****

9B19M139

DIAMOND ESTATE WINES & SPIRITS, INC.: GROWTH CHALLENGES IN A FRAGMENTED INDUSTRY[[1]](#endnote-2)

Ann Dulhanty and John Love wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com. Our goal is to publish materials of the highest quality; submit any errata to publishcases@ivey.ca. i1v2e5y5pubs

Copyright © 2020, Ivey Business School Foundation Version: 2020-10-23

In 2019, 15 years after it entered the Canadian wine industry, Diamond Estate Wines & Spirits Inc. (Diamond) was poised for growth. In a fragmented industry with local, national, and international competition from well-established and new players, Diamond had a position in many industry subsegments. Selecting a path to achieve its growth objective presented a formidable challenge for this small Ontario business.

The Wine Industry

Wine was an interesting product: it was a beverage, but also a social occasion. It could also be given as a gift and had cultural and aspirational connections. Although there may have been healthy benefits associated with wine, alcohol abuse was clearly linked to serious threats to human health and safety.[[2]](#endnote-3) Despite an ancient history, the wine industry, both worldwide and in Canada, was projected to continue modest growth over the next few years.[[3]](#endnote-4) Some jurisdictions, such as France, Italy, and Quebec, reflected mature wine-consuming markets. Other markets demonstrated growth, such as China, the United Kingdom, and Ontario.[[4]](#endnote-5)

Worldwide, 28.4 billion litres of wine were produced in 2015, with Italy and France contributing 17 per cent each, followed by Spain (13 per cent), the United States (10 per cent), Chile (4.5 per cent), and Australia (4.2 per cent).[[5]](#endnote-6) Wine that was 100 per cent Canadian only constituted 0.3 per cent of the world’s supply, ranking Canada 35th on the list of wine exporters; 62 per cent of Canadian exports by value was ice wine.[[6]](#endnote-7) In 2015, Canada was the 11th-largest consumer of wine in the world, consuming 522 million litres.[[7]](#endnote-8) The United States was the largest consumer of the fermented grape, followed by France and Italy; however, per capita wine consumption was somewhat different, with 15 European countries ranking higher than the United States.[[8]](#endnote-9) Like Canada, the US market had recently seen annual growth in sales in the 5–6 per cent range.[[9]](#endnote-10)

The gap between the consumption and production of wine in Canada was filled by imported wines (see Exhibit 1). The market share held by Canadian wines was the result of a hard-won evolution. Shifts in consumer preferences, grape growing, and legislation allowed Canadian products to wrestle 30 per cent market share from imports.[[10]](#endnote-11) While the quality and breadth of wines produced in Canada continued to grow, competition with imports remained intense. The amount of wine imported into Canada from Italy and France was relatively stable, whereas there was an increasing volume of Australian and Chilean wine (see Exhibit 1).

Wine production in Canada consisted primarily of bottling and blending. In 2013, only 30 per cent of wine offered by Canadian manufacturers was from 100 per cent Canadian grapes.[[11]](#endnote-12) Similarly, of the Canadian wine consumed by Canadians, 20 per cent was made from 100 per cent Canadian grapes.[[12]](#endnote-13) However, the number of wineries in Canada increased 8 per cent annually between 2011 and 2015. Many of the 600 Canadian wineries were family run, with just a few acres, but were more likely than larger wineries to create 100 per cent Canadian wines. The industry made important contributions to the economy through wine-related tourism and the average CA$4.58[[13]](#endnote-14) per bottle of tax revenue (half provincial and half federal).[[14]](#endnote-15)

In Ontario and Canada, a significant shift had occurred in wine purchases over the past few years. Overall, Canadians purchased $22.1 billion dollars of alcoholic beverages in 2016, of which, 41.5 per cent was beer and 31.6 per cent was wine.[[15]](#endnote-16) This sharply contrasted with the previous decade, when beer made up 46.7 per cent of sales and wine only 27 per cent. In a Liquor Control Board of Ontario (LCBO) survey, when asked why they had switched from beer to wine, customers cited a desire for a healthier lifestyle and wine’s possible health benefits; however, the availability of moderately priced and easy to drink wines was also recognized as a factor (see Exhibit 2).

As the legalization of recreational cannabis unfolded in Canada, industry observers heatedly debated the impact on various segments of the alcoholic beverages industry. Cannabis might fulfil certain entertainment and social needs in the same way as alcoholic beverages, and it could hold advantages in health benefits, either through direct means (e.g., fewer calories, no hangover) or long-term effects (which were not as well known for cannabis). Would there be a selective impact on one category of beverage—wine, beer, or spirits—or on certain market subsegments?

Wine Product and Production

The main wine product categories were red, white, rosé, and sparkling wines. In 2016, wine sales in Canada were split 54.5 per cent red, 32 per cent white, and 5.2 per cent sparkling wine.[[16]](#endnote-17) Wines were characterized by the type of grape used to make the wine, the region where the grapes were grown, the winery, and the label or product line. Wines were either made exclusively from one type of grape or were blended. Of the three value categories—vin ordinaire (also called “table wine”), mid-value wines, and premium wines—table wine tended to be blended, while premium wines were varietals with specific appellations from award-winning wineries. Old world or new world wines referred respectively to grapes grown in centuries-old European vineyards or to those produced in “newly” settled countries in the Americas as well as Australia. In Canada, the vines had to survive the harsh winter conditions, and so hybrids were grown—crosses of the local grape stock with European varietals such as Chardonnay and Cabernet Sauvignon. One-third of Ontario’s 15,000 acres of vineyards grew hybrids such as Vidal, Seyval Blanc, Baco Noir, and Marechal Foch, while the remainder were varietals.[[17]](#endnote-18) All wine grapes were one species, with 10,000 different strains. Other species were used for non-alcoholic juices or eaten as fruit.[[18]](#endnote-19)

The most popular wine types as described by wine connoisseurs were, in the category of reds, Cabernet Sauvignon, Merlot, Pinot Noir, and Shiraz; in the category of whites, they were Chardonnay, Sauvignon Blanc, Riesling, and Pinot Grigio.[[19]](#endnote-20) By area planted, Cabernet Sauvignon, Chardonnay, Merlot, Shiraz, Grenache, Sauvignon Blanc, and Pinot Noir dominated.[[20]](#endnote-21)

Wines from different wineries made with the same type of grape shared some characteristics, but not all. For example, Pinot Noir red wines were lighter than Merlot or the Cabernet Sauvignon that might accompany a meal, while Shiraz were considered easy-drinking wines. Sauvignon Blanc was a dry white wine, more so than Chardonnay or a sweet Riesling. Differences resulted from grapes that differed in sugar content, influencing the sweetness of the wine and the alcohol content; tannin levels affected flavour, acidity, colour, and astringency.[[21]](#endnote-22)

Grapes were the single most important contributor to wine quality. Determinants of grape quality included the orchard, weather, and discretionary features imparted by the knowledge and experience of the head grower. Generally, hand-picking was more expensive than mechanical harvesting but provided a better raw material for winemaking. Cold-climate growing areas tended to have variable yields, and harsh weather could completely wipe out a vineyard. Wineries might grow all of their own grapes, or they might buy from grape producers. Depending on whether the wine was blended or varietal, the price varied by a factor of four. In 2017, hybrid grapes cost about $1,000 per ton in Canada, and the most desirable Shiraz cost over $2,000 per ton.[[22]](#endnote-23) Blending of wines allowed the winery to create products that were more attractive than single-grape products, and premium products with added taste complexity.[[23]](#endnote-24)

