BRITISH COLUMBIA BEVERAGE SECTOR COMPREHENSIVE FRAMEWORK AND ASSOCIATED BENCHMARKING

Work Plan, 10 February 2022

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1. INTRODUCTION

1.1 BACKGROUND

Despite the significant role of beverage manufacturing in the British Columbia's economy and its contribution to provincial GDP, there is a lack of comprehensive understanding of the sector, particularly with respect to economic benchmarks, performance, and challenges and opportunities pertaining to successful, modern, and profitable operations across its different sub-sectors. To address the issue and advance opportunities for government and stakeholder partnership programs and other collaborative efforts, the BC Ministry of Agriculture, Food and Fisheries (AFF) commissioned Qatalyst Research Group to conduct a comprehensive review of the beverage sector in BC and prepare a framework to help guide the future development of the sector.

To develop the framework, Qatalyst Research Group is undertaking an extensive research which involves a development of a comprehensive overview of the of B.C.'s beverage sector, identification of major challenges faced by sector, SWOT analysis, development of industry benchmarks and cross-jurisdictional scan to identify some of the best practices implemented in other regions in Canada and abroad.

The key sub-sectors included in the review include breweries (including hops producers), wineries, fruit wineries, meaderies, cideries, and distilleries as well as selected non-alcoholic beverage sub-sectors (excluding bottled water and ice). The study was started in December 2021 and will be completed by June 2022.

1.2 WORK COMPLETED TO DATE

This project is being undertaken in three phases, each composed of multiple tasks. The phases are summarized as follows:

- **Planning** – The planning phase will allow us to gain a thorough understanding of the sectors and the key issues to be addressed. This detailed work plan is a key deliverable of the planning phase of the assignment defining the methodology for the research and containing the survey questionnaires as well as other data collection instruments.

- **Research** – The primary focus of this phase will be to systematically obtain input from a broad cross-section of stakeholders through industry surveys, key informant interviews, industry roundtables, and a cross-jurisdiction review.

- **Reporting** – The purpose of this phase is to present the findings and conclusions in a format that is accessible and useful for the primary audiences and stakeholders. More specifically, we will develop a comprehensive profile of the sectors, benchmarking analysis, and a draft and final report.

The work that has been completed in Phase 1 is described below:

- **Met with representatives of the BC Ministry of Agriculture, Food and Fisheries (AFF)** to confirm the scope of the assignment and the desired outputs, agree on project timelines, and access program documents and administrative data.

- **Conducted preliminary review of documents and files associated with BC beverage sector**.

The purpose was to develop a richer understanding of the sector, assess available documents and data, and identify issues and challenges associated with the research. Some of the documents and files reviewed included:

- Food and Beverage Processing Industry Report (2016) by BC Ministry of Agriculture
- Alcoholic Beverage Processing on the ALR
- B.C. Beverage Framework & Associated Benchmarking Project Overview
- Business Technical Advisory Panel (BTAP) Recommendation #16 Discussion Paper Draft for Discussion
- BC Craft Beer Long-Term Market Development Strategy Final Report, 2017
- Study into Global Wine Industry Support Structure, 2018
- Study into the Relative Tax Treatment of Canadian Wine, 2017
- The Economic Impact of the Wine and Grape Industry in Canada 2015
- Wine BC 2030: British Columbia Wine Industry Long-Term Strategic Plan

- **Conducted a literature review** to complement findings of the document and file review in order to develop better understanding of the BC beverage sector.

- **Participated in regular meetings with a representative of the Ministry** to coordinate activities and discuss project steps, timelines, and key milestones.

- **Submitted FOI request to WorkSafe BC to obtain data on BC** beverage industry representatives active in key sub-sectors targeted by this assignment. The data will identify registered companies and provide payroll data for the larger employers.

- **Prepared Discussion Paper** – a concise document that provides a short summary/overview of this assignment, its purpose, methodology, and timelines. It is to be used as an outreach document to inform external stakeholders during the engagement.

- **Conducted preliminary interviews** with 12 stakeholders including representatives of the industry associations and government departments in charge of policies and programs affecting the beverage sector. From these interviews we collected additional data and documents and contact information for industry stakeholders to be engaged during the next phase of the research.

- **Prepared Engagement Plan** outlining our approach to engaging representatives of industry, key stakeholders, and representatives of other jurisdictions to interviews, surveys, and focus groups.

- **Prepared research questions** to guide the research activities. We translated the objectives of the study into six key research questions to be answered by the study.

- **Prepared an analytical framework** and determined the most appropriate methodologies to undertake the assignment.

- **Prepared this work plan,** including data collection tools and instruments. This document represents the last major output of the planning phase of the research.

1.3 STRUCTURE OF THE WORK PLAN

This work plan is divided into three chapters. Chapter 1 outlines the purpose of the assignment and work completed to date. Chapter 2 provides a brief profile of the beverage industry and Chapter 3 highlights research design including scope, objectives, indicators, and data sources. Appendix I provides instruments for conducting a survey of beverage producers and Appendix II provides instruments for conducting interviews with key stakeholders.

2. BEVERAGE SECTOR

2.1 DEFINITION OF THE BEVERAGE INDUSTRY

The beverage industry can be broadly separated into two categories, alcoholic and non-alcoholic beverages. Alcoholic beverages typically include distilled spirits, wine, cider, and beer, while non-alcoholic beverages typically include soft drinks, fruit juices, coffee, tea, water, and dairy beverages. Within each of these sub-categories there are many specific beverage types. For example, energy drinks are included as a variety of soft drink, and hard seltzers are included within the same category as beer[1].

It is important to acknowledge that differences exist in how the industry is defined across different regional markets. In particular, much broader definition of the sector is taken in reports describing the global beverage industry. Global market research on beverage sector typically includes alcoholic beverages, such as beer, wine, and spirits, as well as non-alcoholic beverages like juice, soft drinks, sports drinks, coffee, tea, dairy beverages and more. Regional beverage industry definitions, however, are typically narrower than the global industry definition. Statistics Canada defines the *Beverage Manufacturing* industry[2] as the group of companies who primarily engage in the manufacturing alcoholic and/or nonalcoholic beverages. Alcoholic beverage manufacturers include:

- Breweries that primarily engaged in brewing beer, ale, malt liquors, and non-alcoholic beer,
- Wineries that primarily engaged in manufacturing wine or brandy from grapes or other fruits; and
- Distilleries that primarily engaged in distilling liquor.[3]

The non-alcoholic beverage sector consists primarily of those companies included in soft drink and ice manufacturing (NAICS Code 31211). Canada's non-alcoholic beverage sector excludes those establishments who primarily engage in[4]:

- Canning or freezing juices (fruit & vegetable)
- Manufacturing milk-based drinks
- Manufacturing coffee and tea (except ready to drink coffee or tea beverages, such as bottled iced coffee)
- Manufacturing ready-to-drink powdered drink mixes
- Manufacturing non-alcoholic cider

In addition, every year new and emerging beverage sub-sectors and product categories enter the Canadian market. The list of emerging non-alcoholic beverage categories include:

- Cannabis beverages
- Fermented beverages (e.g., kombucha, kefir, etc.)
- Infused water products
- Non-alcoholic spirits
- Specialized juice products (e.g., coconut juice, cold-pressed juice categories, maple sap, etc.).

BC's beverage industry mirrors Statistics Canada's definition, including both alcoholic and non-alcoholic beverage manufactures, and making the same exclusions (e.g., raw coffee and tea manufacturers, flavouring syrup and concentrates manufacturers).

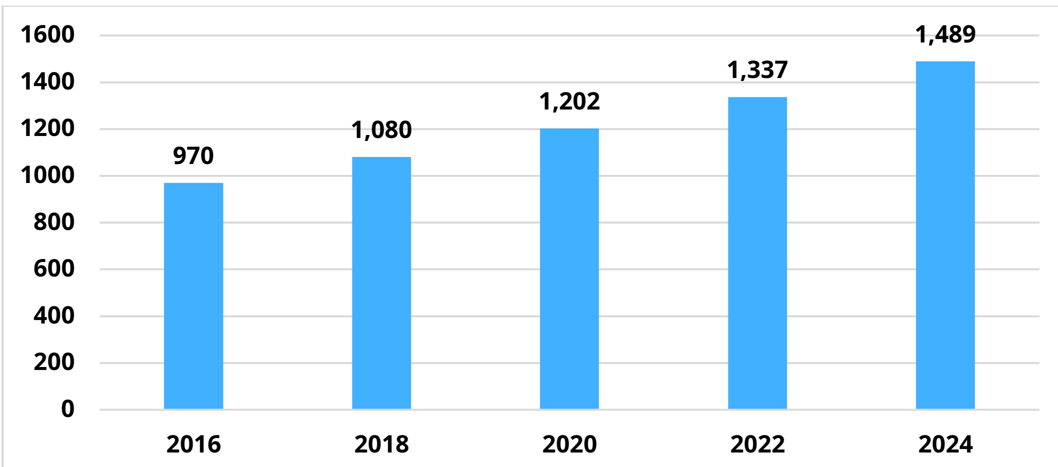
[1] https://fluidhandlingpro.com/beverage-industry/
[2] https://www.ic.gc.ca/app/scr/app/cis/summary-sommaire/3121
[3] Excluding brandy, blending liquor, or blending and mixing liquor and other ingredients
[4] https://www.ic.gc.ca/app/scr/app/cis/summary-sommaire/3121

2.2 SIZE, CHARACTERISTICS, AND GROWTH OF THE BEVERAGE INDUSTRY

Global Beverage Industry

The global non-alcoholic beverage industry had an estimated value of roughly $1.0 trillion in 2018 and is expected to grow at an annual rate of 5.5%, reaching a value of approximately $1.5 trillion by 2024. This anticipated growth is attributed to a growing rate of beverage consumption in several major developing regions as a result of increased levels of disposable income and a shift in preference towards the convenience of ready to drink beverages[5]. The anticipated growth of the global non-alcoholic beverage industry is shown in the following graph.

Chart 1: Value of Non-Alcoholic Beverage Industry (billions of USD)



Source: https://blog.pipecandy.com/market-size-of-beverage-industry-2022/

Note: This chart includes the following non-alcoholic beverages: soft-drinks, fruit juices, syrup, caffeinated drinks, sports drinks, coffee, and tea.

The global alcoholic beverage industry had an estimated value of roughly $1.4 trillion in 2018 and is anticipated to grow at an annual rate of 2%, reaching an approximate value of $1.6 trillion in 2024. Increasing per capita income across developing regions and the growing spending power of the Millennial and Gen-Z generations has driven an increase in alcohol consumption at social gatherings. In addition, with this increase spending power and per capita income, there has been a shift towards the demand for more premium products and a wider variety of alcoholic beverage choices.

