



What can VineBiz help me to do?

WGGA's VineBiz Financial 'Ready Reckoner' is a financial modelling tool kit which is designed to help wine grape growers analyse their current business model, determine changes that will improve financial performance and assess alternatives that can enhance profitability over the longer term.

The 'Ready Reckoner' comprises a series of Microsoft Excel® spread sheets which are easy to use, whilst providing the degree of sophistication necessary for grape growers to identify and make decisions involved in managing wine grapes and/or restructuring their business. The reports generated are suitable for vineyard business record keeping, generating forward projections and presenting up to date information to finance providers.

The program is divided into three sections, which includes '*Basic Data Input*', '*Advanced Options*' and '*Analytical Tools*'. This article will focus on the '*Basic Data Input*' section and getting started.

How do I get started?

To get started using *WGGA's VineBiz Financial 'Ready Reckoner'* you will need to enter data into two sheets.

Vineyard Data

- Management unit details (block or patch name, variety and area in production) and income per management unit (tonnes produced per block/patch and \$/tonne per variety).

Operating and Overhead Costs:

- Operating and overhead costs can be sourced from farm records or from '*Profit and Loss*' or '*Income*' statements prepared by the accountant at tax time.

A description of each cost area is provided to assist grape growers to allocate their costs. A 'hands on' exercise is included in VineBiz workshops to assist grape growers to complete this task. Once the data is entered, the program automatically calculates the cost of production for each cost descriptor as a standardised unit (\$/hectare). This information is then graphed to provide a visual indication of the highest cost items and the '*Gross Margin*' for each management unit. This data can also be used for regional benchmarking studies.

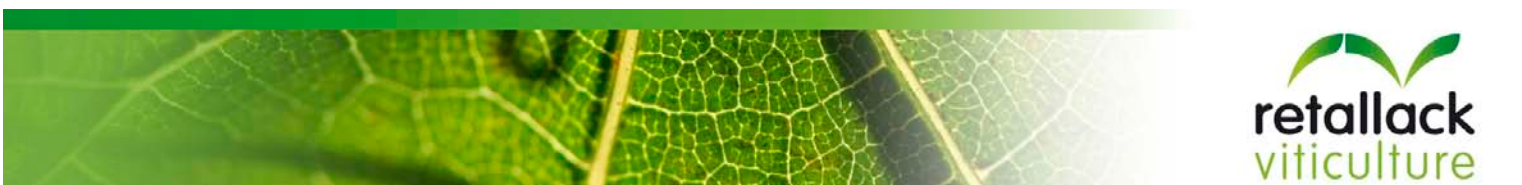
Gross Vineyard Income less Operating Costs = Gross Margin.

This provides a quick snapshot so that grape growers can determine if each management unit is paying its way.

What is next?

Once you have started with the '*Basic Data Input*' section you may wish to go to the '*Advanced Options*' section. This will allow you to input additional data and provide additional reporting options.

For more information about VineBiz, to register your interest to attend a workshop, or to purchase a copy of the VineBiz Financial 'Ready Reckoner' contact WGGA on (08) 8362 9802.





With the release of the indicative regional winegrape prices each vintage, growers are questioning the prices needed to cover their **cost of production** or 'short run' costs, which includes both **operating and overhead costs**. Given the additional disease pressure that has been experienced in many regions recently, **operating costs** have escalated, most notably for the purchase and application of chemicals (which have been in short supply) to control Downy and Powdery Mildew, and bunch rots. Some savings may have been made due to the lower requirement (and spot market price) for purchasing water, but it is unlikely this has been sufficient to offset the additional costs of crop protection and any subsequent crop loss.

The '**Gross Margin and Profitability Sensitivity Analysis**' contained in the **WGGA's VineBiz Financial 'Ready Reckoner'** can be used to give a quick snapshot of the price required to cover the **cost of production**. For example, if the **operating cost** is \$4,500/ha and the **overhead cost** is \$2,000/ha, the total **cost of production** is \$6,500/ha. These figures can be calculated from the 'Profit and Loss' or 'Income Statement', prepared at tax time.