Ice wine could only be produced in climates that were warm enough to grow grapes in the summer but cold enough to freeze them in late fall—a critical step that could not be imitated by technology (yet). Only Canada and certain Scandinavian countries produced this sweet wine that was often consumed with, or as, dessert—like a liqueur would be. It was said that ice wine had provided Canada with credibility in the international wine industry.[[24]](#endnote-25)

Wine quality could be associated with an appellation—that is, a name or description, legally defined and protected, that ensured certain aspects of the wine. In Canada, Vintners Quality Alliance (VQA) imposed criteria on where the grapes were grown; ensured that the wine was made with 100 per cent fresh grapes of verified quality (by sugar content), without the addition of water; and certified correct labelling and that the wine had been evaluated by an expert panel for quality. The designation was important to wine lovers, reflecting place while also promising quality and authenticity.[[25]](#endnote-26)

The winemaking process had been much the same for centuries, consisting of pressing the selected grapes, fermentation, processing, and aging.[[26]](#endnote-27) However, data analysis approaches were being broadly introduced to improve the quality and efficiency of grape-growing and winemaking. Good manufacturing practices were observed to ensure physical, chemical, and biological safety for the product as well as the workers.[[27]](#endnote-28)

Starting a winery was a significant investment. In *Small Winery Investment and Operating Costs*, Le Ann A. Fickle and colleagues suggested that a modest operation of 5,000 cases per year required close to US$1 million in grape-growing and winemaking equipment, land, bottling supplies, and labour.[[28]](#endnote-29) Agricultural land was sold at a premium in designated viticultural areas. Wooden barrels for aging wine—cooperage —could be 9 to 22 per cent of the initial investment. Economies of scale in wineries were realized in marketing and administration costs.[[29]](#endnote-30)

In Ontario and in Canada as a whole, operating a winery was heavily regulated.[[30]](#endnote-31) Even processing wine grapes required a permit, issued by the Ontario Farm Products Marketing Commission. Wine sales, including pricing, were regulated by the LCBO—even for sales conducted outside their stores. In addition to sales and excise taxes, labelling, product size, and product content were regulated by bodies such as the Alcohol and Gaming Commission of Ontario and VQA Ontario. Headlines highlighted the challenges with the interprovincial trade of alcoholic beverages, which became particularly vexing as online shopping grew into an interesting channel for wine.[[31]](#endnote-32) With the global nature of wine sales, sales restrictions imposed by local governments were contentious.[[32]](#endnote-33)

Wine sales in Ontario grocery stores favoured locally produced wines, but this channel was only available at a quarter of the planned locations in 2018.[[33]](#endnote-34) It was possible that retail in Ontario would move to the Quebec model, with wine and beer available in corner stores.[[34]](#endnote-35) Most wineries sold their product through their own online channel. In a 2017 US study, direct-to-consumer (D2C) sales made up about 4.0 per cent of total wine sales and were growing at 15.5 per cent year over year.[[35]](#endnote-36)

Wine Consumers and Consumption

Wine buyers selected their wine on the basis of familiarity with the wine or country of origin, were influenced by price and feature tags that described similarities to other wines, selected new wines they had read about or been recommended by friends, were attracted to the label design, and, if they had tasted the wine, were influenced by the aroma, structure, taste, and depth.[[36]](#endnote-37) When selecting between red varietals, price, reputation, taste, food pairing, alcohol content, sweetness, and new or old world influence were factors.[[37]](#endnote-38) Price, brand, and region of origin were associated with trust in consumers, but overall, the key attributes of wine were price, region of origin, grape variety, and brand. Notably, brand loyalty and price promotions were not a strong influence on buyers.[[38]](#endnote-39) Quite a few wine buyers (18 per cent of a representative sample of Canadians) were either confused by the choices or felt intimidated when buying wine, while only 7 per cent found buying wine easy.[[39]](#endnote-40) Sales of wine peaked in December and were lowest in the months that followed the holiday season.[[40]](#endnote-41)

High-frequency wine consumers (greater than one instance per week) drove growth in the US market, consuming 81 per cent of the country’s wine. Splitting this group into high, medium, or low spenders for a bottle of wine, the high spenders were the most involved with wine, enjoyed wine tourism, and were more likely to buy directly from the winery or online. The low spenders were more likely to buy their wine at the grocery store and use apps for coupons. The average age of the high and medium spenders was significantly younger than that of the low spenders.[[41]](#endnote-42)

In 2016, wine consumption in the United States roughly paralleled population demographics, with baby-boomers consuming 34 per cent, millennials 36 per cent, and Generation X-ers 18 per cent.[[42]](#endnote-43) This trend was echoed in Canada, where the LCBO divided their customers as 33 per cent baby boomers, 36 per cent millennials, and 18 per cent Generation X-ers. In the younger generations, wine was more likely to be consumed socially than with a meal, as it was by older generations.[[43]](#endnote-44) Younger or inexperienced wine consumers tended to prefer fruitier blends, such as red wine blends, sparkling and sweeter white wines, and those with sustainable business practices.[[44]](#endnote-45) This group was also more likely to purchase different brands; they sought variety. Expert consumers valued region of origin more than inexperienced wine consumers. Knowledge was important for these expert consumers. Many apps tracked consumption and enabled wine knowledge sharing.[[45]](#endnote-46)

A small study of Chinese wine consumers indicated that wine was valued as a status symbol.[[46]](#endnote-47) Three clusters of consumers with varying characteristics were identified: those with little wine experience favoured famous wine-growing regions, such as the French Bordeaux; traditional consumers sought an alcoholic beverage; and those looking for a quality wine product based their buying decision on the taste of the wine.[[47]](#endnote-48)

In a comparison of wine drinkers from European producer countries (the mature markets of France, Spain, and Italy) and those from growth markets (the United Kingdom and Germany), it was found that wine consumers in the growth markets resembled American consumers.[[48]](#endnote-49) These wine drinkers were more likely to have a higher income, be married, and drink beer than the wine drinkers in the mature markets were. This suggested a similarity to Canadian wine consumers, who were switching to wine from beer, as it was perceived to be healthier. Food matching was important in the mature European markets.[[49]](#endnote-50)

The average price for a bottle of wine purchased through the D2C channel was about 50 per cent higher than that of a bottle purchased in a traditional retail setting, suggesting that the wine aficionados favoured the D2C channel.[[50]](#endnote-51) While there were many similarities in the Canadian and US markets, in the United States, retail outlets for wine were more diverse than in Canada; for example, 10 per cent of wine sales were through Costco stores). Cabernet Sauvignon and Baco Noir were the most popular wines purchased online. Interestingly, users of the D2C channel in the United States tended to be from states with many wineries. Wine was also purchased at bars and restaurants, where recommendations from waiters along with the grape variety were key factors in the purchase decision. In Canada, wine sales in restaurants were between 10 to 15 per cent of total wine sales, but this did not present a growth channel for the product.[[51]](#endnote-52)

Many wineries began selling through an on-site store before battling the complexities and competition of distribution through powerful retailers such as the LCBO. In fact, it may have been close to impossible for small wineries to meet volume requirements for the LCBO. Under the North America Free Trade Agreement, only the winery’s own products could be sold in these winery stores. However, the LCBO had several programs, such as monthly features, and Wines to Watch, to support Ontario wineries. Price discounting by the LCBO could have a significant impact on sales. The winery store channel was more popular with those who were knowledgeable about wine, as it satisfied the need to find something different and more authentic or to make a connection with the winemaker. Most visitors were local (83 per cent of tourists who visited Ontario wineries were from Ontario), rather than from outside the province or country.[[52]](#endnote-53)

