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

Date: March 14, 2007

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

From: Les Malcovitch

Subject: Focus Group Session #4
Growers and Industry Representatives
North East, Pennsylvania
Wednesday, March 14, 2007 – 12:00 noon – 2:30 p.m.

Participants: 13 + 2 Lake Erie Grape Team Members
Bob Green, rgreen@mercyhurst.edu
Fred Luke
Tom Meehl
John Moorhead
Andy Muza
Jeff Orr
Charles Rahal
Bill Richter Sr.
James J. Szklenski
Nick Mobilia, nickmobilia@arrowheadwine.com
Dave Maille, mallecon@aol.com
Jerry Lookenhouse, North East Fruit Growers
Adam Schmidt
Tim Weigle
Andy Muza

Facilitator: Les Malcovitch

1. Situation Appraisal (What's Going On in the Industry)

- a. If you're selling to Welch's, no money
- b. Cost of materials going up, fast
 - i. Fuel
 - ii. Fertilizer
 - iii. Sprays

- c. Government regulations are increasing
 - i. There are some more coming down the road
 - d. Next generation not hanging around
 - e. Immigration
 - f. Shortage of qualified labor
 - g. Undocumented workers
 - h. Changes in capital and financing
 - i. Sales of development rights complicated
 - j. Interest in wineries (on the part of the farmers) is growing
 - i. But the supplies (number of wineries) not quite following yet
 - k. Well, I'm helping on the consumption end (of wine)
 - i. Yeah, let's lead by example
 - l. The other processors – not just Welch's – are not paying as much
 - m. Changes in marketing
 - i. There is global competition against us
 - n. There is also global demand
 - o. Weather changes
 - i. Global warming
 - p. Energy is a big thing
 - i. Global competition for it
 - 1. And for the resources to produce it
 - a. And for the products from it, like fertilizer
 - i. Fertilizer is up 150 % (price)
- q. I'm paying \$477 a ton for urea
 - i. Last year in the spring it was \$390
 - ii. Price this season could be \$500 per ton
 - 1. Most of the supply is offshore
- r. The health and well-being of the communities in which we live fluctuate with the fortunes of agriculture
- s. Urban pressures
 - i. Development pressing in
 - 1. They move in and act like they own what you have

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

a. **Strengths**

- i. We grow something that is healthy for people
- ii. It's a lifestyle I'm comfortable with
- iii. Land appreciation
- iv. People love the land
 - 1. And it also goes up in value (appreciates)
- v. We have here the critical mass for the size of an industry
- vi. Very productive micro-industry
 - 1. As far as grape growing and production
- vii. We have a rich heritage here
 - 1. It goes way back
- viii. Some examples of how far back:

1. John: my farm started in 1811, been in family since
2. 3rd or 4th generation
3. 6 generations
4. Farm started in 1920
5. Farm started in 1906
6. Tom: 4th generation, 5th coming in
7. 5th generation
8. 4th generation
- ix. Lots of experience in growers
 1. Lots of experience in this here room
- x. How old are the vines that are still producing
 1. Some are a hundred years old
 2. Some more than a hundred years old
 - a. And they are bearing better than they did years ago
 - i. Due to better technology
- xi. Farms have expanded
 1. Farms have changed in their make-up
 - a. Our farm used to be cherries, peaches, berries
 - i. Now a strength is we are mono-crop – grapes
 1. Other voice: That could be a weakness, also
- xii. Mechanization
 1. Our operations are highly mechanized
 - a. That can be a production positive
 - b. But a financial, an economic weakness
- xiii. The infrastructure is in place
 1. But getting smaller all the time
 - a. (Comment regards suppliers, dealers)
- xiv. Brand equity
 1. Welch's
 2. Cliffstar
 3. Canandaigua
 4. Brand names of local wineries
- xv. Bob: Area is beautiful
 1. Big tourist draw (Lake Erie)
 - a. But it is under-utilized
 - i. Under-exploited
 - ii. We don't take enough advantage of it
- xvi. We have a micro-climate that is conducive to growing our product
- xvii. There is a willingness to adapt by those in this industry

b. **Weaknesses**

- i. We are locked in to what we do
- ii. We can't change our crop
 1. It is a perennial crop

