The future of Canadian wine exports: lessons learned and learning from the best

CCOVI Lecture Series Presentation by
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Canadian Wine : Presentation Overview

1. Why Export?
2. What have we done?
3. What have we learned?
4. What next?
5. Q&A

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Canadian Wine : Why Export?

- Canadian wines are relatively unknown – we're not out there in terms of exports or the international network
- "Nobody knows what Canada is doing or that we even exist, we are not known internationally" (A Gismondi)
- Contrast this with what is said about Canada is making world class wines, recognized internationally
- " Our vision is to see the markets for Ontario grapes and wines expand domestically and internationally, on a continuous basis – always finding new markets for our products. Ontario-grown grape products will be demanded at home and recognized internationally." (GGO)
- "We continue to work with our wine and grape industry to build on the successes of our VQA wines here at home and on the international stage. Our long-term vision is a wine and grape industry that is increasingly competitive and successful, offering products that are recognized across Canada and around the world." (*Sophia Aggelonitis, Minister of Consumer Services)*

Why Export?

- International recognition builds domestic brand equity, influences domestic pricing
- Raises the bar on domestic competitiveness
- Other great regions/wines have used export to increase the reputation of their wines i.e., New Zealand, First Growth Bordeaux, Burgundy
- Great wine regions of the world have suffered when not exporting: South African wines under apartheid, Tokaji during the communist regime
- Provides long term economic sustainability and diversification of sales channels
- Wine tourism and exports can be mutually reinforcing or mutually exclusive: international reputation and exports fuel wine tourist visits; wine tourist visitors force wineries to make something for everyone and not focus on what we do best

Many will argue that Canada should not export until we *own the domestic market.* Problematic argument for several reasons:

- Domestic market ownership does not prepare wineries for export
- Many countries/producers have and can sell domestically and internationally at the same time
- The lure of the domestic market and incentives to sell domestically are what prevent the industry from looking seriously at export
- Ontario and BC support and encourage VQA producers to sell to liquor boards through financial incentives
- This is somewhat in contrast to this statement by ON government in its press release on the VQA Support Program: “Ontario is proud of the international recognition our VQA wines enjoy. We are committed to helping the province’s wine and grape industry build on its successes and evolve into a more competitive sector in the future while reducing unnecessary and cumbersome barriers to innovation and growth.”

Canadian Wine : What have we done?

- Canada was not known for quality wine exports prior to the 1990s
- Entry to exporting came largely with Icewine exports in the 1990s
- Icewine was already popular with Japanese tourists in Canada
- Building on this, Inniskillin model was to globalize Icewine by creating a product with increased pricing to sustain the high margin required to sell through duty free operators throughout Asia (“Inniskillin and the Globalization of Icewine”, Harvard Business School Case Study 2005)
- Price of Icewine was raised from $US30 (price in Canada) to $US65, to guarantee sufficient margin and ROI
- Original focus on duty free sales moved into duty paid
- Popularity of Inniskillin Icewine spawned the proliferation of Canadian Icewine producers, which led to oversupply along with the threat of imitation products

Canadian Wine : What have we done?

- New entrants led to over-supply of Icewine and producers without export experience or international distribution networks, resulted in price-slashing to recoup costs

- No no regulation of production of Icewine in Canada, like for Cognac in France where the “French Bureau National Interprofessional du Cognac regulated production. So it always remained a scarce and in-demand product”. (Harvard Business School case study)

- VQA ON has no jurisdiction over supply of wine/Icewine, so when supply increases exponentially, pricing is driven downward

- Due to prevalence of fakes, new entrants and the price cutting, Roger Provost, former Chief marketing officer for Vincor International, mused “whether it would be more profitable to produce 10 bottles of table wine, which is the equivalent yield of one bottle of Icewine”

- Over the past decade, others have questioned whether Icewine is a fad whose time has passed, or whether it is simply a matter of creating more demand or finding the markets where Icewine drinkers are?

Canadian Wine : What have we done?