Many industry participants recognized the “anything new” category as popular, particularly with millennial consumers. Newness could come from label, country of origin, or grape blend. Some predicted that larger bottle sizes, or alternative packaging such as boxes and bags, would sway buyers.[[53]](#endnote-54) There was even a niche for “natural wine,” or that created in a non-factory environment, such as pressed the old-fashioned way—by foot.[[54]](#endnote-55) In grape varieties, rosé wine sales were growing in both Canada and the United States,[[55]](#endnote-56) while in Ontario, Baco Noir was the fastest-growing varietal in 2016.[[56]](#endnote-57) In 2016 in the United States, Prosecco, rosé, red blends, and Sauvignon Blanc were labelled the “in” wines.[[57]](#endnote-58) The LCBO’s “favourite” wines from 2016 were Bodacious Smooth White (Arterra Wines Canada [Arterra]) and 19 Crimes Cabernet Sauvignon (Treasury Wine Estates [Treasury]). Sparkling wines were predicted to remain popular worldwide.[[58]](#endnote-59)

Another trend observed in both countries was the premiumization of wine purchases. In the United States, higher-priced wine sales grew at 14 per cent, while lower-priced bottles fell 1 per cent in the same period.[[59]](#endnote-60) An LCBO report for 2017 also indicated that sales of wines in the $15–$20 price category were the fastest-growing, at 15.4 per cent from the previous year.[[60]](#endnote-61) This was a “trading up” phenomena, considered a more ethical approach to marketing than encouraging wine drinkers to consume more. Industry observers were closely watching for an impact of the craft beer industry on wine sales.[[61]](#endnote-62)

Diamond Estate Wines & Spirits

History and Structure

Diamond, located in the Niagara Peninsula of Ontario, the viticultural region that produced the majority of the wine grapes in the province, was founded in 2001. This was an early growth stage in the Ontario wine industry. The modern era of the industry started in 1974, with the first new winery in 50 years. The VQA was created in 1988. Laws on appellation and production standards came in 1999.[[62]](#endnote-63)

The company had two business units: the Diamond winery that grew grapes and made and sold wine; and an agency business that operated as Trajectory Beverage Partners (formerly Kirkwood Diamond Canada; Trajectory), which sold and distributed wines, beer, and spirits produced by other organizations, along with Diamond wines (see Exhibit 3).

With complementary knowledge in agency operations and the Ontario wine industry, Diamond’s founders were convinced that they could create a great business in Ontario’s emerging wine industry, so they purchased two small wineries, Lakeview Cellars and Birchwood Estates.[[63]](#endnote-64) A few years later, the company merged with Niagara Cellars and founded its agency business. In 2007, two additional wine agencies were acquired, expanding the product portfolio and geographic reach. In 2008, the 20 Bees and De Sousa wineries were added to Diamond’s portfolio, increasing the firm’s acreage and proprietary wine labels. Between then and a reverse takeover on the TSX Venture Exchange in 2013, wine production facilities were consolidated, including divestitures of EastDell, Lakeview Cellars, and Birchwood Estates wineries. In 2014, the De Sousa Estates winery was partially sold, and the proceeds were redirected to other aspects the company’s operations, although Diamond maintained operations at the De Sousa location. A merger with the Kirkwood Group, which later became wholly owned by Diamond, scaled the agency business.[[64]](#endnote-65)

Diamond had been labelled an “industry consolidator.”[[65]](#endnote-66) The company had also grown organically, adding wine labels, wholly owned retail channels, and production capacity. For example, collaboration with, and investment by, Dan Aykroyd began in 2006 and led to the production of a number of successful VQA wines. Most recently, the company acquired a small winery in British Columbia, which could mark the beginning of the company’s transition from a regional focus to a national one.[[66]](#endnote-67)

Diamond had a track record of raising capital to support corporate acquisitions and organic growth. Along with private investments from collaborators, equity in the amounts of $3.2 million and $8.8 million were raised in 2015 and 2018, respectively,[[67]](#endnote-68) and a significant credit facility of $13 million was established in 2013.[[68]](#endnote-69)

People

J. Murray Souter had been chief executive officer of Diamond since the company became public in 2013. Souter brought extensive knowledge and experience in Canadian retailing to the business. A recent addition to the company was the chief financial officer Paul Dowdall, a seasoned executive with recent experience in the beverage industry. Tom Green, vice-president of Winemaking and Winery Operations, had a degree in viticulture from Brock University and had been with Diamond since 2003. Scott McGregor, winemaker, had studied at Niagara College and had 20 years of experience in various wineries in Ontario. The assistant winemaker, Jessica Wallace, was also from the Niagara region and had earned a certificate from the Cool Climate Oenology and Viticulture Institute at Brock University. In total, Diamond employed approximately 100 people, over one-half of whom were engaged in selling and marketing, one-quarter in manufacturing, and the remainder in administration.[[69]](#endnote-70)

Wine Production

Diamond had two wineries in the Niagara region, with a total of 34 acres, and had recently acquired the British Columbia winery. The year of 2017 was a record grape harvest, while poor harvests in 2014 and 2015 required the streamlining of operations to maintain financial health. In 2015, 97 tons of grapes were harvested; in 2016, 114 tons; and in 2017, 155 tons—all from the same land.[[70]](#endnote-71) After a recent expansion, Diamond had the capacity for approximately 6 million litres of wine production. Cooperage was at 1.6 million litres but not fully utilized. Interestingly, only one Canadian supplier of glass bottles served Diamond’s bottling needs.[[71]](#endnote-72)

Product Portfolio

Diamond was the third-largest producer of VQA wines in Ontario;[[72]](#endnote-73) as such, six of its labels had VQA products under them (see Exhibit 4). The company also offered blended wines. Many of Diamond’s labels, both varietals and blends, had won awards at the Ontario Wine Awards, All Canadian Wine Championships, and the National Wine Awards of Canada.[[73]](#endnote-74) Other products had come and gone from the Diamond portfolio, including a red wine and a white wine under the award-winning Hat Trick label. Fifty cents from the sale of each of these bottles had gone to charity.[[74]](#endnote-75)

With the portfolio of Diamond’s agency business, Trajectory, the company had over 120 brands. The Trajectory business unit played a major role in maintaining the key LCBO channel—a crucial asset that not many small wineries possessed. Products from Germany, France, Argentina, New Zealand, the United States, Nicaragua, and Canada included notable names: Gato Negro and Blue Nun wine, Hardy Cognac, Hpnotiq liqueur, and Waterloo beers.[[75]](#endnote-76)

Distribution Channels

Under the Lakeview Wine Co. brand, Diamond operated three of its own retail outlets as well as an online store. Although on-site sales offered limited brands, the margins were attractive in that the LCBO markup did not have to be paid, even though the selling price was set by the LCBO.[[76]](#endnote-77)

All three of Diamond’s stores were based in Ontario: its main facility was in Niagara-on-the-Lake, and it also had one store in Beamsville, at De Sousa Wine Cellars, and one in Scarborough. Each facility offered wine tasting, and those who worked at the wineries were part of winery tours. Tours were booked through a variety of independent tour organizers and were packaged with other activities or with tours of other wineries. Diamond offered snacks and picnic areas at their wineries and hosted special events, such as axe throwing and jewellery making, often with associated fundraising components.[[77]](#endnote-78)

The online wine store sold all of Diamond’s winery brands, with an associated delivery fee of a few dollars per bottle. The site was well laid out and easy to navigate, with menus offering a number of ways to select wines—by label, grape, top sellers, and personality, or as gift packs. Delivery required a signature from a person who could prove they were of legal drinking age.[[78]](#endnote-79)

Additional retail channels included provincial liquor stores and grocery stores, licensed establishments, and third-party distributors in international markets.