- iii. Whether we sell to the cash market or the co-op, we have no control over the price we receive
 - 1. We are price takers, not price makers
- iv. We buy (supplies) at retail, and sell (our product) at wholesale
- v. There is no room for expansion
 - 1. Unless you buy your neighbors out
 - 2. The land that is good for growing is gone
 - a. There is no new land that can be used for grapes
 - 3. “If there are no grapes on it now, there never should be grapes on it.”
- vi. Cause and effect theory
 - 1. Everything that happens can cause something bad
 - 2. The economic consequences of a bad result
 - a. Price (we get)
 - b. Crop (we harvest)
- vii. Taxes (too high)
 - 1. Especially school taxes
 - 2. In the Welch meeting, they said the valuation went up 34% for farmland in New York State
- viii. Not enough advertising for tourism
 - 1. We are in a grape-growing region
 - a. Like Napa valley
 - 2. Yet no promotion like they do in Napa Valley
- ix. We don't think of ourselves as tourist draw
 - 1. Or market ourselves as a region in order to bring people in
- x. We are all farmers
 - 1. All independent
 - a. We're not good at doing something that means we have to work together
- xi. Mother Nature
 - 1. We get freezes, floods, winds
 - a. Events we have zero control over
- xii. Possibly, lack of available capital to borrow
- xiii. Banks have been looking harder at agriculture
 - 1. Especially after the local bank has been sold
 - a. This has been happening here
 - i. Now, loan decisions are made in Cleveland or Pittsburgh
- xiv. Commercial loan money is not readily available anymore
 - 1. Young guys starting out are really hurt by this

c. **Opportunities**

- i. As people urbanize our area, move in to area
 - 1. Means more customers to buy our stuff
 - 2. More customers for wineries
- ii. Diversification

- iii. Ability to sell the farm
 - 1. Urbanization for big bucks
- iv. Look for off-farm income
 - 1. That is still related to agriculture
- v. Opportunity for our children to go to city to find jobs
 - 1. They go to city, but are still close
 - 2. If the city was 200 miles away, not have this opportunity
- vi. (Bob) Development of non-traditional products from what we're raising
 - 1. Fresh juice
 - 2. Grapeseed oil
 - 3. Crops other than Concord grapes
- vii. 95% of the tonnage of what we grow is Labrusca
 - 1. Mostly Concord
 - 2. Some Niagara
 - 3. Some Catawba
- viii. We could make a huge tourist attraction
 - 1. Tourist Center
 - a. Needs huge cooperation between towns, counties and States
 - i. The key is finding ways to get them to do it for you
- ix. New York state has declared the Erie Region as a Heritage Area
 - 1. NY state has erased the state line for these purposes
 - 2. However, getting Pennsylvania state to do this is slow
 - a. PA is slow
 - b. They've tried it twice, no result
 - c. PA government has said "Come to us again"
- x. We should make this a heritage area
 - 1. And "Brand" it
- xi. I-90 is a huge advantage
 - 1. Huge numbers of people driving on it
 - a. They want to do something
 - b. They want someone to give them something to get off the road to do
- xii. As farmers, we have Ag Choice and FSA to borrow money from
 - 1. Other businesses can't do this
 - 2. Pay a lot less in interest than bank would ask from young people
- xiii. Opportunity to raise other types of grapes
 - 1. Or other crops
 - a. Lots of vegetable crops
 - i. Yeah, but they can't be mass-produced like we do our grapes
- xiv. Direct marketing
- xv. Mechanization