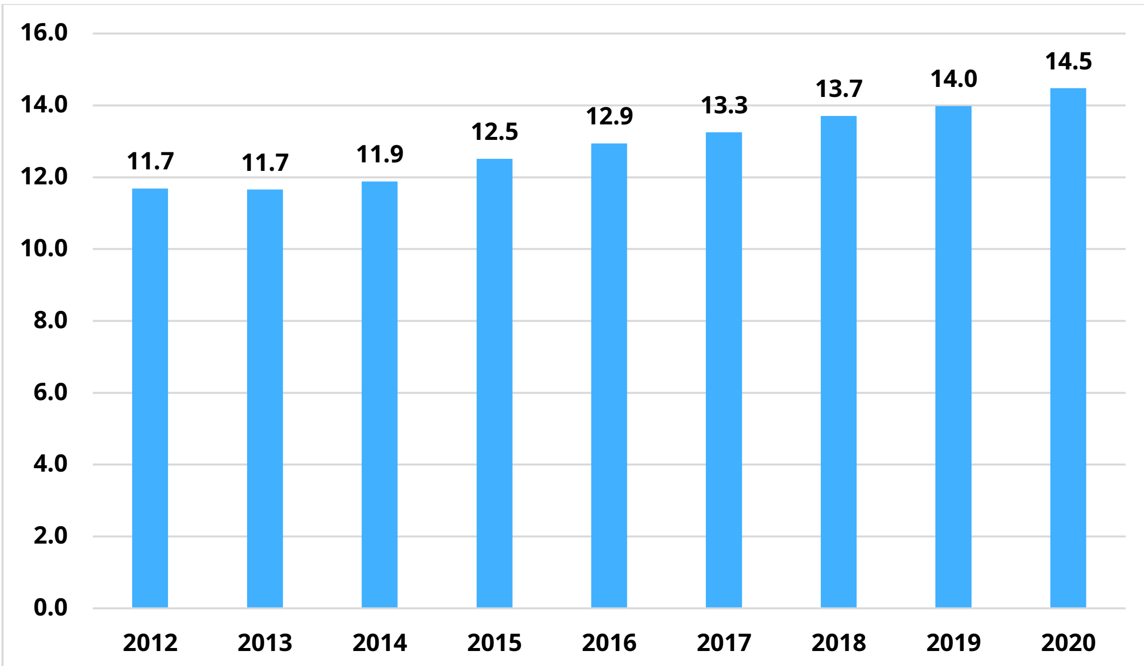
The beverage industry as a whole is dominated by several large companies that account for a substantial portion of industry revenues. In 2020 Aheuser-Busch, Coca Cola, Nestle, and Pepsico accounted for over $150 billion in revenue. In terms of market growth, the Asia-Pacific region is the largest and fastest growing market due to increased levels of disposable income and rapid urbanization, accounting for 42% of the global market. North America is the second largest market, representing 22% of the global sales.

[5] https://www.businesswire.com/news/home/20190917005879/en/Global-Beverage-Market-Nears-1.86-Trillion-by-2024---Analysis-by-Type-of-Beverage-Packaging-Type-Distribution-Channel-Region-and-Market-Player---ResearchAndMarkets.com

Canadian Beverage Industry

According to Statistics Canada, in 2020, there were over 2,500 businesses in Canada whose primary activity was the manufacturing of beverages, of which, approximately 1,700 had one or more employees. The vast majority (96%) of those businesses are SME's, employing less than 100 employees[6]. Overall, the industry employs roughly 42,0000 workers and contributes approximately $7 billion to the Canadian economy each year[7]. The industry has seen steady revenue growth over the last eight years, growing at a compounded annual growth rate of 3% from $11.7 billion in 2012 to $14.5 billion in 2020.

Chart 2: Canadian Beverage Industry Revenue, 2012-2020 (billions of CAD)



Source: Statistics Canada, [Table 16-10-0117-01 Principal statistics for manufacturing industries, by North American Industry Classification System (NAICS) (x 1,000)]

Canadian beverage exports have also grown steadily at a compounded annual growth rate of 5% from 2016 to 2020, reaching approximately $1.41 billion in 2020[8]. The industry's main trade partner is the United States, which accounted for 89% of total beverage exports in 2020.

The current beverage sales environment in Canada is defined by the economic impacts of COVID-19 and the public health orders (PHO's) put in place to slow the spread of the virus. Due to PHO restrictions, the point of sale of many beverages has shifted from their traditional locations. For example, there has been a shift in sales from foodservice outlets and bars to grocery outlets and liquor stores as a result of increased at home consumption. Farm Credit Canada's (FCC) Food and Beverage report for 2021[9] indicates that the beverage industry, including alcoholic and non-alcoholic beverages, saw annual sales growth of approximately 4% from 2019 to 2021[10]. Growth has been driven by increased sales of alcoholic beverages, as Canadians have been consuming more alcohol while confined to their homes or limited in their ability to socialize. Wine sales have led the alcoholic beverage sales growth, followed by beer and spirits. However, sales of non-alcoholic beverages have declined somewhat.

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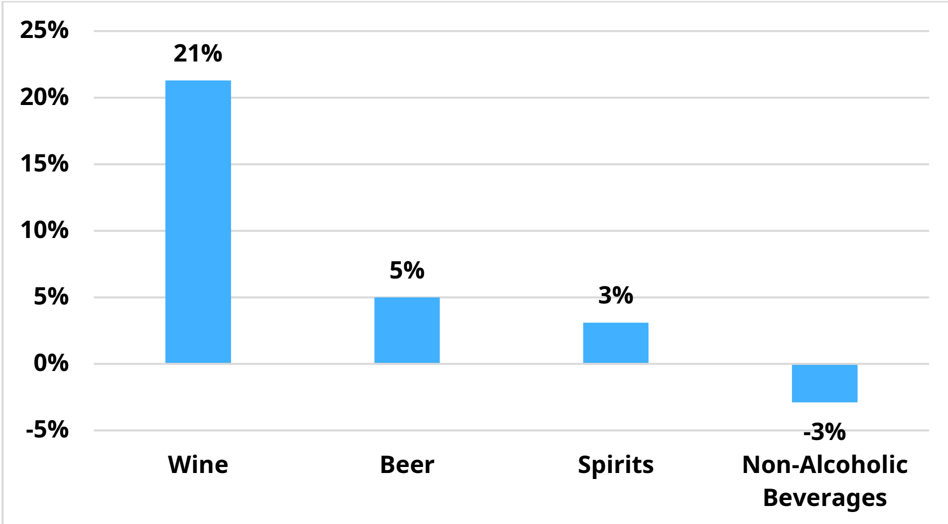
6 https://www.ic.gc.ca/app/scr/app/cis/summary-sommaire/3121
7 https://www.fcc-fac.ca/en/knowledge/economics/2021-canadian-beverage-outlook.html
8 https://www.ic.gc.ca/app/scr/app/cis/summary-sommaire/3121
9 https://www.fcc-fac.ca/fcc/resources/e-2021-food-and-beverage-report.pdf
10 https://www.fcc-fac.ca/en/knowledge/economics/2021-canadian-beverage-outlook.html

Chart 3: Beverage Sector Sales Growth from 2019 to 2021



Source: https://www.fcc-fac.ca/en/knowledge/economics/2021-canadian-beverage-outlook.html

Canada's Alcoholic Beverage Sector

Alcoholic beverage sales represent approximately 71% of all beverage sales in Canada. Within the alcoholic beverage sector, beer represent roughly 60% of the market, while spirits represent 23% and wine represents the remining 16%. New market trends have seen increasing popularity of spirit coolers, gin, and ciders, all of which are popular among younger generations who prefer beverages that can be easily modified to suite personal taste, come in low-calorie options, and offer convenient can or bottle options.[11] Each sub-sector has experienced unique sales trends and drivers of growth, summarized as follows:

- *Beer continues to dominate the market.* Within Canada's alcoholic beverage sector, beer remains the most consumed alcoholic beverage, accounting for 38% of total alcohol sales in 2020[12]. The number of breweries in Canada has increased by approximately 215% from 564 in 2015 to 1,210 in 2020. However, beer sales as a percentage of total alcohol sales have been steadily decreasing since 2010, relinquishing market share to new emerging products like hard seltzers and ciders, and the shifting of consumer preferences[13].

- *Wine sales have seen significant growth.* Wine sales increased by approximately 21% in 2020, more than any other beverage category[14]. Red wines continue to control the largest market share and have seen the most significant sales growth through 2020. A large portion of the increase in wines sales has been attributed to the increase at home alcohol consumption during COVID-19 related restrictions[15].

- *New products are driving distillery sales.* The number of distilleries in Canada has risen substantially, increasing over 800% from 33[16] in 2015 to 270[17] in 2020. Many new distilleries entering the market are micro businesses, producing small batch, craft spirits, and mixed drink products. In 2020, roughly

[11] https://www.fcc-fac.ca/fcc/resources/e-2021-food-and-beverage-report.pdf
[12] https://www150.statcan.gc.ca/n1/daily-quotidien/210421/dq210421b-eng.htm
[13] https://industry.beercanada.com/national-overview
[14] https://www.fcc-fac.ca/en/knowledge/economics/2021-canadian-beverage-outlook.html
[15] https://winebc.com/industry/wp-content/uploads/sites/2/2021/04/Wine-Intelligence-Canada-Landscapes-and-trends-2021-Presentation.pdf
[16] https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3310003201&pickMembers%5B0%5D=2.602
[17] https://www.ic.gc.ca/app/scr/app/cis/businesses-entreprises/31214

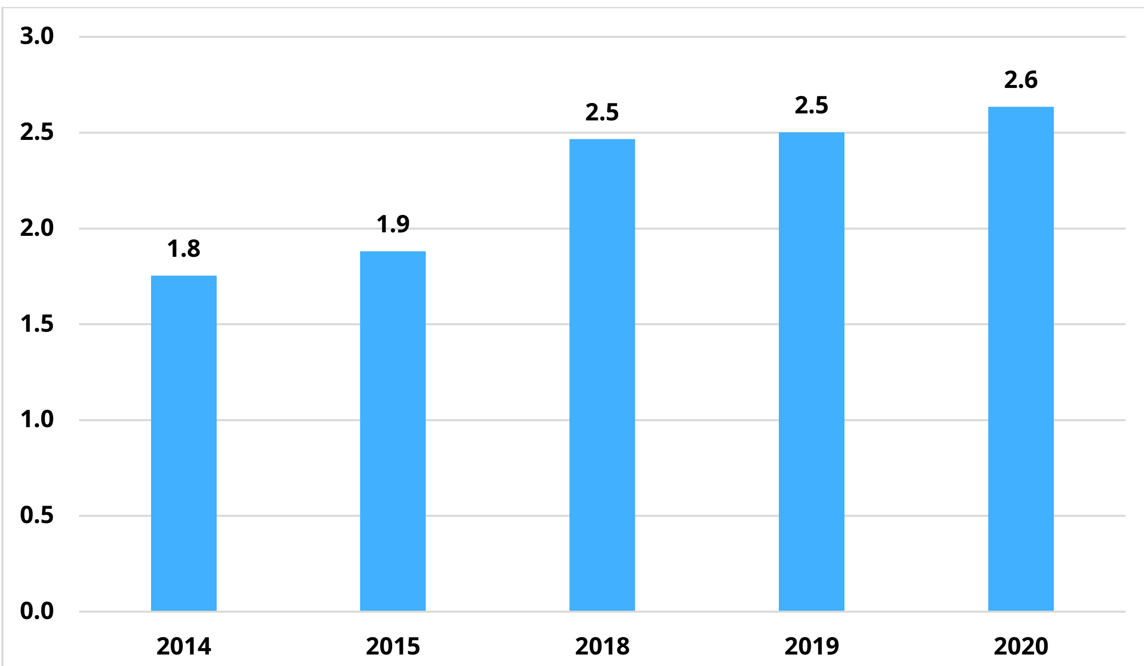
55% of Canadian distilleries were defined as micro-distilleries. The growth of the sub-sector has largely been driven by the popularity of spirit coolers or hard seltzers, which are particularly popular amongst young people.