Strategy

Diamond’s vision was to build enduring and high-quality alcoholic beverage brands that celebrated life and achievement in a socially responsible way.[[79]](#endnote-80) Its goal was to become one of the top three Canadian wine producers,[[80]](#endnote-81) citing the sobering statistic that most wine-producing areas consumed significantly more locally grown wine than did Ontarians. However, sales of VQA wines in Ontario increased with a compound annual growth rate of 8.3 per cent between 2009 and 2015.[[81]](#endnote-82) In 2015, VQA wine purchases constituted 26 per cent of domestic wine sales and 11 per cent of all wine sales in Ontario. Grocery stores, which now carried alcoholic beverages, were an attractive channel, and Diamond worked to ensure its products were available in as many stores as possible. Trajectory, which contributed half of Diamond’s revenue and profits, was viewed as a source of consistent cash flow and as complementary to the winery business. This unit aimed to develop long-lasting relationships with suppliers, targeting producers that were not well represented in Canada.[[82]](#endnote-83)

Diamond’s owners also saw growth opportunities in international markets and believed they could leverage some of their underutilized infrastructure.[[83]](#endnote-84) The company’s financial reports stated that investment was directed toward winemaking, sales, and office infrastructure (see Exhibits 5 and 6).

**Canadian Competitors in Wine Sales**

The top Canadian brands in 2011 did not necessarily come from companies with the top market share. Constellation Brands Inc. (Constellation), which sold the Canadian arm of its wine business (now Arterra) to private investors in 2017, dominated the market with 15.7 per cent market share, followed by Andrew Peller Limited (Andrew Peller; 11.9 per cent), Treasury (4.2 per cent), Accolade Wines (3.9 per cent), and E & J Gallo Winery (Gallo; 3.5 per cent). The top five wine brands in 2011 were Jackson-Triggs (Constellation/Arterra), Fuzion (an independent Argentinian winery), Domaine d’Or (Andrew Peller), Yellow Tail (an Australian family winery), and Inniskillin (Arterra) (see Exhibits 7 and 8).[[84]](#endnote-85)

Top competitors in the VQA Ontario category came from Arterra, Andrew Peller, and Henry of Pelham Estate Winery.[[85]](#endnote-86) In 2017, Andrew Peller’s market share in English-speaking Canada was 14.6 per cent; Constellation/Arterra had a 21 per cent share in Canada and a 36 per cent share in English-speaking Canada; and Gallo was the third-largest seller in English-speaking Canada, followed by Treasury.[[86]](#endnote-87)

Andrew Peller Limited

Andrew Peller was also located in the Niagara district in Ontario, and its mission was to “pour extraordinary into everyday life”[[87]](#endnote-88) by delivering high-quality alcoholic beverages at the best possible value. The company had over 360 acres of vineyard in Ontario and, after recent acquisitions, almost 600 acres in British Columbia. The company’s bestsellers were Peller Estates, Copper Moon, Trius Winery, and XOXO Wines. Its products were divided into value, ($8 [blends] to $12 [varietal] per bottle), entry-level VQA ($12–15 per bottle), premium VQA ($12–25 per bottle), and super premium VQA ($25 and up per bottle). Recent initiatives included introducing the Wayne Gretzky Estates brand of spirits as well as differentiated packaging, such as boxes of wine, a bag of wine in a box, and Tetra Paks. In annual reports, Andrew Peller identified young consumers and older buyers seeking health benefits as growth markets.[[88]](#endnote-89)

Corby Spirit and Wine Limited

This company marketed and distributed spirits and imported wines in Canada. It sold 21 per cent of the spirits purchased in Canada. In 2016–2017, it shipped just over 1 million cases of Jacob’s Creek wines.[[89]](#endnote-90)

Concho y Toro

This Chilean winery sold 5.1 per cent of its product in Canada. In 2018, sales in Canada decreased 5.5 per cent, although volume of sales decreased 9.2 per cent in the same period.[[90]](#endnote-91)

**Truett-Hurst Inc.**

Located in California, this winery was of a similar size and in a similar development stage as Diamond’s winery business. Its D2C sales were only 27 per cent of revenue, but gross profit on this segment was 64 per cent, compared to 24 per cent of their wholesale channel. The company had started selling its products in Canada.[[91]](#endnote-92)

Treasury Wine Estates

This Australian winery, established in 1843, was one of the largest wine companies in the world, with vineyards in New Zealand, California, Italy, and Australia. Recent financial reports described a revamped approach to distribution in the United States, whereby the company was looking to shorten the value chain and achieve more direct sales and distribution agreements. This may have been a response to consolidation in the distribution industry. Their 19 Crimes label was a 2018 darling; after being named “Wine Brand of the Year” by MarketWatch, the label had a 50 per cent increase in shipments to Canada and a 131 per cent sales increase in the United States. Other strategic directions for the future included marketing improvements and building relationships with customers. To this end, Treasury had introduced augmented reality labels, where the picture on the wine label linked to a historical story.[[92]](#endnote-93)

Arterra Wines Canada

In 2017, Constellation sold its Canadian operations to private investors, which resulted in Arterra. Arterra claimed eight of the top 20 brands in Canada, including Jackson-Triggs and Inniskillin, with the top ice wine. It stated that it was “Canada’s leading producer and marketer of award-winning, globally recognized Canadian and imported wines.” Arterra operated Wine Rack, a segregated wine store within grocery stores, and also sold home winemaking kits. It had 2,000 employees, three commercial wineries, five estate wineries, and 1,700 acres across Canada’s wine-growing regions.[[93]](#endnote-94)

Constellation

Although no longer a competitor in the Canadian wine industry, the company’s strategic direction was instructive. Constellation was following a strategy of premiumization by providing more valuable products to their US customers. Constellation had also recently acquired a cannabis operation.[[94]](#endnote-95)

THE PATH AHEAD

Diamond’s goal was to become one of Canada’s top wine companies.[[95]](#endnote-96) As a broadly ambitious statement, this could mean a number of things, applying to wine quality or quantity, or both. To achieve the goal, broader distribution was likely required, which could be at a local, regional, or international level. Which metrics would be applied to demonstrate dominance—sales, awards, acreage, number of labels, number of wines? A small player in a fragmented industry, Diamond had a broad portfolio of assets spanning most of the value chain and had demonstrated a spectrum of important capabilities in a complex industry. It seemed a company bursting at the seams, ready to sprout new facets, but in which direction?

Exhibit 1: Market Share of Wine Sales in Canada and wine import Dynamics

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Market Share of Canadian Wine Sales, 2016 (%)** | **Average Annual Growth in Sales in Canada, 2012–2016 (%)** | **Average Annual Growth in Litres Imported into Canada, 2012–2016 (%)** |
| Canada | 30.0 |  |  |
| United States | 15.0 | 7.70 | 5.50 |
| France | 14.5 | 2.70 | −1.30 |
| Italy | 14.4 | 5.20 | 0.50 |
| Australia | 6.6 | −1.20 | 5.40 |
| Chile | 4.0 | 8.00 | 20.80 |
| Other\* | 15.5 |  |  |

Note: \*Fragmented and shared by various European countries, Argentina, New Zealand, and South Africa.