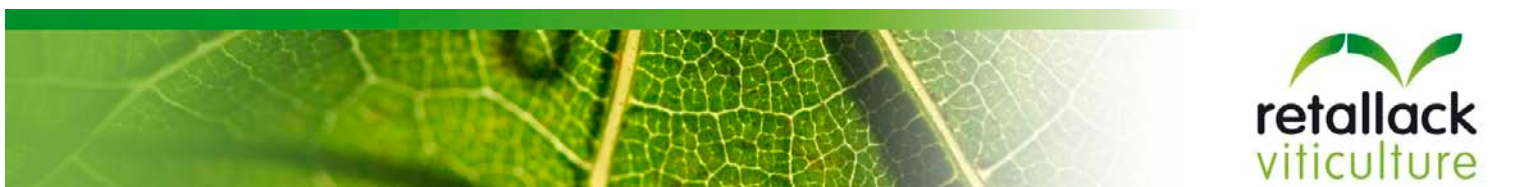
By inserting operating cost (\$/ha), overhead cost (\$/ha), price (\$/t) and yield (t/ha) into the **sensitivity analysis**, it will generate a range of break-even scenarios and a grape grower can quickly identify the price needed (\$/t) to generate a adequate return to cover both the **operating and overhead costs** for a particular management unit.

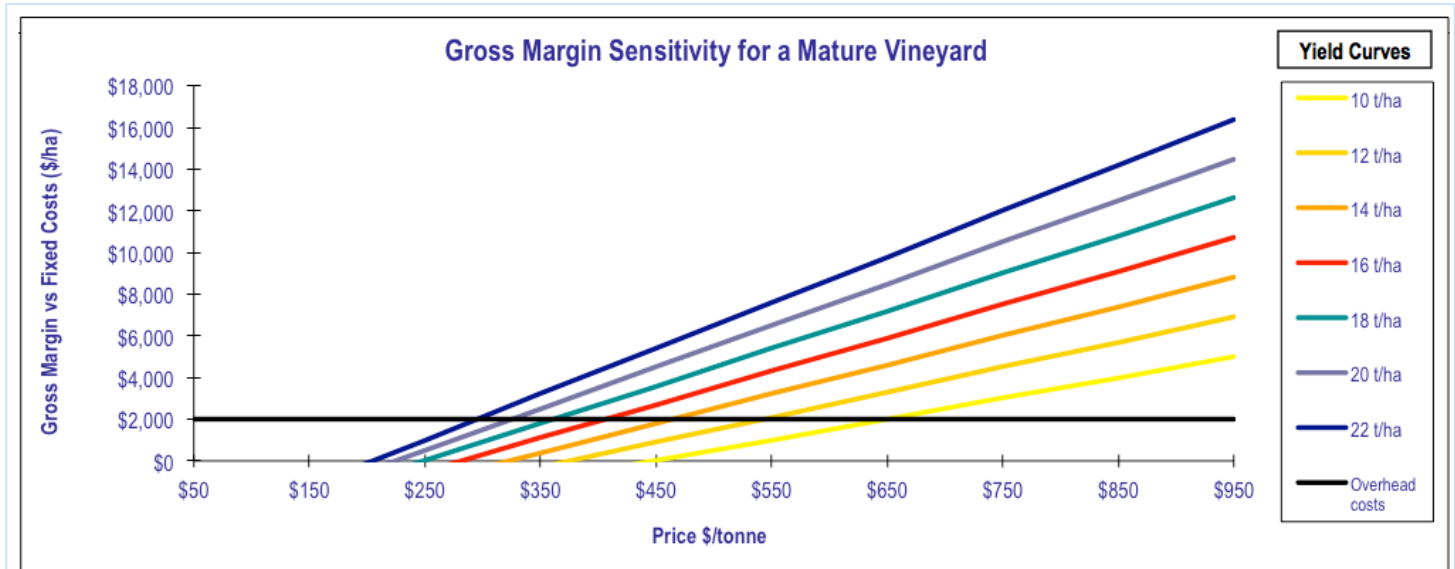
Advanced Data Input & Report - Gross Margin & Profitability Sensitivity Analysis - Wine Grapes (\$/ha)