It is expected that when beverage consumption trends revert to their pre-covid norms, there will be increased sales activity at traditional point of sale outlets. However, there is likely to be some level of permanent change in consumer behaviour who now prefer at home consumption. Overall, the outlook for Canada's beverage sector is positive with strong underlying consumer demand. Long-term growth will be dependent on manufacturer's ability to adjust to changing consumer preferences[18].

BC Beverage Industry

In 2020, there were 514 business in BC whose primary activity was manufacturing beverages. The majority (97%) of which are considered to be micro businesses that employ between 1 and 4 people, or small businesses that employ between 5 and 99 people. The industry has seen steady revenue growth in recent years, growing at a compounded annual growth rate of 7% over the six-year period from 2014 to 2020.

Chart 4: BC Beverage Industry Revenue, 2014-2020 (billions of CAD)



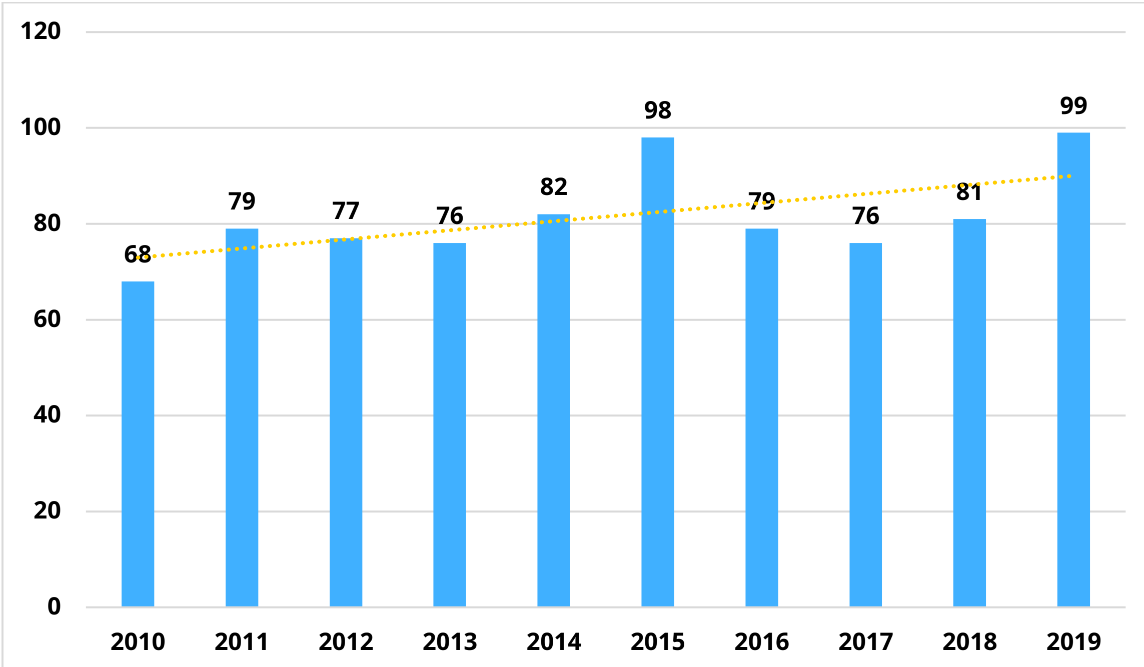
Source: Statistics Canada. [Table 16-10-0117-01 Principal statistics for manufacturing industries, by North American Industry Classification System (NAICS) (x 1,000)]

Note: Data for the years 2016 and 2017 were suppressed by Statistics Canada to meet the confidentiality requirements of the Statistics Act

In terms of international exports, BC's beverage industry has seen a compounded annual growth rate of 4% from 2010 to 2019, hitting a peak in 2019 when exports reached $99 million.

18 https://www.fcc-fac.ca/en/knowledge/economics/2021-canadian-beverage-outlook.html

Chart 5: BC Beverage Industry International Exports, 2010-2019 (millions of CAD)



Source: https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/agriculture-and-seafood/statistics/market-analysis-and-trade-statistics/2019_bc_agrifood_and_seafood_export_highlights.pdf

As show in the following table, sales of water (which is not included in the scope of this study) made up more than half (51%) of international exports in 2019, followed by juices at 26%. The United States is the top market for all BC beverage exports expect wine, which is primarily exported to China. The spirits sector saw the largest growth from 2018 to 2019 at 149%, while total exports grew by 22%.

Table 1: BC Beverage Industry International Exports by Product (millions of CAD)

Product	2017	2018	2019	2019 Share	2018-2019 Growth	Top markets
Waters	$37.1	$37.8	$51.0	51%	35%	U.S. (84%)
Juices	$19.0	$21.9	$25.5	26%	16%	U.S. (88%)
Wines	$9.4	$9.5	$6.4	6%	-32%	China (73%)
Spirits	$1.1	$2.4	$6.0	6%	149%	U.S. (74%)
Beers	$5.4	$5.5	$5.0	5%	-9%	U.S. (100%)
Other Beverages	$3.9	$4.3	$5.5	6%	29%	N/A
Total Beverages	**$75.9**	**$81.4**	**$99.4**	**100%**	**22%**	**U.S. (81%)**

Source: https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/agriculture-and-seafood/statistics/market-analysis-and-trade-statistics/2019_bc_agrifood_and_seafood_export_highlights.pdf

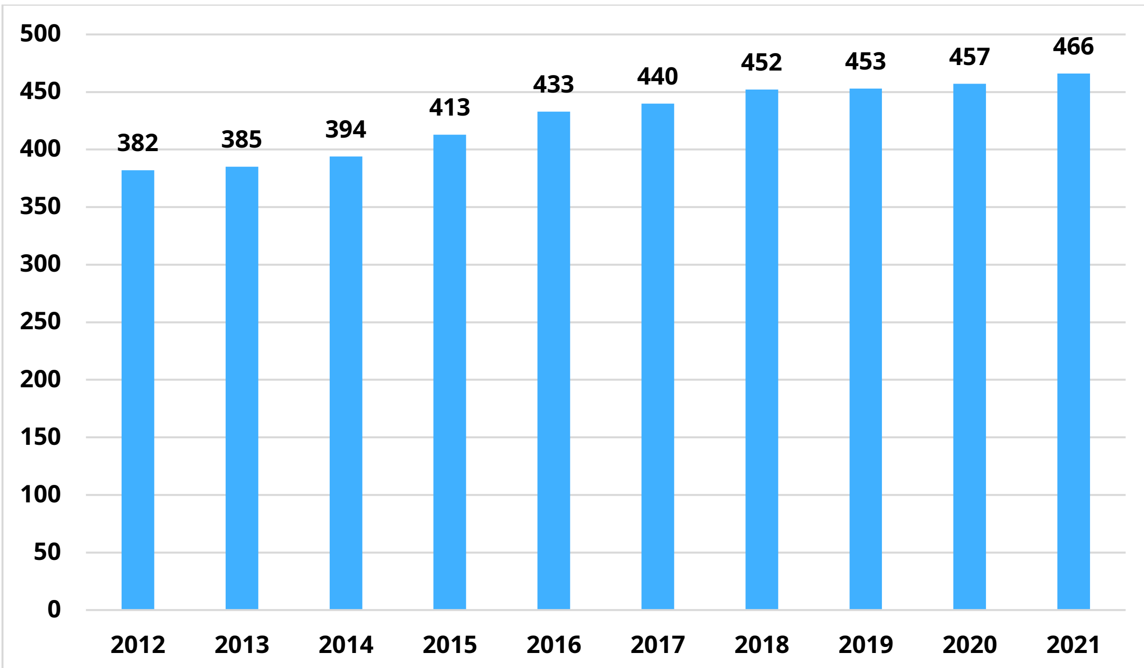
While alcoholic beverages make up only 17% of international exports, they represent a significantly larger portion of the domestic beverage market compared to non-alcoholic beverages. For example, in 2019, the combined sales of BC's breweries, wineries and distilleries amounted to over $1.4 billion[19], while sales in the soft drinks and ice manufacturing sector amounted to approximately $468 million. Alcoholic beverage manufacturers represent nine of the top ten beverage producers by revenue in BC, and beer and wine manufacturers represent eight of those nine.

[19] https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/agriculture-and-seafood/statistics/industry-and-sector-profiles/sector-snapshots/sector_snapshot_2019_-_food_and_beverage.pdf

BC's Alcoholic Beverage Sector

The yearly sale of alcohol in BC has steadily increased from 2012 to 2021, peaking in 2021 at 9.32 liters of absolute alcohol[20] per person, or the equivalent of 547 cans of beer or 104 bottles of wine[21]. Total sales have grown at an annual compounded growth rate of 2% over that nine-year period. Sources indicate that the recent rise in liquor sales in BC has been largely driven by increased alcohol consumption during COVID-19 lockdowns. As such, private and government-run liquor stores have seen sales increases that more than counteract the decrease in sales experienced by restaurants and bars, hence the overall increase in alcohol consumption[22].

Chart 6: BC Liquor Sales Volume, 2012-2021 (millions of liters)

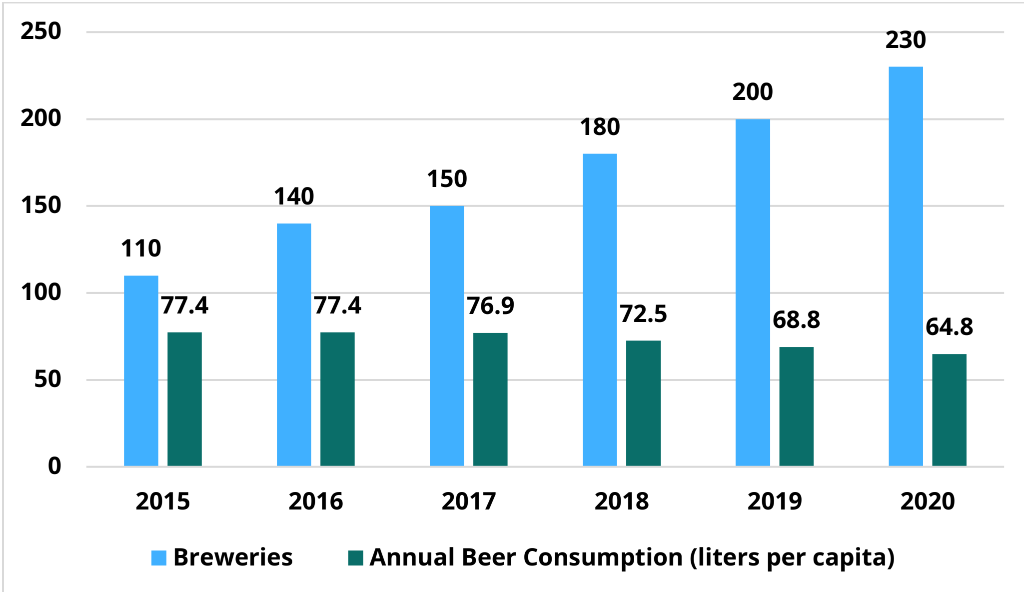


Source: https://www.statista.com/statistics/342977/sales-of-the-bc-liquor-market/

BC's beer industry has seen significant growth as the number of breweries in BC has more than doubled from 110 in 2015 to 230 2020. However, per capita consumption of beer has decreased from 77.4 liters per year in 2015 to 64.8 liters per year in 2020[23].