Source: This chart was created by the case authors using data from Statistics Canada, “Canadian Imports – Top Ten Markets in 2016,” Canadian Vintners Association, accessed February 12, 2019, www.canadianvintners.com/wp-content/uploads/2017/10/2016-Top-10-Imports.pdf; Statistics Canada,“ Canadian Wine Imports 2012–2016,” Canadian Vintners Association, accessed February 12, 2019, www.canadianvintners.com/wp-content/uploads/2017/08/Canadian-Wine-Imports-by-Country-2012-2016.pdf.

Exhibit 2: Wine Consumption by Canadian Province

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Percentage of Canadian Wine Consumption, 2015/16\* (%)** | **Growth in Wine Consumption, 2014/15 to 2015/16 (%)** | **Percentage of Canada’s Population, 2016** |
| Newfoundland | 1.1 | 7.2 | 1.5 |
| Prince Edward Island | 0.2 | 7.0 | 0.4 |
| Nova Scotia | 1.9 | 4.5 | 2.6 |
| Quebec | 33.0 | 1.6 | 23.2 |
| Ontario | 34.6 | 5.8 | 38.3 |
| Manitoba | 2.3 | 5.3 | 3.6 |
| Alberta | 8.6 | 6.4 | 11.6 |
| British Columbia | 15.8 | 4.1 | 13.2 |
| Yukon | 0.1 | 4.9 | 0.1 |

Note: \*By sales; total Canadian sales for period were $6.97 billion.

Source: Created by the case authors using data from Statistics Canada, “Control and Sale of Alcoholic Beverages, Year Ending March 31, 2016,” The Daily, May 2, 2016, accessed February 12, 2019, www.statcan.gc.ca/daily-quotidien/170502/dq170502a-eng.htm.

Exhibit 3: Diamond Estates Winery & Spirits Corporate Structure

Diamond Estates

CEO: J. Murray Souter

Headquarters: Niagara-on-the-Lake, Ontario

Trajectory Beverage

Partners

President: Christopher Terrio,

Oakville, Ontario

Agency

Business

Winery

Business

Diamond Estates

General Admin. (25% Staff),

Niagara-on-the-Lake, Ontario

Lakeview Wine Co.

Niagara-on-the-Lake, Ontario

Beamsville, Ontario

Scarborough, Ontario

Online Wine Sales

D2C

Retail

Vineyards

Winemaking

25% Staff

Niagara Region

Operations

50% Staff

Note: D2C = direct to customer.

Source: This chart was created by the case authors using data from various company documents found at www.lakeviewwineco.com/site/diamond-estates-wines-spirits, or its filings with SEDAR accessed from www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00032682.

Exhibit 4: DIAMOND ESTATE WINES & SPIRITS Inc. Product Portfolio, 2018

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Label** | **20 Bees** | **Lakeview Estates** | **Dan Aykroyd** | **Seasons** | **Fresh** | **EastDell** | **McMichael Collection** | **Tzafona Cellars** | **Backyard Vineyards** |
| Price per bottle (not including ice wine) | $11–$13 | $20–$30 | $13–$15 | $14–$16 | $13–$6 | $14–$15 | $15 | $22–$29 | $15 |
| Marketing message | Just-because wine | Premium, award-winning wine | International, flavourful, easy-drinking wine | High quality, locally grown | Celebrate who you are with a sweeter wine | Celebrate special occasions | Supports preservation of the art collection | Canadian kosher wine | Nosey Neighbour label |
| Pinot Grigio | + |  |  | + |  | + |  |  |  |
| Chardonnay | + |  | + | + |  | + | + | + |  |
| Sauvignon Blanc | + | + | + | + |  |  |  |  |  |
| Moscato |  |  |  |  | + |  |  |  |  |
| Gewürztraminer |  |  |  | + |  |  |  |  |  |
| Riesling Gewürztraminer. |  |  |  |  | + |  |  |  |  |
| Riesling | + |  |  | + |  | + |  |  |  |
| Viognier |  | + |  |  |  |  |  |  |  |
| Kerner |  | + |  |  |  |  |  |  |  |
| White blend |  |  |  |  | + |  |  |  | + |
| Merlot |  | + | + |  |  |  |  |  |  |
| Shiraz |  | + |  |  |  |  |  |  |  |
| Cabernet Merlot | + |  | + |  |  | + | + |  |  |
| Cabernet Sauvignon |  | + | + |  |  |  |  | + |  |
| Cabernet Shiraz |  |  | + |  |  |  |  |  |  |
| Pinot Noir |  |  |  |  |  | + |  |  |  |
| Gamay Noir |  |  |  |  |  | + |  |  |  |
| Meritage |  |  |  | + |  |  |  |  |  |
| Baco Noir |  |  |  | + |  |  |  |  |  |
| Red blend |  |  |  |  | + | + |  |  | + |
| Rosé |  |  |  |  | + | + |  |  |  |
| Sparkling |  |  |  |  | + | + |  |  |  |
| Ice wines |  | Cabernet Franc, Vidal | Vidal | Vidal |  | Cabernet Franc, Cabernet Sauvignon | Cabernet Franc, Vidal | Cabernet Sauvignon, Vidal |  |

Note: In 2017, the average prices for a bottle of wine at Liquor Control Board of Ontario (LCBO) stores, based on jurisdiction of origin, were as follows: Ontario, $13.33; France $14.89; Italy, $15.10; California, $15.83; and New Zealand, $18.59. The average purchase price at LCBO of Vintners Quality Alliance wines was $13.25 and of Canadian blended wine was $7.54. A 300-millilitre bottle of ice wine sold for over $40.

Source: Created by the case authors based on information found on the company's website: www.lakeviewwineco.com/site/buy-niagara-wine-online.