- 1. We are highly mechanized
 - a. They are not cheap
 - i. They pay for themselves
- xvi. Non-documented workers
 - 1. or mechanized
- xvii. There is an opportunity there for getting in to the business
 - 1. But most do not have enough cash to get in
 - a. A new harvester costs over \$200,000
- xviii. In this room, growers have a minimum of \$500,000 each in equipment
 - 1. Most of us fix it ourselves
 - a. We have to
 - b. But we have as a resource Cloverhill Sales

d. **Threats:**

- i. The government
- ii. Food and Drug Administration
- iii. A food scare
 - 1. Like e.coli
 - 2. Like alar on apples
- iv. Development pressure
- v. Bankruptcy
- vi. Asian Ladybug
 - 1. It was deliberately introduced, to help the soybean industry
 - 2. Larva inside a grape gives it a horrible taste
 - a. 8 per lug would spoil a batch of juice
 - i. And they bite, too
- vii. Weather in this part of the country
- viii. Urban sprawl
 - 1. New house dweller objects to noise, spray, the smell of manure
- ix. Urban sprawl brings with it house on a half acre lot
 - 1. They buy their kids two four-wheeler ATV's
 - a. Kids tear through my land
 - i. But oh, do I ever catch it if I make a tractor turn on their lawn
- x. "I don't want to own all the land in North East – just what's next to mine."
- xi. The income we DON'T have coming in from our cooperative
 - 1. They (management) have urinated a lot of our money away for us
- xii. PLCB
 - 1. Pennsylvania Liquor Control Board
 - a. Wine or Liquor can only be sold at a state store or winery outlet
- xiii. Foreign competition
 - 1. Juice from China

- 2. There is lots of juice or juice products the consumer can choose from
- xiv. Most juice is not 100% Concord
 - 1. Concord is too overpowering
 - 2. Welch's can say 100% grape juice, but it's not 100% Concord grape juice
 - a. They use a proportion that is red grape juice from California
- xv. In Holland, grape juice tastes like apple juice because they use so much apple juice as filler
- xvi. In stores, the "bargain" juices are at most 10% juice
 - 1. Rest is water added to concentrate and sweetener
- xvii. The University of Chicago had a research paper published
 - 1. It was about childhood obesity
 - 2. They lumped together as bad high sugar soda pop and grape juice, which is naturally high in sugar
 - 3. This misinformation hurt our sales by scaring the public
- xviii. The Atkins Diet forbade carbohydrates
 - 1. Concord juice is high in carbohydrates
 - a. That's the same Dr. Atkins that was found dead on the sidewalk outside his office in New York City
 - i. Press made it sound carbohydrates were to blame, I'm sure
- xix. Population has the wrong eating habits
 - 1. People go with artificial foods and ingredients
 - a. They don't think ahead of what the outcome will be later on
 - b. Foods get story in media, and plunge

3. **What Will This Industry Look Like In 2, 5 and 10 Years?**

- a. More consolidated
 - i. This will happen gradually
 - 1. Two years to five to ten
 - a. There will be fewer of us
 - b. The farms will get bigger as bigger farms take over the smaller ones that go out of business
- b. My \$200,000 harvest will go the \$400,000
 - i. I'll need more acres to utilize it
 - ii. I'll need more acres to pay for it
- c. More diversified
 - i. Grow other things besides grapes
 - ii. Diversification will happen in the marketing end as well as the production end
- d. Cost of equipment will have shot up
- e. Farm will be a lot more mechanized
 - i. But will be able to do 2 or 3 jobs at once

1. Will need an excellent operator
 2. Farmer will need more management skills
 - f. More micro-business
 - i. Niche marketing
 1. More hands on
 2. More specialized
 - a. Products that succeed will be premium products
 - i. Higher value
 - g. More big businesses
 - i. More small niche businesses
 1. Fewer in the middle
 - h. Should see smaller wineries expand
 - i. Still want a big winery
 - i. Will need someone with big dollars to invest
 - j. Les: Pennsylvania has a new welcoming center
 - i. Big beautiful one on Interstate 15 south of Corning
 1. We have one here, where I-90 comes into PA
 - a. Can we give out free grape juice?
 - i. No wine tasting
 - k. More government regulations
 - l. There will be pain
 - i. We'll lose some operations
 1. Some will be lost to urbanization
 - m. The city dweller coming out here to live
 - i. Wants to see the lake
 - ii. Wants a good school district
 - iii. Wants to see the beauties of a neighboring farm
 - iv. Ants to be able to get septic permits
 1. But doesn't want any noise, smell, spray
 - n. North of I-90 there is more land to support septic than south of 90
4. **What Will Your Operation/Enterprise/Farm Look Like in 2-5-10 Years?**
- a. Getting bigger
 - b. Increase revenue
 - c. My personal farm will be gone
 - i. I will have moved somewhere else
 - d. My farm will be in the city
 - e. I'm only going to produce what you can market
 - i. The consumer decides what that is
 - f. I will market at a profit at which you can sustain the farm
 - g. Expansion on my part
 - i. Bring a couple of sons-in-law in
 1. I'll be out of there
 - h. Those pieces of my acreage that are marginal for production,
 - i. I will eliminate
 1. I'll be smaller in acres
 - a. I'll be more productive overall