- Today we continue to be a large producer of Icewine (~1 million litres in 2010, increase from ~33,000 litres in 1993
- Production of Icewine is up in both ON + BC this year, with Nova Scotia and Quebec continuing to make increasing amounts
- Growing movement move away from Icewine as our flagship has contributed to mixed messaging as to who we are: Icewine, high quality table wine, value-priced table wines, CIC wines?
- Thought by some in the industry, and government, that Icewine could be used to create a pull-through opportunity for table wine
- This is largely untrue as the Icewine strategy (rare, expensive, scarce) is proving inappropriate for Canadian table wines
- Currently around 50 producers exporting with export levels having rebounded after a period of decline

Canadian Wine Exports 2010

- Total value: $27,850,792
- Total volume: 14,888,923 million litres

(includes table, sparkling, Icewine, fortified, grape must)

Canadian Icewine Exports 2010

- Total value: $12,030,676
- Total volume: 171,503 litres

Top Export Markets for Canadian Wine, 2010
By value/volume

- USA: $9,656,998 / 14,007,231 litres
- China: $9,148,405 / 462,132 litres
- Hong Kong: $2,241,293 / 170,253 litres
- South Korea: $1,618,111 / 23,289 litres
- UK: $1,111,190 / 40,612 litres
- Singapore: $999,681 / 17,575 litres
- Taiwan: $635,801 / 24,144 litres
- Japan: $562,858 / 23,476 litres
- Switzerland: $514,545 / 11,560 litres
- France: $305,293 / 29,997 litres

Canadian Wine : What have we learned?

Export Pilot Project: Sustained focus, coordinated efforts in limited markets

- Chicago Pilot project (3 years) with focus on in-bound visits by sommeliers, distributors and media, to assess and evaluate quality and market viability of ON + BC wines for export
- joint government/industry efforts with sustained, intense focus
- In-market activity and meetings with trade/distributors to generate distribution, listings and buzz
- Reports following inbound missions with candid views and impressions on the quality and market viability of wines seeking distribution in the US market, shared with industry and government.
- Information was used to determine how best to implement the Chicago pilot project strategy for market entry and increase listings

Canadian Wine : What have we learned?

General observations (from Chicago and UK missions):

- We are not widely known within the wine trade, with the exception of Icewine
- Lack of brand identity, too many conflicting messages
- Diversity for a small growing region is not a strength, demonstrates lack of focus
- Support a planting strategy rather than experimentation by growers/producers
- Make more whites and stick to varieties that do well – Riesling, Chardonnay, Cabernet Franc, Pinot Noir (Syrah in BC)
- Wines in general are too expensive: Price vs. quality is crucial for unknown wines/region
- Leading with our best doesn't always mean highest price reserve wines, but best quality at a good price.

Canadian Wine : What have we learned?

- Product/brand inconsistencies and cool climate production challenges
- Most Canadian wines are sommelier*, hand-sell wines*
- Unfamiliarity with export, lack of training or sense of place in global market
- Fragmentation, lack of coordination of export activities/planning
- Know your audience and market, pitch and position wines accordingly

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- Wineries participate in missions, show their wines, then say they are not interested in exporting or don’t follow up with distributors who have shown an interest
- What’s up with that??

Canadian Wine : What have we learned?

- For export, we need to think like a sommelier and not like a marketer
- You can think like a marketer when you have volume, low costs/price points or when you are willing to tailor your products to the market
- Canada has none of the above, so we need to listen to the trade and influencers and respect what they are saying
- Understand the concept of good will, don’t expect winery visits/trips to directly result in sales/listings/distribution
- “A vital component of creating ambassadors and evangelists for a region and/or industry is to provide them with an opportunity to get to know producers, the people and the country. Avoid subjecting guests to poor presentations or to be placed in the uncomfortable position of having to interact with producers whose wines are of questionable or poor quality”

Is Icewine our Flagship?

- Challenging to sell Canadian Icewine in the UK and US markets (good markets for sweet wines but over-crowded
- Would be easier to sell Icewine if they were competitively priced
- Canadian Icewine is much more expensive relative to that from Austria and Germany, need smaller bottle sizes and focus on glass pours
- If focus is on Icewine, limit late harvest wines for tasting as it creates confusion and dilutes the Icewine category.
- Conflicting messaging around Icewine: presented as highly value-added, expensive to produce, risky and scarce. Seen everywhere - cocktails, chocolates, vinegar, jams, marinades, cooking……

From the mouths of sommeliers…

- “While it’s all about the wine in the glass, once I take on and list a wine, I am selling both the wine and the place.”
- "When selecting wines for my list, an important question is: What is the consumer NOT drinking in this price range if they chose a Canadian wine?“
- “Beside Icewine and reading about wine from Canada, I did not have a clue about what to expect. I have discovered that good quality wine can be produced in the regions we visited. Some already do, but the feeling I have is the majority still needs to find out what beside Icewine can be a synonym (sic) with Canada on the international scene”.
- “The quality was variable, entry level (quality) is difficult to achieve considering the diverse climatic challenge during the growing season. They can't really compete with easy drinking wines from warmer countries like Argentina, Chile, Spain...”