Exhibit 5: Selected Financial Information for DIAMOND ESTATE WINES & SPIRITS Inc. (CA$ thousands)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Income Statements** | | | | | |
|  | **2017** | **2016** | **2015** | **2014** | **2013** |
| **Revenues** | 34,289 | 29,194 | 24,296 | 20,588 | 23,399 |
| Cost of goods sold | 20,792 | 18,132 | 14,535 | 10,828 | 12,154 |
| Gross profit | 13,497 | 11,062 | 9,761 | 9,760 | 11,245 |
| **Operating costs** |  |  |  |  |  |
| Salaries and benefits | 5,916 | 5,520 | 5,055 | 3,965 | 3,674 |
| General and administrative | 2,905 | 2,750 | 2,477 | 1,985 | 2,205 |
| Advertising and promotion | 1,340 | 914 | 771 | 2,244 | 1,994 |
| Delivery and warehousing | 1,200 | 1,007 | 710 | 767 | 938 |
| Operating profit before depreciation & amortization | 2,137 | 871 | 748 | 800 | 2,434 |
| Depreciation/Amortization | 508 | 439 | 262 | 1,405 | 1,564 |
| Other income/expense, net | 116 | 979 | 826 | 765 | 1,553 |
| Net income before interest & tax | 1,513 | -547 | -340 | -1,370 | -684 |
| Interest expense | 978 | 1,198 | 1,370 | 1,591 | 1,687 |
| Income tax | - | - | - | - | - |
| Net income | 535 | -1,745 | -1,710 | -2,960 | -2,371 |
| **Balance Sheets** | | | | | |
| **Assets** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Cash & short-term investments |  |  |  |  |  |
| Total accounts receivable | 3,584 | 4,032 | 3,747 | 3,035 | 2,972 |
| Inventories | 16,588 | 16,892 | 16,934 | 12,466 | 11,278 |
| Other current assets | 321 | 152 | 210 | 2,020 | 165 |
| Total current assets | 20,493 | 21,076 | 20,891 | 17,521 | 14,415 |
| Property, plant & equipment | 25,459 | 22,762 | 23,361 | 23,118 | 25,172 |
| Accumulated depreciation | 9,485 | 8,634 | 7,951 | 7,039 | 6,582 |
| Intangible assets | 3,509 | 3,832 | 4,140 | 759 | 630 |
| Total assets | 39,976 | 39,036 | 40,441 | 34,359 | 33,635 |
| **Liabilities & shareholders’ equity** |  |  |  |  |  |
| Accounts payable | 4,116 | 5,358 | 5,001 | 3,023 | 3,750 |
| Other current liabilities | 7,972 | 21,832 | 14,459 | 14,607 | 28,334 |
| Total current liabilities | 12,088 | 27,190 | 19,460 | 17,630 | 32,084 |
| Long-term debt | 7,463 | 0 | 11,188 | 9,212 | 1,622 |
| Total liabilities | 19,551 | 27,190 | 30,648 | 26,842 | 33,706 |
| **Shareholders’ equity** |  |  |  |  |  |
| Common stock | 17,657 | 9,460 | 39,810 | 40,117 | 28,362 |
| Accumulated minority interest | 3,770 | 4,096 | 4,091 | 0 | 0 |
| Retained earnings | -1,001 | -1,711 | -34,108 | -32,600 | -28,434 |
| Total equity | 20,426 | 11,845 | 9,793 | 7,517 | -72 |
| Liabilities & shareholders’ equity | 39,977 | 39,035 | 40,441 | 34,359 | 33,634 |

Note: All figures shown in thousands of Canadian dollars.

Source: This chart was created by the case authors using data from company documents, www.lakeviewwineco.com/site/diamond-estates-wines-spirits, or its filings with SEDAR accessed from www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00032682.

Exhibit 6: DIAMOND ESTATE WINES & SPIRITS Inc. Segment Information (CA$ millions)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2018** | **2017** | **2016** |
| *Winery Total* | 17.30 | 17.70 | 13.40 |
| Export | 7.80 | 6.00 | 3.20 |
| Domestic | 9.50 | 11.70 | 10.20 |
| Agency Total | 16.90 | $16.60 | 15.80 |
| Sales |  | 4.50 | 4.30 |
| Distribution |  | 12.10 | 11.50 |
| **Total Revenue** | 34.30 | 34.30 | 29.19 |
| *Gross Margin* | | | |
| Winery | 47.0% | 42.7% | 38.1% |
| Agency | 41.5% | 38.5% | 42.6% |
| Overall | 44.3% | 40.6% | 40.6% |

Note: All dollar figures shown are in millions of Canadian dollars.

Source: This chart was created by the case authors using data from Diamond Estates Wines & Spirits, “Management Discussion and Analysis. Three and nine month periods ended December 31, 2018 and 2017,” released February 26, 2019, accessed February 20, 2019, [www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00032682](https://www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00032682). Where reported values vary, data from 2018 was used for the 2017 numbers.

Exhibit 7: Selected Competitors in the Canadian Wine Industry

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company** | **Geographic Scope** | **Product Scope** | **Sample Wine Labels** | **Corporate Status (Public versus Private)** |
| Andrew Peller Limited | Canada primarily | Wines of various price points; many labels | VQA: Peller Estates, Trius, Wayne Gretzky Estates Varietals: French Cross, Copper Moon, Black Cellar, XOXO, Domaine d’Or | Public—based in Canada, listed on TSX |
| Concha y Toro | International but including Canada | Wines of various price points; many labels | Premium Brands: Leyenda, Reserva Privada, Trio, Devil’s Collection  Fine Wines: Don Melchor, Marques de Casa Concha, Gran Reserva Series  Varietal Wines: Sunrise, Frontera Specialties | Public—based in Chile but listed on NASDAQ |
| Constellation Brands Inc. | North America | Wine, beer, spirits | Kim Crawford, Mark West, Robert Mondavi, Prisoner, Ravenswood, Cooper & Thief | Public—based in the United States based, listed on NYSE |
| Truett-Hurst Inc. | United States primarily | Wine | Truett-Hurst, Colby Red, Eden Ridge, Dearly Beloved, Bewitched, Cakebox, Château Crisp, Curious Beasts, Inconspicuous, Mad Duck, United Republic of Wine, Fugitive, One Armed Man, Wine with No Name | Public—based in the United States, listed on NASDAQ |
| Corby Spirit and Wine Limited | Canada but also international | Wine, spirits | Many famous brown and white liquors (whiskey, vodka, etc.)Wines: Jacob’s Creek, Foreign Affair, George Wyndham, Brancott Estate, Buried Hope, Cupcake | Public—listed on TSX |
| Arterra Wines Canada | Canada | Wine | Jackson-Triggs, Inniskillin, Nk’Mip, Sawmill Creek, Bodacious, Woodbridge By Robert Mondavi, Naked Grape, Ravenswood | Private (but part of Constellation until 2017) |
| Treasury Wine Estates | International | Wine | Luxury Brands: Penfolds, Beaulieu Vineyard, Beringer, Maison de Grand Esprit, Wolf Blass, Rawson’s Retreat  Drinkables: Lindeman’s, Walking Dead, 19 Crimes | Public—listed on ASX |
| Accolade Wines | Australia | Wine | XYZin, Geyser Peak, Echo Falls, Atlas Peak, Turner Road | Private |
| E & J Gallo Winery | North America | Wine | Apothic, Naked Grape, and dozens more | Private—based in United States |
| Casella Family Brands | International | Wine | Yellowtail, Caselle, Morris Wines, Peter Lehmann, Brands Laira | Private—based in Australia |
| Mission Hill Winery | Canada | Wine | Legacy Collection, Terroir Collection, Reserve, Five Vineyards | Canadian—private |
| Diamond Estate Wines & Spirits Inc. | Canada primarily | Wines of various price points | See Exhibit 5. | Public—listed on TSX |

Note: TSX = Toronto Stock Exchange; New York Stock Exchange; ASX = Australian Securities Exchange.

Source: Created by the case authors using information from company reports of Diamond Estates Winery and Spirits, accessed from either the company website, www.lakeviewwineco.com/site/diamond-estates- wines-spirits, or its filings with SEDAR, accessed www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00032682; Andrew Peller Limited, *2017 Annual Report*, accessed February 20, 2019, www.andrewpeller.com/UserFiles/File/Annual%20Report%202017%20(FINAL)%20v4.pdf; “2017 Annual Report,” Corby Spirit and Wine, accessed February 20, 2019, http://reports.corby.ca/2017/; Viña Concha y Toro S.A., *Form 6-K*, May 22, 2018, accessed February 20, 2019, http://secfilings.nasdaq.com/filingFrameset.asp?FilingID=12772698&RcvdDate=5/22/2018&CoName=CONCHA%20Y%20TORO%20WINERY%20INC&FormType=6-K&View=orig; Truett-Hurst Inc., SEC filings accessed February 20, 2019, www.truetthurstinc.com/investors/#secfilings; Treasury Wine Estates, Company Reports accessed February 20, 2019, www.tweglobal.com/investors; Arterra Wines Canada (website), accessed February 12, 2019, www.arterracanada.com;

Constellation Brands, company reports and SEC filings, accessed February 12, 2019, www.cbrands.com/investors; “Our Story,” Accolade Wines, Casella Family Brands, accessed February 12, 2019, www.casellafamilybrands.com/Our-Story; “Our Portfolio,” accessed February 12, 2019, www.accolade-wines.com/brands/our-full-portfolio/#1451837716464-4bf60d9b-e222.