[20] *1 liter of absolute alcohol is equivalent to 58.65 beers, glasses of wine or cock tails per person*
[21] https://globalnews.ca/news/8453144/bc-alcohol-consumption-covid19/
[22] https://www.uvic.ca/research/centres/cisur/stats/alcohol/index.php
[23] https://industry.beercanada.com/statistics/british-columbia

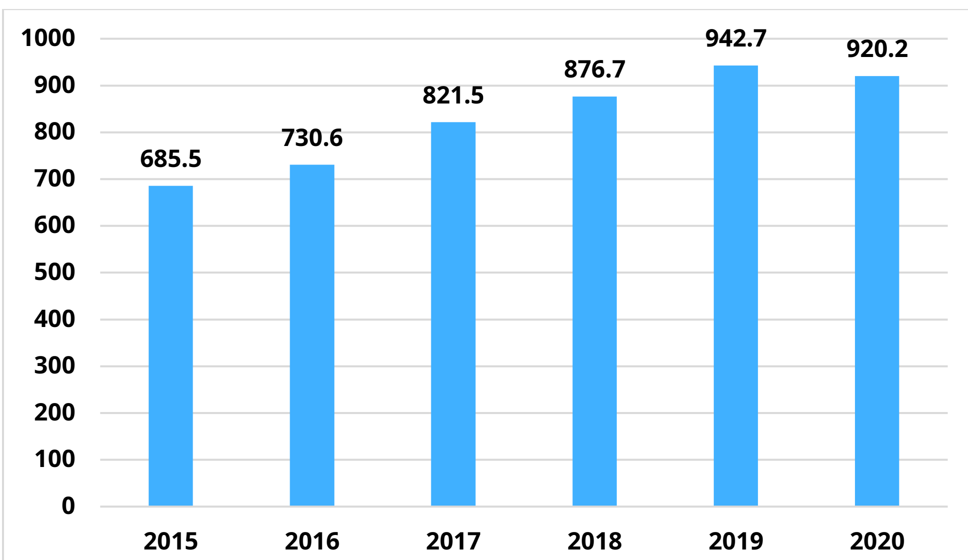
Chart 7: BC Breweries and Beer Consumption, 2015-2020



Source: https://industry.beercanada.com/statistics/british-columbia

Even as beer consumption has declined, BC's breweries have experienced relatively steady revenue growth. Total revenues for the sector have increased at 6% from 2015 to 2020, hitting a peak in 2019 at roughly $943 million.

Chart 8: BC Beer Manufacturing Industry Revenue, 2015 to 2020 (millions of CAD)



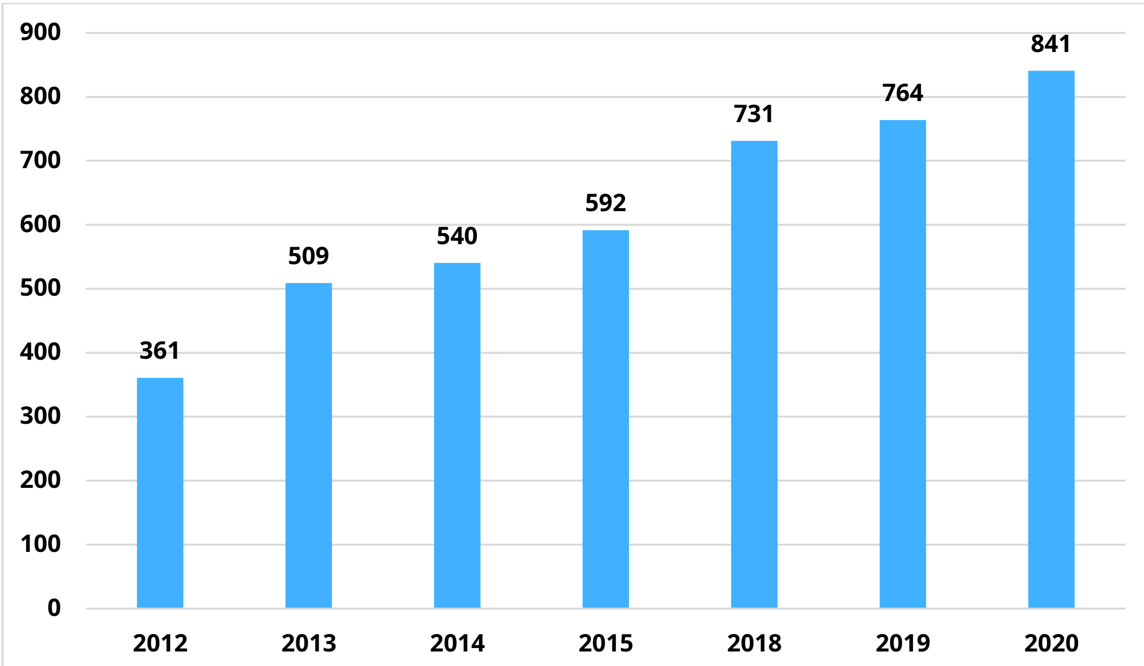
Source: Statistics Canada. Table 16-10-0117-01 Principal statistics for manufacturing industries, by North American Industry Classification System (NAICS) (x 1,000)

BC's wine industry has also seen growth in the last two decades. The number of wineries in BC has increased at a compounded annual growth rate of 7% from 118 in 2006 to 283 in 2019. However, wine consumption has remained relatively constant over the same period[24].

[24] https://www.uvic.ca/research/centres/cisur/stats/alcohol/index.php

Even with domestic consumption remaining constant, BC wineries have seen steady growth in revenues. Over the eight-year period from 2012 to 2020, revenues have grown at a compounded annual growth rate of 11% from roughly $361 million in 2012 to $841 million in 2020.

Chart 9: BC Wine Industry Revenues, 2012-2020 (millions of CAD)



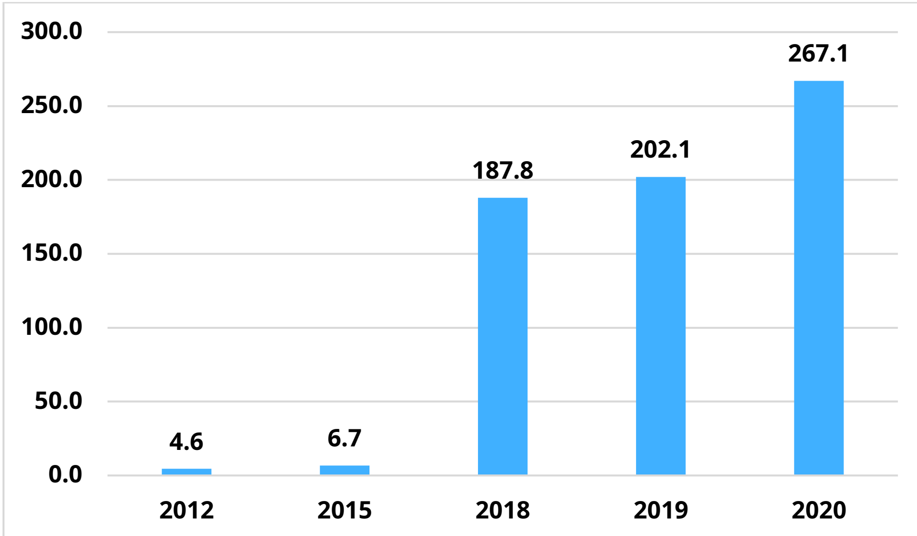
Source: Statistics Canada. Table 16-10-0117-01 Principal statistics for manufacturing industries, by North American Industry Classification System (NAICS) (x 1,000)

Note: Data for the years 2016 and 2017 were suppressed by Statistics Canada to meet the confidentiality requirements of the Statistics Act

Spirits manufacturing industry has seen significant growth over the past decade. In 2010, there were only four distilleries in BC. Change in legislation, implemented in 2013, that exempted craft distilleries from large government markups resulted in large number of new distilleries entering the market.[25] By 2021, there were a total 69 distilleries in BC, a significant increase compared to 4 distilleries in 2010.[26] Correspondingly, there has been a significant rise in revenues generated by distilleries in BC, growing at a compounded annual growth rate of 66% from 2012 to 2020.

[25] https://www.cbc.ca/news/canada/british-columbia/bc-spirits-distilleries-gin-vodka-whiskey-1.3880222#:~:text=Then%20in%202013%2C%20new%20rules,ferment%20their%20own%20base%20alcohol.
[26] https://bcdistilled.ca/british-columbia-distilleries

Chart 10: BC Spirits Manufacturing Industry Revenues, 2012-2020 (millions of CAD)



Source: Statistics Canada. [Table 16-10-0117-01 Principal statistics for manufacturing industries, by North American Industry Classification System (NAICS) (x 1,000)]

Note: Data for the years 2013,2014, 2016 and 2017 were suppressed by Statistics Canada to meet the confidentiality requirements of the Statistics Act

2.3 INDUSTRY TRENDS

A number of changing trends impact both the alcoholic and non-alcoholic beverage sectors globally, Canada overall, and also in BC. This section describes most commonly identified general and sector specific trends.

General Market Trends

A range of emerging trends affect sales and growth of the beverage products and sub-sectors. These trends are summarized as follows:

- *Increasing purchasing power.* A general increase in per capita income globally has spurred an increase in beverage consumption. Per capita income growth has been most pronounced in the developing regions of the world (in particular, the Asia-Pacific region), where income increases have led to significant changes in beverage consumption habits, with a noticeable shift to the consumption of more premium brands[27]. This trend has been supported by the increasing purchasing power of millennials and generation-Z, who have shown a preference for quality over quantity in terms of their alcoholic beverage choices, as well as a focus on the health impacts and sustainability or environmental impacts of the beverages they consume.[28]. Increasing purchasing power in developing regions may present opportunities for BC's beverage producers to increase their volume of exports, or to target new trading partners.

- *Increasing focus on functionality and health related attributes****.*** The COVID-19 pandemic has contributed an increased focus on the healthiness and functionality of the beverages we consume, as customers look for ways to protect themselves by boosting their immunity and promoting personal

[27] https://www.theiwsr.com/key-trends-driving-the-global-beverage-alcohol-industry-in-2022/
[28] https://www.marketwatch.com/press-release/beverage-market-report-2022-prominent-key-players-exploring-sales-volume-revenue-and-forecast-by-2027-with-leading-regions-and-countries-data-2022-01-03

health and wellness. Attributes such as natural ingredients, less sugar, fewer calories, or specific health benefits are in high demand as consumers focus on wellness, immunity, and stress relief.

- *Sugar reduction* - There has been a sustained movement to reduce the amount of sugar consumed in our daily diets and beverages have been at the forefront of that trend. Nutritional guidelines around the world have been putting increasing pressure on reducing the consumption of sugary beverages, and consumers are increasingly looking for more information on how much sugar they are consuming. As a result, producers are increasingly introducing low or no-sugar beverage products.[29,30]

- *Low or no-alcohol drinks* – With the global push for healthier lifestyle choices, many consumers are looking for substitutes to full strength alcoholic beverages. Producers have been responding by introducing low or no-alcohol drink options to substitute for traditional cocktails, wines, and beers. Furthermore, it has become increasingly socially acceptable as a lifestyle choice, particularly amongst millennials and Gen-Z's, to simply avoid or reduce alcohol consumption purely as a wellness measure. Terms such as "sober-curious" have become more widely known and accepted. While the general increase in health awareness brought on by the pandemic has contributed to the sale of alcohol substitute beverages, the trend started well before COVID-19. For example, alcohol free beer sales in Canada rose 50% from 2013 to 2018[31]. Substituting away from alcohol has led some consumers to look for other adult beverage options such as CBD and adaptogen beverages.[32]

- *Emergence of new functional beverages (e.g. Gut health and immune system benefits).* Functional beverages move beyond a beverage's basic nutritional value or taste to address a need or to serve a specific purpose. Functional beverages such as coffee or energy drinks have been around for a long time, but in recent years the market has seen the entry of more functional beverages that provide some form of health benefit[33]. For example, Kombucha is known to improve gut and digestion health, and superfood smoothies or juices can help boost your immune system. Ingredients like superfoods (e.g. kale, chia seeds etc.), probiotics, antioxidants, vitamins, minerals and other health related ingredients are all becoming popular as they are often included in functional beverages. The impact of this trend has affected the entire beverage industry with the fermented non-alcoholic products such kombucha or kefir, as well as specialty teas and smoothies, and health promoting energy or sports related drinks entering mainstream distribution channels and becoming wieldy popular[34].