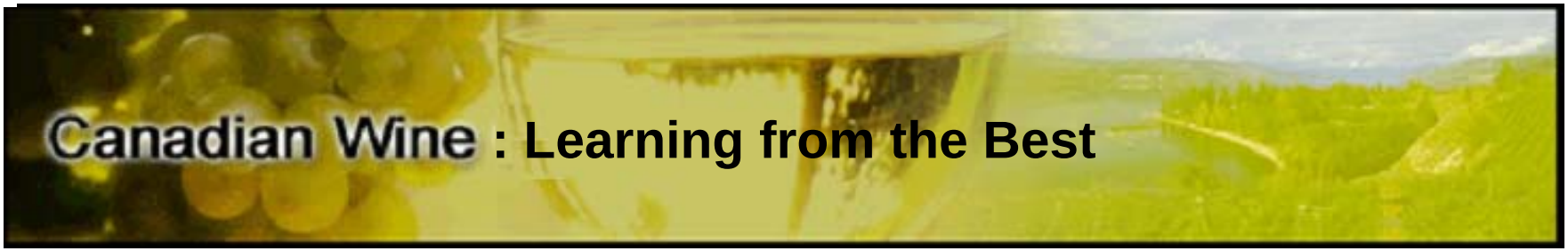
Canadian Wine : Pilot Project Learning

From the mouths of sommeliers…

- “The mid range (wines) worked better as the level of ripeness was higher but they were not too extracted and offered perfect drinkability. The top of the range were, with few exceptions, made in the winery and not in the vineyard and it showed, they could have come from anywhere, over-extracted, lack of structure and texture just big blockbuster, with not much finesse and the color fading very quickly after 3 or 4 years”.

- “Pricing was difficult to evaluate as we were never given any ex cellar prices and always Canada Retail. In Canada (the wines) may be competitive but I think very few wines over 30$ can compete with what is sold in Europe for the same price….”

- “Icewine prices are high comparatively with Germany and Austria where these wines are usually produced in lesser quantities and come out around 30% cheaper even though they are 100% hand harvested. . I found it strange that on one hand Icewine is really expensive by the half or 200ml bottle, and on the other hand you find it in almost anything: Jam, Chocolate, Cocktails, pastry, cooking... This devaluates the product more and speaks of glut. I would rather be able to sell it by the glass in the restaurant (the cost would need to be on the right side of £20 for a 375ml bottle) than desecrate it in a cocktail, Price wise, it is almost like using Dom Perignon as an ingredient! ”



Canadian Wine : Learning from the Best

Successful export sales strategies are based on the following:

Differentiation Strategy:
Special characteristics, price-premiumization, limited market share

- New Zealand (Sauvignon Blanc) and Oregon (Pinot Noir)

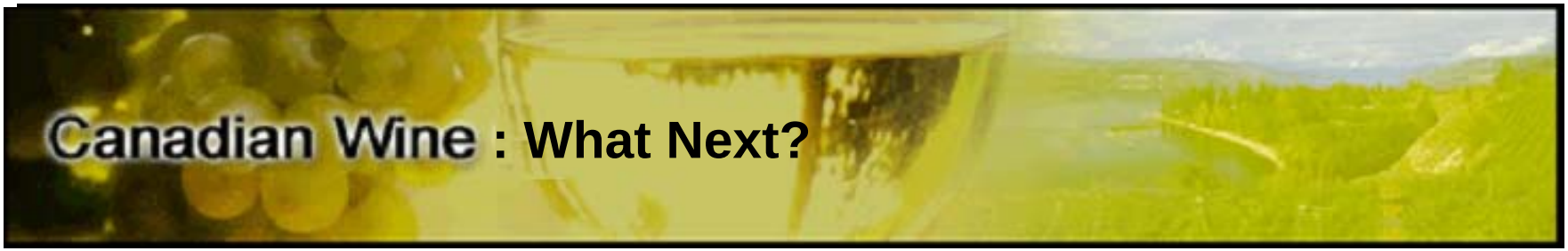
Cost Leadership Strategy:
High volume, low cost, large market share

- Australia, Chile, Argentina (Malbec)

Worst case scenario: No cost-advantage, no distinctive value: Canada

Best practices include:
Strong centralized leadership for strategic direction, planning and execution:

- New Zealand, Austria, California



Canadian Wine : What Next?

- Continued export training
- Improved coordination of activities/planning/execution
- Re-examination of markets and product mix
- Tailor activities to support international exposure and brand recognition among key influencers, wine writers, educators
- More producers collaborating in <u>several key markets</u> rather than individual producers in different markets
- Focused, sustained measures to ensure Canada is recognized internationally as a <u>small, but serious producer</u>

Questions?

Comments?

THANK YOU!