we should diversify
 - a. We need some direction
 - i. Some help and advice
 5. Everyone has to eat
 6. Everyone has to drink
 7. What are the world-wide directions/trends on pesticides, etc?
 8. The ideal would be some world-wide limit on the food production
- u. Diversify
 - i. Find some way to survive
 1. Hope we can stay in
 - a. I have a 14-year-old son
 - i. I'm not pushing him to farm
 1. He likes it
 - a. But if he were old enough to work, we could not pay him enough to keep him
 2. We're in every niche
 - a. Fresh market
 - b. Corn
 - i. If we weren't, we would not be able to do it
- v. After hearing this, I'm gonna get a job with GE
- w. I tend to disagree with those who say cut supply
 - i. Instead, take care of demand

- ii. Take the population of the USA
 - 1. Get everyone to buy one gallon a year
 - a. There are not enough grapes to allow everyone to buy 2 gallons a year

iii. We have oversupply only in proportion to present demand

Tim thanks for coming out

Andy Would you like more meetings aimed specifically at young growers?

x. You young growers

i. I'm having a meeting of young growers

1. (Mike hands out flyers about that meeting)

y. A gentleman who owns a winery came in late – did not sign in

i. Found the meeting interesting, for what he saw

Les M: If you want to add something or didn't get a chance to say something, phone me anytime between 5:00 a.m. and midnight, seven days a week at 607-733-6160, or e-mail me at lmalcovi@stny.rr.com

Meeting broke up around 1:00 p.m.