- *Changes in consumer behavior following the COVID-19 pandemic.* Canadians are consuming more beverages at home as they spend more time away from traditional places of beverage consumption such as restaurants or bars. This has resulted in an increase in the purchase of pre-packaged beverages and specialty or premium alcohols. Whether this trend continues in a post pandemic world remains to be seen, but the pandemic has led to many changing their beverage consumption habits to suit spending more time in their homes, bringing the specialty beverages that they normally would only purchase at a restaurant or bar into their homes[35]. As consumers return to their usual drinking places, their purchasing decisions will be shaped by their experiences during the pandemic, such as premium at-home cocktail making and subscriptions services, making them more conscious of the price and quality of the beverages they are purchasing outside of their homes. Research also suggests that the flexibility and relative affordability of in-home beverage consumption has led consumers to be more willing to try new drink types and variations. For example, beverages such as craft beer, hard seltzers, wine, and Japanese whisky have all seen increased popularity during the pandemic. Companies have responded by diversifying their product portfolios [36].

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[29] https://blog.marketresearch.com/6-key-beverage-industry-trends-to-watch
[30] https://www.bevsource.com/news/five-trends-will-spur-beverage-innovation-2020
[31] https://www.cbc.ca/news/canada/kitchener-waterloo/andrew-coppolino-no-low-alcohol-1.6323566
[32] https://www.theiwsr.com/key-trends-driving-the-global-beverage-alcohol-industry-in-2022/
[33] https://www.foodbeverageinsider.com/beverages/2021-beverage-market
[34] https://blog.marketresearch.com/6-key-beverage-industry-trends-to-watch
[35] https://www.fooddive.com/news/5-trends-fueling-food-and-beverage-innovation-in-2021/592588/
[36] https://www.theiwsr.com/key-trends-driving-the-global-beverage-alcohol-industry-in-2022/

- *Focus on sustainability.* With the tangible and devastating effects of climate change and environmental degradation escalating around the world, consumers are increasingly looking to beverage producers to make a commitment to support sustainability. Research shows that 48% of customers in the US, 70% in urban or affluent China, and 72% in Brazil, consider the environmental impact in their beverage purchasing decisions. Manufactures are typically focusing on two areas in their efforts to support sustainability: the implementation of more sustainable packaging, and the reduction of their supply chain's environmental footprint.

- *Change in packaging.* Sustainable packaging has become a major focus for producers. Single use plastic containers are a concern for many companies, and all major beverage producing companies have pledged to phase in more sustainable packing made from biodegradable, recycled, and compostable materials in the coming years[37]. Research shows that nearly three-quarters of consumers are willing to pay higher prices for the beverages they consume if the packing is "sustainable"[38].

Sector Specific Trends

A range of trends are affecting specific sub-sectors of BC beverage industry, summarized as follows:

- *Increasing popularity of dairy free or plant-based beverages.* Dairy free and plant-based beverages have been growing in popularity for several years and continue to enlarge their share of the market. Soy and almond milk have been popular for years, but other milk substitute beverages options derived from ingredients such as oat, rice, quinoa, hazelnuts, hemp, and macadamia nut are becoming increasingly popular and are likely to be further incorporated into mainstream consumption in the coming years.[39] In Canada, in 2020, sales of milk alternative beverages totaled approximately $337 million USD, growing at a compounded annual growth rate of 7.4% from 2018 to 2020. While growth has been significant, market share is shifting away from soy milk towards other milk substitutes. As a result, there were 161 new milk alternative products introduced in Canada from 2018 to 2021 and according to Statistics Canada sales are expected to grow at 8.4% per year from 2021 to 2025.[40]

- *Cannabis beverages have entered the mainstream.* The global cannabis beverage market is anticipated to reach $2 billion (USD) by 2026. The increasing deregulation and social acceptance of cannabis products for recreational use around the world is expected to continue and will be a key driver of sector growth. Research also indicates that other factors, such as rising disposable income and shifting preferences away from alcoholic beverages, particularly among younger consumers looking for a healthier option to alcohol, and a better understanding of the health benefits of CBD are all factors that will contribute to the growth of the cannabis beverage industry globally[41]. Major beverage industry players such as Anheuser Busch and Molson Coors have committed significant investments into cannabis beverage product development and production, confirming that the sector is here to stay. That being said, there are some challenges faced by cannabis beverage producers. Given that cannabis is or recently was an illegal substance in many regions, exporting cannabis beverages out of country can come with a host of regulatory hurdles, including tests, licenses, and approvals.[42] Domestic sale of cannabis beverages also poses challenges as customers are limited in the amount they can purchase through a single transaction, and there are restrictions on how and where they can be advertised and sold[43]. Even with these challenges, the cannabis beverage market in Canada is estimated at approximately $100 million and expected to see consistent growth in the

[37] https://blog.marketresearch.com/6-key-beverage-industry-trends-to-watch
[38] https://www.foodbev.com/news/top-three-sustainability-food-trends-for-2021/
[39] https://www.fooddive.com/news/5-trends-fueling-food-and-beverage-innovation-in-2021/592588/
[40] https://agriculture.canada.ca/en/international-trade/market-intelligence/reports/customized-report-service-milk-alternative-beverages-plant-based-beverages-canada-and-united-states
[41] https://www.globenewswire.com/news-release/2022/01/14/2367143/0/en/Global-Cannabis-Beverages-Market-to-Reach-US-2-Billion-by-the-Year-2026.html
[42] https://www.foodincanada.com/features/cannabis-drinks-market-scales-up/
[43] https://globalnews.ca/news/8170455/cannabis-beverages-expansion-pot-products/

years to come[44].

Innovation and Technology Trends

Technological advancements, advanced manufacturing techniques, and innovative approaches to production are affecting all of the manufacturing sector, including beverage producers. Some of these trends affecting beverage sectors are summarized as follows:

- *Adopting innovative technologies to improve production, quality, and safety.* The beverage manufacturing industry is quickly introducing new technologies and innovations to improve worker safety, the quality of their products, and the efficiency of their production processes. There are three main areas where these changes are being made: internet of things (IIoT) technology and artificial intelligence, ecommerce, and big data analytics.

- *Connectivity is key.* By incorporating industrial internet of things (IIoT) technology to wirelessly connect components of the production process through the cloud, manufacturers are able to improve efficiency and safety. Digitally monitoring each component of the production process and sharing data between each stage in real time, allows for adjustments to be made on the fly or in advance of errors, and for more informed decisions to be made by staff. Artificial intelligence, robotics, and automated vehicles are also being used to improve efficiency, quality, and safety.

- *eCommerce provides access to a broader market.* More and more beverage manufacturers are utilizing social media and online advertisements to accelerate ecommerce sales and target specific consumer groups. Ecommerce allows for producers to increase direct to consumer distribution and to access markets outside their region or country[45]. Additionally, research suggests that consumers are likely to continue to rely more heavily on ecommerce for their food and beverage consumption purchases, even after the pandemic is over, making it increasingly important for beverage manufacturers to establish an online sales presence[46].

- *Big data allows manufacturer to better know their customers and their products*. The collection and analysis of big data has become an essential component of beverage manufacturer's supply chains and sales growth strategies. Consumers generate data points through their social media and online platform use, which allow producers to generate insights into which consumers to target and when, how to maximize their advertising campaigns, and quickly react to changing preferences or consumer behavior patterns[47]. Big data can also be used to help streamline operation and production processes. For example, Coca Cola uses algorithm that is fed by a vast number of data points from across the company's big data collection network, such as crop yields and weather, to ensure that their orange juice production is optimized and maintains a consistent quality and taste all year round and all around the globe[48].

- *Increased focus on product transparency.* Consumers have become increasingly informed and interested in where their beverages come from, and how they are made and transported. The desire for increased product transparency has existed for years, however the COVID-19 pandemic has heightened consumer awareness of health and safety practices during production as well as product health qualities. In fact, research suggests that 80% of consumers indicate that transparency is of the utmost importance to them and that their primary concerns when making beverage purchasing decisions are: where the beverage product comes from; what ingredients were used in production; and the environmental impacts of production, storage, and transportation[49]. Technology such as invisible bar codes, QR codes, and cellular applications are used to share the story of how and

[44] https://www.theglobeandmail.com/business/article-what-happened-to-cannabis-beverages/
[45] https://www.startus-insights.com/innovators-guide/top-10-beverage-technology-trends-2022/
[46] https://www.sana-commerce.com/blog/shorten-time-market-e-commerce-food-beverage-industry/
[47] https://www.startus-insights.com/innovators-guide/top-10-beverage-technology-trends-2022/
[48] http://www.fnbnews.com/Top-News/technological-innovations-in-the-beverage-industry-62644
[49] https://www.mromagazine.com/features/food-and-beverage-industry-trends-transparency-sustainability-and-new-consumer-demands/

where products were produced, the environmental impacts of its production, and to direct customers to the transparency and sustainability section of their company website.[50]

Government Policies and Regulations Affecting the Sector

Alcoholic beverage sector is one of the most heavily regulated sectors of Canadian economy. There are many legislations, rules, taxes, levies that affect beverage production, distribution, sales, and export in BC. This section summarizes some of the key legislative changes that are expected to impact the beverage sector in coming years.

- *Expected increase in taxes for BC wine industry.* Under the Excise Act of 2001, Canadian wine manufacturers were subject to an excise tax of roughly $0.67/liter of wine produced (tax rate in 2021 dollars, tax is adjusted annually for inflation).[51] In 2006, the Canadian government implemented a tax policy to exempt Canadian wine manufacturers from this excise tax as a way to promote the growth of Canada's wine industry. The tax exemption required that the wine being produced was made with 100% Canadian grapes or by "small producers" whose sales do not exceed $50,000 per year. [52] However, as of June 2022, the policy will be revoked, and the federal government will once again be levying the excise tax on Canadian wine such that all exemptions will be removed. This change of policy comes about as a result of a complaint lodged by the Australian government to the World Trade Organization, complaining that the Canadian government's protection of local wine producers violates their obligations under the General Agreement on Tariffs and Trade.[53]

- *Interprovincial trade barriers affect sales of alcoholic beverage in Canada.* Ecommerce and direct-to-consumer sales have become vitally important business components across the beverage industry in recent years, and with increased levels of at home alcohol consumption in response to COVID-19 restrictions, the ability for alcoholic beverage producers to directly reach customers in their homes has become essential.[54] Under the Federal Importation of Intoxicating Liquors Act, consumers are allowed to import wine, beer, and spirits directly across provincial boarders for personal consumption. However, all provinces and territories other than BC, Nova Scotia, Manitoba, and Saskatchewan have chosen not to align with the federal policy and continue to uphold protectionist regulations that make it illegal for consumers to import out of province alcoholic beverages directly.[55] Research suggests interprovincial restrictions on alcohol sales and importation results in dramatic price variations between provinces, which in turn puts added financial burden on both the consumer and the point of sale vendor.[56] In fact, the direct-to-consumer online sale of alcohol in Canada represents a significant opportunity for industry development, particularly among producers in less populated areas that have limited access to the broader domestic market. Even with the interprovincial trade restrictions in place by some provinces, online sales have seen substantial growth in recent years, rising 75% from 2019 to 2020 and totaling roughly $400 million[57].

