

# THE BYZANTINE CANADIAN WINE MARKET

With nine monopolies and one free market, thanks to the hangovers of Prohibition, doing business in Canada can feel a lot like working in ten countries. But as they all begin to move together in a consistent fashion, are consumers' interests being served? Tony Aspler goes looking for answers.

To understand the intricate world of the Canadian wine market you have to go back to 15 September, 1916, the date when the Ontario Temperance Act was passed. Under its statutes all bars, clubs and liquor stores would be closed for the duration of the First World War. Within 12 months, all but one of Canada's provinces went dry. Quebec, which marches to a different drum in these matters, held out until 1919 and then proscribed the sale of spirits, but not that of wine or beer.

When Prohibition was lifted in 1927, each of the ten provinces regulated the sales of alcoholic beverages through government monopolies. The emphasis was on 'control' and even today the provinces of Manitoba, Prince Edward Island and Ontario still maintain the term 'control' in their corporate name.

On 2 September 1993, Alberta became the first province to privatise liquor retailing, warehousing and distribution. This happened overnight, catching the industry by surprise. Before that date, the Alberta Liquor Control Board operated 202 retail outlets with a further 23 wine stores and some agency shops in outlying areas. As of April 2007, those numbers had grown to 1,056 private retail liquor stores and another 88 general merchandise liquor stores in rural areas of the province. Not only did Alberta privatise, but it also lowered taxes on wine to \$3.50 (€2.43) per bottle. Private retailers normally only mark up by 20% to 30%, which means a C\$10 (€6.91) bottle of wine ends up on the shelf at around C\$17.50 (€12.10), making Alberta the most attractive market to shop for wine in Canada. Add to this the fact that there are four to five times the number of stock keeping units (SKUs) in Alberta than in Ontario, Quebec or British Columbia - the largest wine markets in Canada, which together account for nearly 90% of all wine purchases - and you have a buyer's paradise.

To do business in Canada, apart from Alberta, means dealing with the liquor boards, who are both buyers and distributors. As a whole, the Canadian wine market, according to estimates from the trade, runs at around 38 million cases, at least two-thirds of which is imported. The total market value for both for imports and home-grown wine was valued in April 2006 at over \$6.6 billion (€4.57b), with suppliers from Australia, France and Italy leading the way. Quebec, which has the

highest per capita consumption at 18 litres, drinks mainly red wine - the majority from France - while the rest of the country drinks both red and white. Anthony von Mandl is a Vancouver-based wine importer and the sole proprietor of Mission Hill, a local winery in the Okanagan Valley. His importing agency, Mark Anthony Group, represents wines from places like Champagne, Chile, South Africa

and California, so he knows the trials and tribulations of dealing with government monopolies for both domestic and imported wines. "I think Canada is an extraordinarily interesting market for international wines," says von Mandl. "Given that Canada is a wine producer and that such large proportions of the wines sold in Canada are actually imported. Extraordinary when you compare it to Australia where 95% of wines consumed are Australian."

One of the things he says he's observed is the growing sophistication of Canadians and their willingness to try wines from a much wider spectrum than their neighbours south of the border in the United States. A great example is the wines of South Africa. "The only challenge that international winemakers face is pricing.

Canadians are not able to afford some of the really expensive wines simply because of high mark-ups," he says. "The opportunities for those wines are quite limited. Particularly difficult is the on-premise side. Because restaurateurs effectively have to buy at retail, it makes for very high priced wines."

Canadian liquor outlets offer wines from all over the world. In Ontario, for example, you can get wine and spirits from 70 different countries, as well as the local offerings from some 300 wineries. Because of the wide selection, producers interested in entering this market really need a point of difference, says von Mandl, either something new in terms of a region or in packaging and pricing.

There are, of course, big differences between the provincial markets, with geography and ethnicity playing a major role in consumer choice. Wine lovers behind the Rockies, on the West Coast, look to California, Australia, Chile and Argentina. In Ontario, with its large ethnic population, the emphasis is more European. There are 600,000 Italians in Toronto alone and the sheer number of

1	Benchmark Data	www.ca
Inhabitants:		32.5 million
GDP:		US\$ 1.1 trillion
Currency:		CAD (100 CAD = \$ 69.6)
Per capita wine consumption:		14.2 litres
Total wine consumption:		350 million litres
Legal drinking age:		18



Italian restaurants in the province has a major influence on the industry. The market here is very price sensitive, so when Australia was perceived to be good value, their producers made enormous strides. Quebec is resolutely French in its focus although, ironically perhaps, the Quebecois are the largest consumers of Port in Canada. Again, though, this is a French custom, with France being a major Port market in Europe as well.