- i. I'll need less people on farm
- i. I'll grow more varieties
- j. My sons – I hope they will stay in the business
 - i. And their sons will take over after them
- k. There will be more technology innovations
 - i. GPS technology
 - ii. Exact fertilizer formulation for small specific areas
- l. We'll need and use a crop consultant to write an exact formula, a prescription for our crop nutrients
 - i. And they'll tell you how often you can spray
 - 1. With what
 - 2. When
- m. Reason for controlling spraying is because water contamination is so important
 - i. For well water supply, no taste is allowed
- n. More regulation from the government
 - i. When you can spray
 - 1. How you can spray
 - a. What you can spray

5. **What Would An Ideal World Look Like to You?**

- a. \$500 a ton
- b. A new cure for cancer
 - i. Bathe in grape juice
 - a. Need fresh batch every bath
 - i. Had to be 100 % Concord
- c. A shortage of the product we produce
 - i. Caused by demand
- d. We'd like to set the selling price
- e. Every Monday morning, I'd have 3 qualified people knocking at my door, applying for a job
- f. My neighbor wants to sell the farm next door to mine
 - i. And I know it before it's sold
 - ii. And he likes me, and asks a reasonable price, in my view
- g. Smaller government
- h. Less regulations
- i. Good growing season
 - i. 300 days of sunshine
 - ii. Rain when we need it
- j. Fewer employees required
- k. Only need banks to store the money

6. **What Could the Lake Erie Grape Team Do To Help Make This Happen?**

- a. Could become more highly efficient
 - i. They make spray recommendation each year
 - 1. The farmer buys his spray this way

- a. Starts investigating in November
 - b. Best prices towards end of December
 - c. Should buy before end of year
 - 2. And when does the recommendation come?
 - a. Towards spring
 - i. Andy: before the season starts is way it is now
 - b. When they do a trial test plot
 - i. Now, they plant 50 plants
 - 1. They should do commercial size planting
 - a. 5 acres at a minimum
 - i. And on realistic soil conditions
- c. More demo plots by varieties at Central Labs
 - i. Various
 - 1. Types of trellising
 - 2. Varieties of grapes
 - 3. Trials on other fruits
- d. Lab follow through with wine production
 - i. And other processing
- e. In a program to help lower fertilizer costs
 - i. Program to return pomace to vineyard where grapes came from
 - 1. Inform us growers what we can do
- f. Be more visible in the community as a whole
 - i. In the Ag. Community, the Team is very well known
 - ii. In the larger community as a whole, not known well
 - 1. Funding for their program is critical
 - a. We growers need the program
 - i. But the funding comes from government
 - 1. Need to have positive relationships with government
 - a. They must know what team does
- g. Be more timely in your response
 - i. Example cited by Bill:
 - 1. Andy Landers of Cornell
 - 2. Was going to get me information on funneling air from a Kilkedere (sp) Sprayer- used one I wanted to buy
 - a. I've had nothing back in over a month
 - i. I may have to build my own now
 - 1. We'll have to copy it and build ourselves
- h. They should have more of this type of meeting
 - i. This is very good

7. **The Lake Erie Grape Program – What Have They Done That's Positive, That's Bad, That Shouldn't Have Done, That Should Do:**