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[50] https://www.specialityfoodmagazine.com/food-and-drink/brand-transparency-will-drive-sales
[51] https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/edrates/excise-duty-rates.html#_Toc527013622
[52] https://www.taxandtradelaw.com/alcoholtaxesandduties.html
[53] https://biv.com/article/2020/07/new-federal-tax-hike-price-canadian-wine
[54] https://theorca.ca/visiting-pod/will-canada-finally-get-interprovincial-alcohol-trade/
[55] https://bcchamber.org/policy/interprovincial-trade-barrier-reform-beer-wine-distillery-industries-still-an-unsolved-issue-2021/
[56] https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/finance/ca-en-the-case-for-liberalizing-interprovincial-trade-in-canada-aoda.pdf
[57] https://theorca.ca/visiting-pod/will-canada-finally-get-interprovincial-alcohol-trade/

3. WORK PLAN AND METHODOLOGY

3.1 PURPOSE OF THE STUDY

The purpose of this study is to conduct a review of the beverage sector in BC and a prepare a framework to guide the future development of the sector. The research will:

- Develop a **comprehensive overview** of B.C.'s beverage sector and sub-sectors in terms of size, markets, market position, strategic vision and future goals, and key trends.

- Identify major **current challenges and issues** faced by the sector in areas such as markets, quality profitability, modernization, productivity, and access to labour and capital.

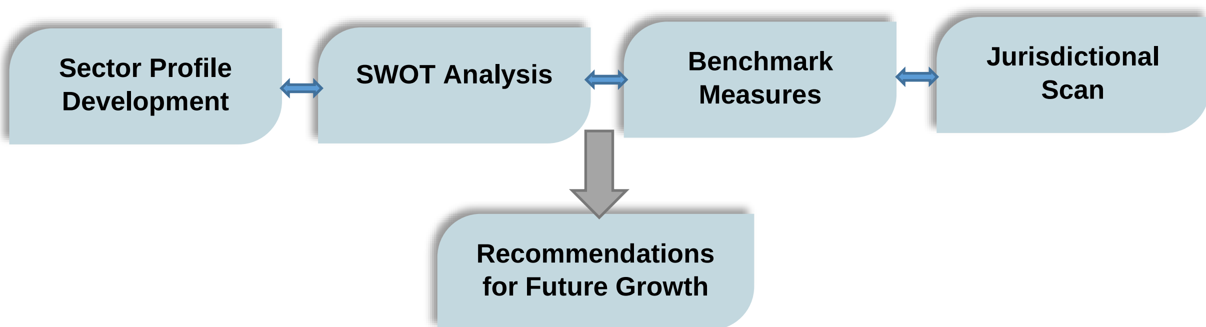
- Undertake **SWOT analyses** of each sub-sector and beverage sector overall, explaining the strengths and weaknesses and external opportunities and threats that will affect future growth and long-term viability.

- Benchmark **industry performance** using measures such as revenue, production volume, employment, productivity, and investment in equipment and technology.

- Conduct a **cross-jurisdictional scan**, reviewing beverage production and processing policies, programs and other incentives used to promote development of the industry in other regions in Canada and abroad. We will also compare the characteristics of the sectors in other regions to those in BC, using publicly available data.

- Develop **recommendations** on how industry and government can work collaboratively to capture identified market and business development opportunities through enhanced supports, collaboration, and research.[58]

Chart 11: Research Components



3.2 SCOPE

The key sub-sectors included in the review include breweries wineries, fruit wineries, meaderies, cideries, and distilleries as well as selected non-alcoholic beverage sub-sectors (excluding bottled water and ice). The survey will also include hops producers who will provide input primarily on the key trends affecting the sector and the opportunities and constraints for development. The survey may include companies that produce bottled water and ice if they are also significant producers of other beverage products which are within the scope of the study.

[58] Recommendations pertaining to liquor policy changes including licensing and regulation that are not specific to beverage production and processing are excluded.

3.3 FOCUS OF THE RESEARCH

We have translated the objectives of the study into six key research questions to be answered by the research. The analytical framework on the following page summarizes key indicators and data sources that will be used to address each question. The questions include:

1. **What are the characteristics of the beverage processing sector and sub-sectors in BC?** The study will rely primarily on industry data and literature to develop a broad profile of each of the sub-sectors.

2. **What are the characteristics of beverage processing companies within these sub-sectors?** The study will then use the results of the survey, combined with some data (primarily wage data) to develop a more detailed profile of the characteristics of the businesses active in each sub-sector.

3. **What key trends (e.g., market, production, technology) represent major opportunities and threats for the sector?** The study will use input obtained through the survey, key informant interviews. and focus groups, combined with a literature review to review key product, market, technology, processing, business model and other trends, their relevance to particular sub-sectors, and what opportunities and threats they present.

4. **How do the industry characteristics and the policy, programming and regulatory environment in BC compared to that in other selected jurisdictions?** Using the industry data, we will compare the characteristics of sub-sectors in other regions to the characteristics in BC. We will also develop a profile of policy, support programs, and other government incentives in comparison regions and review trade considerations for the sector (e.g., NWPTA, CTPPT, CUSMA, CETA, etc.).

5. **What are the comparative strengths and weaknesses of the sub-sectors?** The study will use the industry survey, key informant interviews and focus group to identify strengths on which the BC sub-sectors can grow and constraints to growth. We will review the comparative position of BC sub-sectors by comparing the characteristics to those in other jurisdictions.

6. **What actions should be considered be taken to promote further development of the beverage processing sector in BC?** Considering the results of the SWOT analysis, recommendations provided by industry, key informant interviews, the focus participants, and the lessons learned from reviewing other jurisdictions, we will outline potential strategies, actions and programming support that could be considered to promote further development of the beverage processing sector and its sub-sectors. The focus is policies, programs and related to production and processing (including productivity, profitability, output, and quality).

Table 2: Analytical Framework

Research Areas	Indicators	Data Sources
What are the characteristics of the beverage processing sector and sub-sectors in BC?	▪ Profile of the sub-sectors and sector overall (revenues, regional distribution, establishments, employment, wages, range in number of employees, costs of materials and suppliers, exports by product and market)	▪ Industry data
What are the characteristics of beverage processing companies within these sub-sectors?	▪ Characteristics of the companies surveyed by sub-sector (revenues, % of revenues from sales of beverages, categories produced, revenues by category, production volumes, FTE employment, FTE production employment, productivity, wage costs as percent of revenues, contribution margins, sales by regional market and channel, projected increase in revenues/priority placed on growth, years in operation, level of vertical integration, purchase of agriculture inputs, investments in R&D/focus of investments, and capital investment/adoption of new technologies).	▪ Survey of companies ▪ WorkSafe BC data
What key trends (e.g., market, production, technology) represent major opportunities and threats for the sector?	▪ Recent product and market development trends, successes, and challenges ▪ Key technological trends relevant to beverage processing ▪ Trends in production and business models ▪ Other key trends (e.g. labour, agriculture inputs, capital, etc.) impacting the sub-sectors	▪ Literature review ▪ Survey ▪ Key informant ▪ Focus groups
How do the industry characteristics and the policy, programming and regulatory environment in BC compared to that in other selected jurisdictions?	▪ Profile of the sub-sectors/beverage processing sector in other regions ▪ Benchmarking of BC against the characteristics of other regions ▪ Comparison of policy, support programs and other government incentives in comparison regions (B.C., Ontario, Quebec, Nova Scotia; Australia, France, USA), and of current trade considerations for the sector (e.g., NWPTA, CTPPT, CUSMA, CETA, etc.).	▪ Industry data ▪ Literature ▪ Cross-jurisdictional review (online and interviews) ▪ Key informants
What are BC's comparative strengths and weaknesses in each sub-sector and overall?	▪ Key strengths on which the sub-sectors can growth ▪ Factors constraining the potential for growth (priority placed on growth, resistance to change among businesses in the sector, production capacity, access to markets, warehousing and transportation, competition, access to capital, labour and agriculture inputs, regulatory environment, technical expertise and other)	▪ Surveys ▪ Key informants ▪ Focus groups ▪ Comparative analysis within BC and within other jurisdictions

Research Areas	Indicators	Data Sources
What actions should be considered be taken to promote further development of the beverage processing sector in BC?	▪ Recommendations from industry and key informants ▪ Review of approaches undertaken in other jurisdictions ▪ Assessment of potential strategies, actions and programming support that could help promote market development and enhance the production and processing capacity, modernization, and competitiveness of the BC's beverage sector/recommendations for potential future research and supports that could assist productivity and growth over time.	▪ Survey ▪ Key informants ▪ Focus groups ▪ Lesson learned from other jurisdictions

3.4 LINES OF EVIDENCE

Phase II: Engagement and Field Research

In Phase 2, we will undertake an extensive engagement with representatives of the beverage industry, which will involve:

1. Survey of BC beverage processors

The purpose of this survey will be to complement the available statistical data on each of the beverage sub sectors by obtaining input directly from the beverage processors. A copy of the draft letter that we would send asking them to participate and the questionnaire is provided in Appendix 1. To conduct and complete the survey, we will:

- *Develop a comprehensive database of the BC beverage producers.* The target population for the survey will be BC beverage processors across a wide range of sub-sectors and regions as well as hop producers. We will use the lists already provided to us already, augmented by an FOI request regarding beverage processors registered with WorkSafe BC. The existing lists do not have contact information, but we are seeking to fill gaps through referrals from the industry associations and online resources.

- *Post the questionnaire online, conduct a pre-test, and finalize the instrument.* We will conduct an internal test and then an external pre-test (online and telephone) of about five respondents. The purpose will be to field test the survey instrument to determine whether the questions are clear, well-understood, and unbiased, whether the multiple-choice answers are appropriate, the standard time required for completion, and the effectiveness of the flow and skip patterns.

- *Invite the producers to participate.* We will first send an e-mail or letter to each target respondent requesting their participation. The email/letter will refer them to the website where they could complete the survey online. Alternatively, the potential respondents will be invited to contact us by e-mail or by telephone (toll-free) to set up an appointment to complete the survey by telephone.

- *Follow-up by e-mail and telephone*. We will distribute at least three e-mail reminders and conduct follow-up telephone calls to confirm receipt of the letters, obtain alternative contact information (e.g. names, telephone numbers, and e-mails) or referrals to replacement contacts where relevant, and schedule a telephone interview with representatives who prefer this mode. In following up with prospective respondents, we will place highest priority on those sub-sectors, types of organizations, and sizes where the response rate has been lower.

- *Prepare the database of survey results.* Upon closing the survey, we will clean the data in SPSS and code the open-ended questions. The survey data will include an identifier that could be used to link the survey data with the population list of companies. We will generate data tables with frequencies for each survey question, undertake cross-tabulations to compare the responses by different types of respondent groups, and run tests of statistical significance.