*Finding a way into the market*

The question for suppliers is how to get into the market. According to Duncan Hobbs, President of the Charton-Hobbs Group, a leading importer based in Toronto, "the largest hurdle is probably agreeing with the supplier on the products they would like to sell and then having the Liquor Control Boards agree that they would like to purchase them." He says the monopolies call for specific products in certain price ranges. The importing agent then has to find products that fit.

The time between the 'call' and the product ending up on Liquor Board shelves can vary from three to 18 months. Unless the liquor boards go directly to a producer for a specific wine, such as Bordeaux classified-growths for example, every producer needs representation in Canadian markets. It's one thing to have the liquor boards across the country agree to list the product, it's another to follow the procedure from the time of listing approval before that product hits the shelves. The product has to be processed, it has to go through laboratories to be tested and samples from the first shipment have to be retested, confirming that they match what the Board had agreed to purchase. Then comes the business of building distribution, establishing awareness and marketing the brand with the various outlets, be it liquor stores, hotels, restaurants or the consumer.

Chris Hoffmeister, director of sales & marketing at Import Brands for the Mark Anthony Group, explains how to go about getting a wine into the Canadian market. "If you feel you've got a product that has a mass market appeal, then the way you'd do it is to get an agent. With the agent you build a business case to have that wine in the marketplace knowing what is also available in that category and price seg-

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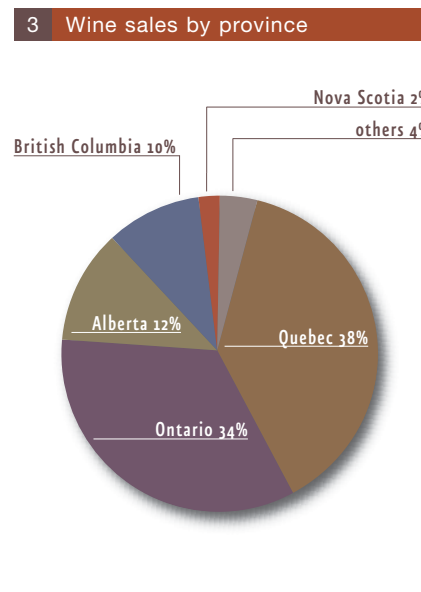
» Canadians are willing to try wines from a much wider spectrum than our neighbours south of the border. «



Anthony von Mandl, Vancouver-based importer

ment." The next step is to take it to the liquor board and demonstrate that you've got a sales plan. "A brand from South Africa that we worked from nothing to 30,000 cases was Obikwa. Four years ago Distell had looked at the international wine trends and said concept labels that featured critters seemed to be doing well in the marketplace, so they styled a wine that was tailored to the entry level wine consumer. We took that proposition to the (BC) liquor board in conjunction with our supplier and an aggressive marketing plan." Hoffmeister suggests that brands under C\$12 need to have anywhere from C\$3 to C\$5 promotional dollars spent on them per case. "You might front-end all of that, meaning that you plan to sell 10,000 cases over the course of a year so you spend all of that in two months right up front. We spent on image programming such as contests and a lot of in-store tastings." He also advises that in-store events are an excellent way to build both consumer awareness and liquor board confidence. "And then there's above the line promotion - advertising that was very specific to the demographic of 25 to 34 year-old entry level consumers. So we went after media in free community publications."

Ontario, with its population of 12.5 million, is Canada's largest market, whose Liquor Control Board boasts that it's the world's largest purchaser of beverage alcohol (though this may be disputed by Tesco). The Board's five-year strategic plan was based on a branded vision called 'Discover the World' that called on its employees in some 600 stores 'to take the mystery out of the bottle and the perceived risk



SOURCE: W.S.S.I.V. DATABASE

SOURCE: STATISTICS CANADA, 2006

## MARKET WATCH

out of the purchase.' The subtext of this message should be to make the wines of the world available to its consumers. This happens in Vintages stores more successfully than in the general product stores, where the 20% of top sellers appear to receive 80% of the shelf space.

### Attracting consumer attention

Shari Mok Edwards, director of sales and purchasing at Vintages, says that California currently has a strong marketing presence thanks to aggressive local representation by the California Wine Institute. The marketing companies that service the accounts for Australia, New Zealand and Chile have also proved successful in keeping their brands in the public eye through in-store promotions, annual travelling winemaker road-shows, winemaker dinners and media advertising. "One of the most successful promotional organizations is SOPEXA," says Mok-Edwards. "They did a great job bringing the Burgundy and Bordeaux producers to Ontario."

France, represented by SOPEXA, currently does the best promotional job of all the Europeans, which has caused a turnaround in the flagging fortunes of French wines. "Of the New World regions, California is very much in tune with what's happening," says Mok-Edwards. "They hosted a number of senior buyers from the LCBO last year to go out and learn about new and different areas the buyers may not have known about."