Exhibit 8: Selected Financial Information of Competitors in the Canadian Wine Industry

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Diamond Estate Wines & Spirits\*** | **Andrew Peller Limited\*** | **Concho y Toro\*\*** | **Truett-Hurst\*\*\*** | **Treasury Wine Estates\*\*\*\*** |
| *Scope of Business* | | | | | |  |
| Total revenues, 2017 | 34.30 | 342.60 | 643.80 | 22.20 | 2.534 |
| Total assets | 40.00 | 329.40 | 1956.80 | 30.00 | 5.300 |
| Inventory | 16.60 | 130.50 | 254.70 | 20.60 | 0.950 |
| Net property, equipment | 16.00 | 118.80 | 381.70 | 5.40 | 1.400 |
| Long-term debt | 7.50 | 46.70 | 127.80 | 3.10 | 0.600 |
| Current liabilities | 12.10 | 81.70 | 320.70 | 10.80 | 0.800 |
| *Business Comparisons (2017, All Values % of Revenue or Total Assets)* | | | | | |  |
| Gross margin | 41.50 | 38.30 | 36.00 | 35.40 | 38.10 |
| Net margin | 4.70 | 10.00 | 9.90 | −0.90 | 15.30 |
| Profit margin | 1.60 | 7.70 | 7.80 | −0.90 | 10.60 |
| Inventory (% of total assets) | 41.00 | 36.00 | 24.00 | 69.00 | 18.00 |
| Fixed assets | 40.00 | 36.00 | 36.00 | 18.00 | 26.00 |
| Long-term debt | 19.00 | 14.00 | 12.00 | 10.00 | 11.00 |
| Shareholders’ equity | 42.00 | 54.00 | 52.00 | 35.00 | 68.00 |
| *Rate of Growth/Decline Analysis (CAGR (%), 2013–2017)* | | | | | |
| Revenue | 9.20 | 4.30 | 7.90 | 5.90 | 10.00 |
| Gross margin | 6.00 | 4.60 | 9.00 | 5.00 | 22.80 |
| Operating expenses | 3.40 | 3.10 | 7.50 | 7.60 | 10.80 |
| Profit margin |  | 16.10 | 10.80 | Loss | 58.50 |
| Inventory | 10.10 | 2.80 | 1.70 | 11.70 | 7.30 |
| Fixed assets | −4.50 | 3.80 | 3.70 | 0.20 | 2.20 |
| Long-term debt | Non-linear | 3.00 | −7.40 | −3.40 | 27.70 |
| Shareholders’ equity | 100.00 | 8.20 | 6.30 | 8.60 | 4.70 |

Note: \*In millions of Canadian dollars; \*\*In billions of Chilean pesos (CLP); \*\*\*In millions of US dollars; \*\*\*\*In billions of Australian dollars (AUD); CAGR = compound annual growth rate.

Source: Created by the authors using information from company reports for Diamond Estates Winery and Spirits, accessed from either the company website, www.lakeviewwineco.com/site/diamond-estates-wines-spirits, or its filings with SEDAR, accessed from www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00032682; Andrew Peller Limited, *2017 Annual Report*, accessed February 20, 2019, www.andrewpeller.com/UserFiles/File/Annual%20Report%202017%20(FINAL)%20v4.pdf; Viña Concha y Toro S.A., *Form 6-K*, May 22, 2018, accessed February 20, 2019, http://secfilings.nasdaq.com/fili ngFrameset.asp?FilingID=12772698&RcvdDate=5/22/2018&CoName=CONCHA%20Y%20TORO%20WINERY%20INC&FormType=6-K&View=orig; Truett-Hurst Inc., SEC filings accessed February 20, 2019, www.truetthurstinc.com/investors/#secfilings; Treasury Wine Estates, Company Reports accessed February 20, 2019, www.tweglobal.com/investors.

endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Diamond Estate Wines & Spirits, Inc. or any of its employees. [↑](#endnote-ref-2)
2. World Health Organization, ‘Alcohol,’ Health Topics, n.d., accessed December 5, 2019, www.who.int/health-topics/alcohol#tab=tab\_1. [↑](#endnote-ref-3)
3. Liz Thach, “Overview of the US Wine Industry in 2018: Stable Growth Forecasted – Based on 2017 Stats,” *Dr. Liz Thach, MW* (blog), January 31, 2018, accessed February 20, 2019, https://lizthachmw.com/2018/01/31/overview-of-the-us-wine-industry-in-2018-stable-growth-forecasted-based-on-2017-stats/; “2018 Direct-To-Consumer Wine Shipping Report,” ShipCompliant, accessed July 2018, www.shipcompliant.com/dtcreport18/?utm\_campaign=DtC-shipping-report&utm\_medium=

   Referral&utm\_source=Wines&Vines&utm\_content=ad. [↑](#endnote-ref-4)
4. “Canadian Wine and Grape Industry Contributes $9 Billion in Economic Impact to Canadian Economy,” Canadian Vintners Association, March 7, 2017, accessed February 20, 2019, www.marketwired.com/press-release/canadian-wine-grape-industry-contributes-9-billion-economic-impact-canadian-economy-2201201.htm. [↑](#endnote-ref-5)
5. “Industry Statistics,” Canadian Vintners Association, accessed February 11, 2019, www.canadianvintners.com/industry-statistics/. [↑](#endnote-ref-6)
6. Ibid. [↑](#endnote-ref-7)
7. Trade Data and Analysis, “World Wine Consumption,” table 4.1, accessed February 20, 2019, www.wineinstitute.org/files/

   World\_Wine\_Consumption\_by\_Country\_2015.pdf. [↑](#endnote-ref-8)
8. Ibid. [↑](#endnote-ref-9)
9. “Industry Statistics,” op. cit. [↑](#endnote-ref-10)
10. Penny Hope-Ross, *From the Vine to the Glass: Canada’s Grape and Wine Industry* (Ottawa: Statistics Canada, 2006), accessed February 20, 2019, https://www150.statcan.gc.ca/n1/en/pub/11-621-m/11-621-m2006049-eng.pdf?st=CMh9bj52. [↑](#endnote-ref-11)
11. Agriculture and Agri-food Canada, “Canada’s Wine Industry,” Government of Canada, March 7, 2016, accessed February 20, 2019, www.agr.gc.ca/eng/industry-markets-and-trade/market-information-by-sector/processed-food-and-beverages/