- *Extrapolate the survey results.* We will use the results of the survey and the population database to develop detailed estimates regarding size of the sector, level of employment, and revenues (e.g., divided by sub-sector, type of organization, region, etc.). We will use confidence intervals to illustrate the level of statistical accuracy associated with each of the estimate developed.

We recommend that we offer survey respondents a summary of the findings from our research, in return for participating in the research. The summary would only be distributed to participants (either by us or the Ministry) after being approved by the Ministry.

2. Key informant interviews

We will conduct interviews with 30 to 40 key informants familiar with beverage sector in BC including representatives of sector and sub-sector associations, policy makers, researchers, industry experts, marketing experts, institutions supporting advanced manufacturing and innovation targeting beverage producers, regulators, and others. The list of key informants is being developed in association with the Ministry and will be added to over the course of the study. A copy of the invitation letter and key informant guide is provided in Appendix 2.

3. Cross jurisdictional scan

We will compare BC against other jurisdictions in terms of:

- The characteristics of the sub-sectors/beverage processing sector in BC (e.g., revenues, establishments, employment, wages, exports by product and market, etc.) using available industry data and relevant literature

- The policy, support programs and other government incentives available to promote development of the sector

We will also review the current trade considerations for the sector (e.g., NWPTA, CTPPT, CUSMA, CETA, etc.). The review will focus on:

  - Canada (Ontario, Quebec, and Nova Scotia)
  - Australia (South Australia)
  - France
  - USA (Washington State, Oregon, and California)

To conduct the scan, we will first review any publicly available data such as industry reports, policy and program descriptions, etc. We will then identify government and industry from these other jurisdictions invite them to participate in interviews and provide them an interview guide in advance. The interviews will focus on identifying any additional reports and documents, and discussion of factors contributing and constraining future growth and development of the sector as well as government policies and programs designed to address potential barriers. Based on findings of the research we would develop a profile of the processing policies, support programs, and other government incentives that exist in each jurisdiction. The profile will also highlight some of the lessons learned and best practices in other jurisdictions that can potentially be applied in BC.

4. 2 to 3 focus groups

We will stage a series of 2 to 3 focus groups, likely organized along sub-sector lines, to discuss the findings of the study and develop recommendations for improvement. We will invite a cross-section of representatives including industry, sector and sub-sector associations and representatives of BC government, and others to attend. The discussions will be used to confirm some of the major findings of the research as well as discuss the potential implications of the findings in further development and growth of the sector. From the interviews with key informants and survey of producers, we will determine those who have the highest potential to contribute round table discussions and we will confirm the final list with AFF. The discussions will likely be held on Zoom and be divided into three components:

- *First Component* - a presentation by Qatalyst on the purpose, process, and use of the study, major findings to date (from the document review, interviews, and survey), and the structure of the roundtable session.

- *Second Component* - a high level group discussion of key trends and issues, gaps, and needs. We will invite participants to identify key opportunities and challenges that should represent a high priority. We will then call on individual participants to explain the opportunities or challenges that they consider to be a high priority, either building on what others have already said or introducing new needs to the group.

- *Third Component* – an exploration of potential recommendations to address the identified issues, gaps, and needs. The remainder of the session will then focus on a more detailed discussion of possible options and strategic directions for the sector and government in pursuing these opportunities and addressing these challenges.

5. Further research into potential strategies, actions and programming support that could help promote market development and enhance the production and processing capacity, modernization, and competitiveness

This may involve further following up with polices, programs or incentives in other jurisdictions that are similar to that proposed or with those who may be involved in or impacted by implementing actions in BC.

Phase III: Reporting

Phase 3 will involve analysis of the research findings and development of a detailed report illustrating the key findings. Specific steps that we will undertake as part of this step, will include:

6. Analysis of research based on the analytical framework

As part of this process, we would:

- Develop a comprehensive overview of B.C.'s beverage sector and sub-sectors.
- Identify major current challenges and issues faced by the sector in areas such as markets, quality profitability, modernization, productivity, and access to labour and capital.
- Undertake SWOT analyses of each sub-sector and beverage sector overall, explaining the strengths and weaknesses and external opportunities and threats that will affect future growth and long-term viability.
- Benchmark industry performance against other jurisdictions using measures such as revenue, production volume, employment, and productivity using publicly available data.
- Develop a profile of beverage production and processing policies, programs, and other incentives used to promote development of the industry in other regions in Canada and abroad. We will also compare the characteristics of the sectors in other regions to those in BC.
- Develop recommendations on how industry and government can work collaboratively to capture identified market and business development opportunities through enhanced supports, collaboration, and research. BC's policies and programs where they are not specific to production and processing (including productivity, profitability, output, and quality).

7. Draft report

The report will provide a complete and a comprehensive overview of B.C.'s alcoholic beverage sector and sub-sectors from a production and processing lens. The report will present data at both the sector and sub-sector level and will be structured to address each of the research questions outlined earlier.

8. **Draft presentation and summary of findings**

   We will develop a draft presentation summarizing the major findings, conclusions, and recommendations arising from the review. Reflecting the input received, we would then undertake any additional analysis or research to address the comments received from the AFF. If this strategy is agreeable to the Ministry, we would also prepare a summary of findings from the surveys, industry data, and literature review that could be shared with the industry.

9. **Final report and presentation**

   We will prepare and deliver a final report of the study findings, conclusions, and recommendations and present the major findings, conclusions, and recommendations to MAFF and any others invited.

3.5 TIMING

The target date for completion of the draft report is May 6, 2022 and the target date for the final report and presentation is June 3, 2022. The schedule for competing the interviews, surveys, focus groups, reports, and presentations is outlined below.

Table 3: Study Schedule and Timing

Phases and Steps		Feb	Mar	Apr	May	Jun	Due Date
1	Survey of BC beverage processors	•	•	•			
2	Key informant interviews	•	•	•			
3	Cross jurisdictional scan	•	•	•			
4	2 to 3 focus groups			•			
5	Further research			•			
6	Analyze research			•			
7	Prepare draft report				•		May 6
8	Deliver draft presentation				•		May 11
9	Prepare and present final report					•	Jun 3

APPENDICES

APPENDIX 1: SURVEY OF BEVERAGE PROCESSORS

A1.1 Introduction E-mail – Processors

Re: Growing the Beverage Sector in BC

The **BC Ministry of Agriculture, Fisheries and Food (AFF)** is conducting an extensive review of the beverage manufacturing sector in BC, including both alcoholic and non-alcoholic beverages. The purpose is to develop a detailed understanding of the sector and provide recommendations on how government and industry can work collaboratively to capture market and business development opportunities through enhanced supports, collaboration, and research.

AFF has engaged Qatalyst Research Group to assist them in completing this important review. **We want to hear from you.** This is your chance to inform development of government polices, programs and incentives that will promote market development and enhance the production and processing capacity, modernization, and competitiveness of the BC's beverage sector.

Take the Survey

The survey will take about 30 minutes to complete. If you participate, we'll share a summary of our findings with you. The information you provide through the survey will be held in confidence (the data collected will be presented only in aggregate) and not shared directly with government.

Should you have any questions, please feel free to contact me directly or Jason Basi, Sector Capacity Specialist of the Ministry of Agriculture, Food and Fisheries at Jason.Basi@gov.bc.ca.

Thank you for participating!

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A1.2 Follow-up Protocol

1. **E-mail the letter of introduction to the company/representative.**

2. (If the respondent has not already contacted us or completed the survey online) **Phone the respondent.** If the participant has already contacted us by telephone or e-mail, contact them to complete the survey according to their instructions. If we have not heard from the participant, the objectives of the call would be to introduce the survey, tell them about different ways to participate, and confirm that they received the initial e-mail or, if they did not, ask for their email address. The standard script for the call is as follows:

   My name is……….and I am calling from Qatalyst Research Group. We are working with the BC Ministry of Agriculture, Fisheries and Food (AFF) on a review beverage manufacturing industry in BC, including both alcoholic and non-alcoholic beverages. The purpose is to develop a detailed profile of the sector and provide recommendations on how government and industry can work collaboratively to promote development of the sector/

   We are conducting survey to enable us to better understand the needs of the sector and the challenges companies face. (if sent an e-mail) Do you recall receiving an e-mail about this survey? (if does not recall or if not distributed). Can I have your email address so we can forward you an e-mail? (if obtained) Thank you. You will receive an email from us shortly.

   You can participate by:

   - *Scheduling an interview time with me today* (obtain time and phone number).
   - *Completing the survey online* (follow-up with an e-mail if they do not have the link).

   Are you willing to participate in this important survey? If yes, how would you like to proceed? (if undecided, indicate that we will follow-up with them again).

   The information you provide through the survey will be held in confidence; the data collected will only be used in aggregate. Should we wish to quote your response we will not do so without your prior express permission.

3. **If respondents agree to proceed, administer the questionnaire over the phone.** Record the answers on the server. Thank the respondent for participation. If they indicate that they are not the correct person to complete the survey, obtain a referral to another person in the organization including name, phone number and email.

4. **Continue to follow up with the potential respondents who have agreed to participate to complete the surveys.**

A1.3 Survey of Beverage Processors

The BC Ministry of Agriculture, Fisheries and Food (AFF) is conducting an extensive review of the beverage manufacturing sector in BC, including both alcoholic and non-alcoholic beverages. The purpose is to develop a detailed profile of the sector and provide recommendations on how government and industry can work collaboratively to capture market and business development opportunities through enhanced supports, collaboration, and research. The Ministry needs to better understand the characteristics of each sub-sector so it can better assist their development.

Thank you for agreeing to participate in the survey. It should take about 30 minutes to complete. Approximate numbers or estimate are fine.

This is your chance to inform development of government polices, programs and incentives that will promote market development and enhance the production and processing capacity, modernization, and competitiveness of the BC's beverage sector.

We are offering to share a summary of the findings from our research with respondents. If you are interested, be sure to provide you name and email address in the boxes below.

Contact Information	Not Applicable
Company Name (required)	
Your Name	
Your Email	
Your Phone Number	

A. VOLUMES OF BEVERAGES PROCESSED

1. **In BC, does your business produce or process:**
   - ☐ Alcoholic beverages
   - ☐ Low-alcohol beverages (<0.5%) in these categories
   - ☐ Non-alcoholic beverages
   - o Not involved in beverage processing in BC (skip to B. Business Operations)

2. **We would like to find out what types of beverages and what volumes you produced in your most recent fiscal year. First of all, in what unit of measurement will you be responding?**
   - o Litres
   - o Gallons
   - o Other (please specify)

3. (if produced or processed alcohol beverages) **How much volume of the following types of alcohol beverages did you produce in your most recent fiscal year** (i.e. finished production e.g. bottled or packaged)?

Alcohol Beverage Category	Volume
Wine	
Fruit wine	
Beer	

Distilled spirits	
Cider	
Mead	
Ready to drink (RTD) alcohol beverages (e.g. flavoured alcohol beverages, hard seltzers, cocktails and long drinks, hard teas and kombuchas, wine spritzers)	
Other (please specify)	

4. (if Q1 - produced or processed alcohol beverages) **What low-alcohol beverages (<0.5%) did you produce in your most recent fiscal year?**

5. (if Q1 - produced or processed alcohol beverages) **What volume of low-alcohol beverages (<0.5%) did you produce in your most recent fiscal yea** (i.e. finished production e.g. bottled or packaged)**?**

6. (if Q1 - produced or processed alcohol beverages) **How much volume of the following types of non-alcohol beverages in your most recent fiscal year** (i.e. finished production e.g. bottled or packaged)?