Operating Cost (\$/ha)	\$ 4,500		Overhead Cost (\$/ha)	\$ 2,000			
Price (\$/t)	Yield (tonnes/ha)						
	10 t/ha	12 t/ha	14 t/ha	16 t/ha	18 t/ha	20 t/ha	22 t/ha
\$ 50	\$ (4,000)	\$ (3,900)	\$ (3,800)	\$ (3,700)	\$ (3,600)	\$ (3,500)	\$ (3,400)
\$ 150	\$ (3,000)	\$ (2,700)	\$ (2,400)	\$ (2,100)	\$ (1,800)	\$ (1,500)	\$ (1,200)
\$ 250	\$ (2,000)	\$ (1,500)	\$ (1,000)	\$ (500)	\$ -	\$ 500	\$ 1,000
\$ 350	\$ (1,000)	\$ (300)	\$ 400	\$ 1,100	\$ 1,800	\$ 2,500	\$ 3,200
\$ 450	\$ -	\$ 900	\$ 1,800	\$ 2,700	\$ 3,600	\$ 4,500	\$ 5,400
\$ 550	\$ 1,000	\$ 2,100	\$ 3,200	\$ 4,300	\$ 5,400	\$ 6,500	\$ 7,600
\$ 650	\$ 2,000	\$ 3,300	\$ 4,600	\$ 5,900	\$ 7,200	\$ 8,500	\$ 9,800
\$ 750	\$ 3,000	\$ 4,500	\$ 6,000	\$ 7,500	\$ 9,000	\$ 10,500	\$ 12,000
\$ 850	\$ 4,000	\$ 5,700	\$ 7,400	\$ 9,100	\$ 10,800	\$ 12,500	\$ 14,200
\$ 950	\$ 5,000	\$ 6,900	\$ 8,800	\$ 10,700	\$ 12,600	\$ 14,500	\$ 16,400

The sensitivity analysis compares the revenue generated for each yield (t/ha) and price (\$/t) combination, less **operating costs**. The break-even points in the table are identified in the following coloured text:

- > Red = the operating costs are not covered,
- > Blue = the operating costs are covered but overhead costs are not fully covered, and
- > Green = both operating and overhead costs (total cost of production) are covered, producing a positive return.





These interactions are presented in the figure (below the table). The **operating costs** are covered at the point along the x-axis (bottom line) where the different yield (t/ha) lines start. This indicates the minimum price (\$/t) needed to cover the **operating costs**. The intersection of each coloured yield line with the black horizontal line represents the point where both **operating and overhead costs** are covered (and the \$/t needed to cover the total cost of production), this needs to occur before any 'short term' profits are realised.

For example, if you have a **total cost of production** of \$6,500/ha, the yield is 20t/ha and \$250/t is received for the grapes, this generates a possible return of \$5,000/ha. This is sufficient to cover the **operating costs** (those costs which directly contribute to the growing of the crop) of \$4,500/ha, but this only contributes \$500/ha (in blue on the table) towards the **overhead costs** (the costs required to maintain the running of the business regardless of the area in production). In this scenario there is still a shortfall of \$1,000/ha to cover the **cost of production**. Assuming the property is 20 hectares in size, this will result in a loss of \$20K for the vineyard in that season.

On the other hand, if a grower receives \$350/t for the same grapes, this generates a possible return of \$7,000/ha and this is sufficient to cover the total **cost of production** in this scenario with \$500/t left over, this equates to a \$10,000 return once the **cost of production** is covered on a 20 hectare property. Once all of the 'short run' bills are paid, this money could then be used to service debt, repay an overdraft, pay for owner's drawings or contribute to 'long run' costs such as the replacement of machinery or paying principal loan payments. In this scenario, the difference between a grower incurring a loss of \$20K, or a return of \$10K, is the difference of receiving an additional \$100/t for the grapes.

If your production for a particular variety is capped at 20t/ha, divide the total cost of production (\$6,500/ha) by 20t/ha = \$325/t is required to cover the cost of production (including picking and transport costs).

Growers should be mindful of putting their effort (and resources) into those management units that provide the best return and to grow fruit that is 'fit for purpose'.