Ultimately, the success or failure of a product in the market comes down to promotion. According to Javier Santos, the LCBO's Business Unit Director, "when you do a smaller country (in-store) promotion you get a bigger impact. In the case of Latin Fever, which we ran last February with Chile and Argentina, we almost doubled the business of the previous year. The spillover effect was pretty good. Those two countries are growing pretty fast after the promotion. The whole wine category is growing 14%, but you can still see that Chile and Argentina benefited a lot from these small country thematic."

Virtually every month the LCBO has a promotion that includes end-aisle displays, shelf-talkers, limited time offers, contests and Air Miles. "Air miles are pretty effective," says Santos. "The LCBO allots

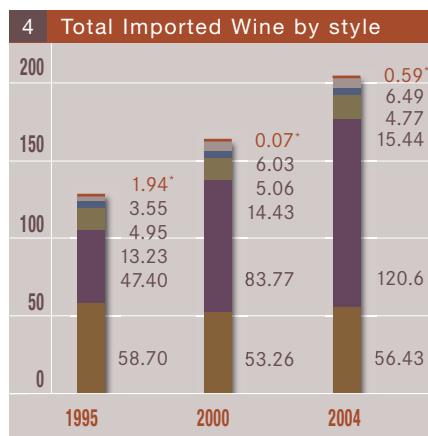
certain products two to four Air Miles once a month, according to how much the supplier is willing to buy."

The most successful promotion in the LCBO's history was the introduction of Boisset's French Rabbit, a wine in Tetrapak. This first major step in alternative packaging was an environmental initiative taken by the Board to cut down the number of glass bottles that end up in landfill sites. "We worked very hard as a company with them to develop and promote French Rabbit, which was one of the first big launches that we've done," says Santos. "Recently, we followed with Yellow Jersey. Boisset as a brand is very, very strong in our market."

Since you cannot show anyone drinking alcohol in Canadian television advertising, producers rely heavily on the wine press to get their brands noticed. Consumers come to the stores with the columns in hand of popular newspaper and magazine wine writers to follow their recommendations. "The press can establish trends," says Duncan Hobbs. "Certain journalists in Canada have written about categories or brands and they've made a huge difference." He gives the example of Port, which has made a huge impact in Quebec that can be directly attributed to a few journalists who made a point about writing regular articles on the topic. "In the case of new products from countries where the majority of consumers aren't purchasing, it's just blown all of our expectations out of the water," he goes on. "For example, take Finca Flichman's Malbec in the province of Quebec. We forecast 15,000 cases in the first year. The press got hold of this wine and the articles were glowing reviews. In this calendar year we've shipped 80,000 cases."

Chris Hoffmeister agrees. "We have documented cases of a wine that's selling 50 to 100 cases a month in British Columbia and then it gets some press in the newspapers or wine magazines or gets an award," he says. "With shelf talkers and shelf materials it takes off and does 300 or 400 cases a month."

Quebec has always been a special market, served by the government-controlled Société des alcools du Québec (SAQ). The SAQ use three criteria for selecting wines: the quality, the press the vintage received, and the promotional budget behind the launch of the



Legend:  
 White Table Imported (dark blue)  
 Red Table Imported (purple)  
 Other Imported (light blue)  
 Sparkling Imported (orange)  
 Rose Table Imported (grey)  
 Ice Wine Imported (red)

Table 4: \* Ice Wine in thousand litres, others in million litres

**5 Top Ten Brands in Canada**

Rank	Brand	9L cases
1	Yellow Tail Shiraz	347,937
2	Gallo Family Vineyards White Zinfandel	238,967
3	Wolf Blass Yellow Label Cabernet	232,531
4	Hochtaler White	230,750
5	Jackson-Triggs Sauvignon Blanc Selection	226,106
6	Shiraz/Malbec FuZion	224,574
7	Lindemans Bin 65 Chardonnay	216,579
8	Donini Merlot Delle Venezie	204,733
9	Fontana Di Papa Colli Albani	201,890
10	Carlo Rossi Burgundy	199,528

**6 Wine sales per adult in litres**

	1993	2005	change
Newfoundland & Labrador	3.9	5.4	1.5
Prince Edward Island	5.0	8.3	3.3
Nova Scotia	6.4	13.6	7.2
New Brunswick	5.8	9.1	3.3
Quebec	12.7	18.2	5.5
Ontario	9.6	12.9	3.3
Manitoba	6.4	8.8	2.4
Saskatchewan	4.7	6.2	1.5
Alberta	10.0	14.8	4.8
British Columbia	15.6	16.2	0.6
Canada total	10.6	14.2	3.6