- a. **Good – Positive:**
 - i. Let us have wine tasting as some meetings
 - ii. All are good always at getting back to us
 - iii. Timely
 - iv. They worked to unify us as growers
 - v. Barry Shaeffer helped growers with economics
 - vi. Lots of long term research information to growers
 - vii. Spend a lot of time with the younger generation coming in
 - viii. Real effort to hold small group meetings
 - ix. Involvement with Horticulture Society, putting on functions
 - x. Give us info
 - xi. Sometimes, their computer is not so good
 - 1. Send info in US Mail
 - a. My computer – I don't know how to use it
 - xii. NY and PA have both added positions
 - 1. Gives us expanded opportunities for education

8. **How Do You Like to Get Your Information?**

- a. US Mail over e-mail
- b. I prefer e-mail
- c. I don't like the e-mail facet
 - i. Not sending as attachment
 - 1. Too much "tailing"
- d. Face-to-face is better
 - i. But "timely" face to face
 - ii. We need more meetings
- e. Major Growers – those who make a living from growing make up 350 to 400 growers
 - i. If you add in the "part-time" growers who have another source of income – close to double – 600 to 700 growers
- f. Welch's – 85% of their grapes are grown by 25 % of the members
 - i. Welch's has 1300 members, nationally
 - ii. Welch's allows one vote per name
 - 1. Whether you are big grower or hobbyist
 - 2. On certain issues, like should we sell the cooperative, the voting is weighted proportionally to the size of your business with Welch's
 - iii. (Note: the night before (March 13, 2007), Welch's had a meeting with the members of the co-op. At that meeting, management told growers that the growers had been paid too much for their crop in the August 2006 payment, and that the next three payments due the growers would be very small. The next payment would only be \$1.00 per ton. The young growers we saw in the morning meeting at North East viewed this as a disaster, and wanted the scalps of Welch's management. They were dismayed that the older growers took this in their stride, saying they had weathered situations like

this in the past. The young growers could not believe that they had seen their best year ever in 2003 [grapes at \$350 a ton] and in three years they were at the brink of disaster.)

9. **Round the Table – Issues You Want to Raise**

- a. Nothing yet.
- b. Business education and skills as operators.
 - i. We need to improve these
 - 1. We do not emphasize them enough/
- c. Nothing
- d. Larger farmers are building innovative machines
 - i. If they were a big industry, they'd patent them
 - 1. These farmers are too small for a patent
 - a. To go through rigmarole of the patent procedure
- e. I'd like to see how the economics we experience now affect families
 - i. Research in family life
 - 1. Aim is to help people
 - ii. And not just growers, but anyone economically affected
 - 1. Like car dealers
 - 2. Like equipment dealers
- f. Nothing
- g. Different marketing ideas
 - 1. The numbers on different crops
 - a. The real dollars and cents economic analysis
- h. Nothing
- i. I work with lots of different agricultural industries
 - 1. If they do better, I tend to do better.
 - 2. They are greatly affected by fertilizer prices, chemical prices
 - a. They know what they need to do
 - i. But they can't afford to do it
- j. Not just grapes
 - i. But any farmer
 - 1. Bigger growers
 - a. We feed the world, but we are not paid for what we do.
 - 2. Our farm
 - a. We have all that equity
 - i. A dairy farmer lives from day to day
 - ii. Now, same happening to grape growers
 - 1. We're day-to-day today
 - iii. Why can't we get loans at a small interest rate?
 - 1. Can apples do that?
 - iv. In overseas markets, the government allows loans to US industrial exporters

- k. The Extension Lab should have two open houses a year
 - i. Let the farmers and community see what they're doing
 - 1. Show developments
- l. No word "vinifera" up there on your sheets
 - i. John grows vinifera
 - 1. Now go to John
- m. Academia can do research and testing
 - i. But we're trying to make a living
- n. This country is dependent on foreign oil
 - i. We can't be dependent on foreign food
- o. "We'd like the information from Extension Team 2 to 3 weeks ahead"
 - i. "When will we get the stuff we need for this spring?"
- p. Can our local Grape Team coordinate sharing with Michigan or Virginia growers?
 - i. A meeting with them?
 - ii. A visit to them some time?
- q. Les: If there's anything else you want to add e-mail me at lmalcovi@stny.rr.com or phone me anytime, seven days a week, between 5:00 a.m. and midnight.

Talk went on until 3:30 p.m.