Non-Alcohol Beverage Category	Volume
Juices	
Fermented beverages	
Soft drinks	
Cannabis beverage	
Coffee and tea	
Water	
Other (specify)	

B. BUSINESS OPERATIONS

7. How many years has your business had operations in BC?
- Less than 1 year
- 1-5
- 6-10
- 11-15
- 16-20
- 21-25
- 26-30
- 31 or more
- Other (please specify)

8. Is your business owner-operated (i.e. a tightly-held private company in which the owner or owners work in the business)**?**
- Yes
- No
- Other (please specify)

9. Are your operations in BC involved in:

- ☐ Growing agriculture inputs used in the processing operation (e.g., grapes, other fruit production, rice, wheat, barley, hops, etc.)?
- ☐ Beverage processing?
- ☐ Bottling and/or packaging your own beverage products?
- ☐ Bottling and/or packing beverage products produced by others?
- ☐ Retailing?
- ☐ Other (please specify)?

10. (if Q9= growing agriculture inputs) **How many acres did you have in production in your most recent fiscal year?**

11. (if Q9= growing agriculture inputs) **Did you produce hops?**
- o Yes
- o No
- o Other (please specify)

if Q1=Not involved, Skip to Section G

12. (if Q9=growing and processing) **Approximately what percent of the value of agriculture products used in the production of your BC processed beverage products are produced by your growing operations in BC?**

13. (if Q9=processing) **Approximately what percent of the value of agriculture products used in the production of your processed beverage products purchased from other suppliers are grown in BC?**

C. REVENUES AND MARKETS

14. In your most recent fiscal year, approximately what were the revenues of your operations in BC?
- o $0 to $99,999
- o $100,0000 to $249,999
- o $250,000 to $499,999
- o $500,000 to $999,999
- o $1,000,000 to $4,999,999
- o $5,000,000 to $9,999,999
- o $10,000,000 to $14,999,999
- o $15,000,000 to $19,999,999
- o $20 million or more

15. What percent of that revenue came from sale of beverages processed by your company in BC?

16. Approximately what percent of your BC beverage processing revenues were generated from sales to purchasers located in:

Location of Purchasers	Percent
BC	
Rest of Canada	
Outside of Canada	

Other (specify)	
Total	100%

17. (if have sales outside of BC) **What region(s) represent your major markets?**

18. Approximately what percent of your BC beverage processing revenues were generated through following sales channels?

Sales Channels	Percent
Own retail (e.g., tasting room)	
Other direct sales to consumers	
Sales to wholesalers or distributors	
Food & beverage (restaurants, pubs, school and hospital cafeterias, catering operations)	
BC Liquor Distribution Branch	
Private liquor stores	
Other retail	
Other (please specify)	
Total	100%

19. Approximately what percent of your BC beverage processing revenues were generated through sales under your company's label (rather than another brand or a private label)?

20. Over the next three years, do you anticipate that the revenues of your company will:

- Increase significantly?
- Increase somewhat?
- Stay about the same?
- Decrease somewhat?
- Decrease significantly?
- Other (please specify)

If not increase significantly or increase somewhat, skip to Section D

21. By what percent?

22. Will that increase primarily occur from:

- ☐ Opening up new markets?
- ☐ Broaden product lines in existing markets?
- ☐ Increasing market share in existing markets?
- ☐ Other (specify)?

D. EMPLOYMENT

23. In your most recent fiscal year, how many full-time equivalent employees (FTEs) did you have in your BC operations?

24. Of these, how many FTEs were involved in:

Location of Purchasers	Percent
Growing operations	
Beverage processing operations	
Other operations (please specify)	
Total	100%

25. During the past three years, has your company employed any Temporary Foreign Workers in your most recent fiscal year?

26. In your most recent fiscal year, approximately what were your company's wage costs as a percent of revenues in BC?

E. PRODUCTION OPERATIONS

27. The contribution margin for a beverage processing operation can be defined as revenues less direct processing labour costs, supplies and packaging. As a percent of revenues, approximately what is your typical contribution margin as a percent of revenues?

Location of Purchasers	Percent
Revenues	**100%**
Less:	
Direct labour costs (processing)	%
Supplies and packaging	%
Other operations (please specify)	%
Contribution Margin	%

28. Is the operation planning to make a significant capital investment in the next two years?

- ○ Yes
- ○ No
- ○ Other (please specify)

29. (if Q28=yes) **What will be the primary objective(s) of the investment?**

- ☐ Expand production of existing products
- ☐ Product line extension
- ☐ Replaced aging equipment
- ☐ Improve quality (better meet or exceed buyer's standards, requirements or expectations)
- ☐ Improve production efficiency/cost reduction
- ☐ Offset labour costs or shortages
- ☐ Reduce negative environmental impacts (e.g., choice of packaging)
- ☐ React to regulatory requirements
- ☐ Other (specify)

30. Have you made or are you planning to make investments in the next two years in:

Examples of Advanced Manufacturing	Made	Planning

Advanced robotics and automation?	☐	☐
Smart technologies (sensors/IoT)?	☐	☐
Artificial intelligence (AI) / predictive analytics (big data)?	☐	☐
Lean manufacturing processes?	☐	☐
Flexible manufacturing systems?	☐	☐
Other (please specify)?	☐	☐

F. RESEARCH AND DEVELOPMENT

31. Did you invest in R&D in the past year?
- Yes
- No
- Other (please specify)

32. (if Q31-yes) **Have you or are you planning to claim SR&ED tax credits for these investments?**
- Yes
- No
- Other (please specify)

33. (if Q31=yes**) Was the focus of that investment to:**

- ☐ Develop new technology, products or services?
- ☐ Improve or adapting existing technology, products and services?
- ☐ Improve productivity (e.g., reducing labour and material inputs)?
- ☐ Improve manufacturing processes?
- ☐ Develop prototypes?
- ☐ Develop pilot plants?
- ☐ Other (please specify)?

G. OUTLOOK FOR THE SUB-SECTORS IN WHICH THEY ARE INVOLVED

34. In your opinion, on a scale of 1 to 5, where 1 is no potential at all, 3 is some potential, and 5 is significant potential, how significant is the potential for growth in the BC beverage sub-sector(s) in which your business is involved?
- 1 No potential at all
- 2
- 3 Some potential
- 4
- 5 Significant potential
- Other (please specify)

35. What do you see as the major opportunities for your sub-sector(s)?

36. On what strengths can the sub-sector(s) in BC build in pursing these opportunities?

37. What are the major market, production and technology tends that will impact the future growth of your sub-sector(s)?

38. **On a scale of 1 to 5, where 1 is not a constraint, 3 is somewhat of a constraint, and 5 is a major constraint, to what extent are the following factors likely to constrain future growth in the sub-sector(s)**
    - Existing production capacity
    - Local market size
    - Access to markets/distribution channels
    - Strong competition from other regions
    - Access to capital
    - Access to needed agriculture inputs
    - Warehousing and transportation
    - Resistance to change among businesses in the sector
    - The low priority placed on growth by most organizations
    - Labour challenges (e.g., availability, skills, wages)
    - Regulatory environment
    - Access to technical expertise (e.g., research, business, operations, marketing)
    - Other (specify)

39. **In summary, what do you see as the major constraints that need to be addressed in order to accelerate growth of the sub-sector?**

40. **What strategies, actions, and programming support do you recommend government and industry take to help develop markets, enhance production and processing capacity, and improve the competitiveness of BC's beverage sector?**

H. OTHERS TO TALK TO

41. **Lastly, do you have recommendations regarding others we should be sure to survey?**

Name	Company	Email

Thank you for your responses!

APPENDIX 2: KEY INFORMANTS

A2.1 Introduction E-mail – Key Informants

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The **BC Ministry of Agriculture, Fisheries and Food (AFF)** is conducting an extensive review of the beverage manufacturing sector in BC, including both alcoholic and non-alcoholic beverages. The purpose is to develop a detailed understanding of the sector and provide recommendations on how government and industry can work collaboratively to develop markets, enhance production and processing capacity, and improve the competitiveness of the sector in BC.

AFF has engaged Qatalyst Research Group to assist them in completing this important review. As part of the review, **we want to hear from you.** We want to get your perspective on the current state of the sector, the opportunities for development and actions that government and industry could take to?

The interview will take 30 minutes to 45 minutes to complete. Please let us know your availability and we will follow-up to set up a call. We look forward to speaking with you.

Should you have any questions, please feel free to contact me directly or Jason Basi, Sector Capacity Specialist of the Ministry of Agriculture, Food and Fisheries at Jason.Basi@gov.bc.ca.

We look forward to speaking with you!

Ted Weicker, C.M.C., C.E.
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Ted.Weicker@Qatalyst.ca

A2.2 Interview Guide – Key Informants

The BC Ministry of Agriculture, Food and Fisheries (AFF) has commissioned Qatalyst Research Group to undertake primary research to develop a complete and comprehensive overview of BC's beverage sector (and sub-sectors) and prepare a framework to guide the future development of the industry. The Framework will identify benchmarks, assess gaps that currently exist, and provide recommendations that will assist improving productivity and growth of the sector.

The scope of the assignment will include key sub-sectors within the industry including breweries, wineries, fruit wineries, meaderies, cideries, and distilleries. In addition, the assignment will cover activities of the non-alcoholic beverages and cannabis beverages sub-sectors to provide a holistic understanding of the beverage sector overall.

As part of the assignment, we are conducting interviews with representatives of industry, government, and experts. You are being asked to participate in this assignment due to your involvement and/or familiarity with the BC beverage sector.

CONTACT INFORMATION

Respondent	
Organization	
Phone Number	
Email	

A. INVOLVEMENT IN THE SECTOR

1. **What is your role with respect to the BC beverage sector?**

2. **In which particular sub-sectors or product categories within the beverage sector are you most active or involved?**

B. SECTOR OVERVIEW

3. **What is the current state of BC beverage industry** (or sub-sector with which you are familiar)?
    - Size
    - Growth
    - Profitability
    - Productivity
    - Market positioning/product quality?
    - Equipment and technology adoption
    - Competitive position relative to other regions

4. **How does the health of the sector vary across product categories, size of operations, regions, etc. Within your areas of interest, what types of companies tend to be doing well and which are doing less well? Why is that?**

5. **What are the major product, market, production, competitive, and technology trends affecting the sector? How do you see the sector evolving over the next five years?**

6. What do you see as the major opportunities to further develop the sector/sub-sector (e.g. markets, products, competitiveness)? How significant is the potential for growth?

7. What are the major competitive strengths of the sector in BC on which it can build?

8. What policies and programs, including those not specific to beverage production and processing, are contributing to the development of the industry? Which are not?

9. Going forward, what are the key factors most likely to constrain growth?

- Existing production capacity
- Local market size
- Access to markets/distribution channels
- Strong competition from other regions
- Access to capital
- Access to needed agriculture inputs
- Warehousing and transportation
- Resistance to change among businesses in the sector
- The low priority placed on growth by most organizations
- Labour challenges (e.g., availability, skills, wages)
- Regulatory environment
- Access to technical expertise (e.g., research, business, operations, marketing)
- Other (specify)

10. What strategies, actions, and programming support do you recommend government and industry take to help develop markets, enhance production and processing capacity, and improve the competitiveness of BC's beverage sector?

11. Who else should we be sure to interview or survey?