SOURCES: STATISTICS CANADA, CANSIM, TABLES 061-0001 AND 103-0015

wine as well as an on-going commitment, whether it's advertising in the liquor board's magazine Tchin Tchin, (an expensive proposition), or other media. In its 2005 annual report, the corporation reported that through their 408 outlets and 400 agency stores, 66.3% of their sales were table wines, 15.7% were spirits, 8.9% were coolers and sangrías, 5.4% special occasion beverages (Champagne, rosé and Port) and 2.9% apéritifs. "The Quebec model that we're seeing is more closely related to the Walmart school of retailing," says Michel Marentette of the Montreal-based Whitehall Agencies. He explains that the general listing category is becoming restricted to large volume brands backed by significant budgets. Some of the major players who have been selling in Quebec for years, like Mouton-Cadet, are well positioned because they have distribution. "The problem is the merchandising and promotion costs are becoming significant to the point where new players coming into the market are facing very substantial costs to play the game. So what's happening is that intermediate and small producers are focusing on other markets in Canada or looking for the specialty business."

New products listed by the SAQ have to meet a sales quota. If your quota is \$500,000 retail sales for the year, you have to make \$750,000 in your first year in order to maintain your listing. What companies have been doing is to raise the price artificially to ensure they stay in the market. Consumers see a C\$12 wine suddenly becoming a C\$15 wine so that suppliers can generate enough turnover so they can pass it on to the liquor board. Promotions in Quebec are undertaken largely to save listings, which means existing brands have to spend money just to stand still. If you reduce your price, you can't put a neck tag on the bottle unless you're part of a promotion, which you have pay for, so you have to pay to tell consumers you've lowered your price.

*Ten different countries*

With nine monopolies and one free market across such a vast country, it can feel like dealing with ten different countries. But according to Duncan Hobbs, "all the monopolies are working in a more consistent fashion across the country than they ever have. Twice a year the liquor

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Shari Mok Edwards, director of sales and purchasing, Vintages

boards meet on a national basis and ensure that their best practices are being reviewed." Producers can follow the market by ordering The Red Books, put together by the Canadian Distillers, which offer statistics of sales of wines and spirits.

Spirits tend to be more involved in promotional activity simply because they generate more revenue. Wine produces less revenue per case, so promotions tend to be undertaken by countries or regions rather than individual brands. Over the last ten years analysts have seen a huge influence from Australia that is apparently waning as the Australians reduce their spending. California, by contrast, is more active than in the past, while the Champagne category is on fire nationally. The big challenge for monopolies is getting enough stock of the great brands in high demand. Allocations of names like Roederer Cristal, Dom Pérignon and Krug are limited.

The monopolies, because of their purchasing power, will obviously seek to leverage prices, to ensure the consumers pay the very best price for their wines. But this, paradoxically, ultimately impacts what's available to consumers. If suppliers only have x number of cases and can sell them at a 20% premium in the state of New York, why would they ship them to a market where they're forced to accept 20% less? Finding and maintaining an allocation for the world's great brands becomes a balancing act. It's particularly hard to ensure supply of fine wines in very limited supply when the producer, after all, only has so many cases available to the entire world. ■

7 Imports by Country in '000 cases of 9l

Country	2000	2001	2002	2003	2004	2005	2006		-10	0	10	20	30	40
Australia	1,241	1,556	2,045	2,709	3,585	4,244	4,481				5.60 %			
Chile	1,665	1,637	1,624	1,568	1,640	1,625	1,664				2.37 %			
USA	1,531	1,495	1,476	1,536	1,698	1,904	2,130				11.88 %			
Argentina	195	241	234	352	563	744	1,024						37.70 %	
South Africa	235	265	295	365	438	612	739						20.90 %	
New Zealand	53	66	75	91	108	177	242						36.55 %	
France	5,537	4,883	6,016	6,010	5,436	5,417	5,580				3.01 %			
Italy	3,229	3,603	3,990	4,328	4,348	4,465	4,803				7.56 %			
Spain	712	790	883	1,097	795	918	1,125						22.55 %	
Portugal	205	211	209	228	266	298	326				9.27 %			
Greece	134	127	123	128	113	103	98				-4.82 %			
Hungary	129	119	112	109	99	85	79				-6.98 %			
<b>Total Imports</b>	<b>15,228</b>	<b>16,347</b>	<b>17,423</b>	<b>18,835</b>	<b>19,724</b>	<b>21,186</b>	<b>22,923</b>				<b>8.20 %</b>			<b>Change 2005 to 2006</b>

SOURCE: W.S.S.I.V. DATABASE