    profiles-of-processed-food-and-beverages-industries/canada-s-wine-industry/?id=1449859691976. [↑](#endnote-ref-12)
12. Frank, Rimerman + Co., LLP, *The Economic Impact of the Wine and Grape Industry in Canada 2015*, March 2017, accessed February 11, 2019, www.canadianvintners.com/wp-content/uploads/2017/06/Canada-Economic-Impact-Report-2015.pdf. [↑](#endnote-ref-13)
13. All amounts are in Canadian dollars unless otherwise indicated. [↑](#endnote-ref-14)
14. “Canadian Wine and Grape Industry Contributes $9 Billion in Economic Impact to Canadian Economy,” op. cit. [↑](#endnote-ref-15)
15. Statistics Canada, “Sales of Alcoholic Beverages,” table 2, The Daily, May 2, 2017, accessed February 20, 2019, https://www150.statcan.gc.ca/n1/daily-quotidien/170502/t002a-eng.htm. The remaining 26 per cent were primarily spirits and a small component of other beverages, such as coolers, ciders, and premixed drinks. [↑](#endnote-ref-16)
16. Statistics Canada, "Control and Sale of Alcoholic Beverages, Year Ending March 31, 2016," May 2, 2016, accessed February 20, 2019, www.statcan.gc.ca/daily-quotidien/170502/dq170502a-eng.htm. [↑](#endnote-ref-17)
17. Tony Aspler, “Wine Industry,” The Canadian Encyclopedia, March 4, 2015, accessed February 20, 2019, www.thecanadianencyclopedia.ca/en/article/wine-industry. [↑](#endnote-ref-18)
18. Wine Folly, ‘Native Wine Grapes of America,’ Wine Folly, October 12, 2015, accessed December 5, 2019, https://winefolly.com/review/native-wine-grapes-of-america/ [↑](#endnote-ref-19)
19. “ Pinot Noir, Merlot, Cabernet Sauvignon, Shiraz, Syrah - Red Wine Guide,” YouTube video, 4:06, posted by “betterbooktv,” December 4, 2012, accessed February 20, 2019, www.youtube.com/watch?v=uvWL6\_A7uQc; “Riesling, Sauvignon Blanc, Chardonnay, Pinot Grigio, Pinot Gris - White Wine Guide,” YouTube video, 3:55, posted by “betterbooktv,” December 4, 2012, accessed February 20, 2019, www.youtube.com/watch?v=mEJAyNQQmUo; Paul Gregutt, “Your Guide to Five of the World’s Most Popular Grapes,” March 28, 2017, accessed February 20, 2019, *Wine Enthusiast*, www.winemag.com/2017/03/28/your-guide-to-five-of-the-worlds-most-popular-grapes/. [↑](#endnote-ref-20)
20. Kym Anderson and Nanda R. Aryal, *Australian Grape and Wine Industry Database, 1843 to 2013*, tables 13–26, Wine Economics Research Centre, University of Adelaide, February 2015, accessed February 20, 2019, www.adelaide.edu.au/wine-econ/databases. [↑](#endnote-ref-21)
21. Kim Myers, “5 Stages of the Wine Making Process,” Laurel Gray Vineyards, November 14, 2014, accessed February 20, 2019, <http://laurelgray.com/5-stages-wine-making-process/>. [↑](#endnote-ref-22)
22. “Grapes for Processing Prices 2017,” Grape Growers of Ontario, September 6, 2017, accessed February 20, 2019, www.grapegrowersofontario.com/sites/default/files/2017%20Base%20Prices%20-%20FINAL.pdf. [↑](#endnote-ref-23)
23. Kim Myers, op. cit. [↑](#endnote-ref-24)
24. “Diamond Estates Wines & Spirits Ltd.,” *Canadian Business Journal*, accessed February 20, 2019, [www.cbj.ca/diamond\_estates\_wines\_spirits\_ltd/](http://www.cbj.ca/diamond_estates_wines_spirits_ltd/). [↑](#endnote-ref-25)
25. “VQA Ontario Appellations of Origin,” VQA Ontario, accessed February 20, 2019, www.vqaontario.ca/Appellations. [↑](#endnote-ref-26)
26. Kim Myers, op. cit. [↑](#endnote-ref-27)
27. Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs, *Starting a Winery in Ontario* (Toronto: Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs, 2013), accessed February 20, 2019, www.omafra.gov.on.ca/english/busdev/facts/startingawinery.pdf. [↑](#endnote-ref-28)
28. Le Ann Fickle et al., *Small Winery Investment and Operating Costs*, Washington State University Extension, 2015, accessed February 20, 2019, http://ses.wsu.edu/wp-content/uploads/2015/02/eb1996\_05.pdf. [↑](#endnote-ref-29)
29. Ibid. [↑](#endnote-ref-30)
30. Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs, op. cit. [↑](#endnote-ref-31)
31. Sean Fine, “Supreme Court Upholds Interprovincial Trade Law in Cross-Border Alcohol Case,” *Globe and Mail*, April 23, 2018, accessed February 20, 2019 [www.theglobeandmail.com/canada/article-supreme-court-upholds-law-in-cross-border-alcohol-case/](https://www.theglobeandmail.com/canada/article-supreme-court-upholds-law-in-cross-border-alcohol-case/). [↑](#endnote-ref-32)
32. “Trade & International Agreements,” Canadian Vintners Association, accessed February 20, 2019, [www.canadianvintners.com/trade-agreements/](http://www.canadianvintners.com/trade-agreements/); United States Department of Agriculture, Foreign Agricultural Service, “United States Takes Action against Canadian Trade Measures That Discriminate against U.S. Wine,” news release, March 25, 2018, accessed February 20, 2019, www.fas.usda.gov/newsroom/united-states-takes-action-against-canadian-trade-measures-discriminate-against-us-wine; Ross Marowits, “Canadian Producers Fear U.S. Will Flood Market after Chinese Tariffs,” CTV News*,* April 3, 2018*,* accessed February 20, 2019, www.ctvnews.ca/business/canadian-producers-fear-u-s-will-flood-market-after-chinese-tariffs-1.3869776; Darren Gray, “Australia Takes On Canada over ‘Problem’ Wine Exports,” *Sydney Morning Herald*, March 12, 2018, accessed February 20, 2019, www.smh.com.au/business/the-economy/australia-takes-on-canada-over-problem-wine-exports-20180312-p4z3yd.html. [↑](#endnote-ref-33)
33. Canadian Press, “Ontario’s Relaxed Rules for Wine Sales at Grocery Stores Take Effect,” *Globe and Mail*, accessed February 20, 2019, www.theglobeandmail.com/news/national/ontarios-relaxed-rules-for-wine-sales-at-grocery-stores-take-effect/

    article32563759/. [↑](#endnote-ref-34)
34. Antonella Artuso, “Hello Beer in Corner Stores; Bye Discovery Math: Throne Speech,” *Toronto Sun*, July 12, 2018, https://torontosun.com/news/provincial/hello-beer-in-corner-stores-bye-discovery-math-throne-speech. [↑](#endnote-ref-35)
35. Liz Thach, op. cit.; “2018 Direct-To-Consumer Wine Shipping Report,” op. cit. [↑](#endnote-ref-36)
36. Shari Mogk-Edwards, “Wine Trends and Sales at LCBO,” PowerPoint presentation, March 1, 2016, accessed February 20, 2019, https://wgao.ca/wp-content/uploads/2016/03/Shari\_MogkEdwards\_Presentation.pdf; Kyle Swartz, “9 Trends Driving Wine Sales in 2016,” Beverage Dynamics, January 26, 2016, accessed February 20, 2019, <http://beveragedynamics.com/2016/01/26/9-trends-driving-wine-sales-in-2016/>. [↑](#endnote-ref-37)
37. “Wine Tasting Tutorial: Cabernet Sauvignon vs. Merlot vs. Pinot Noir,” Better Tasting Wine, accessed February 20, 2019, http://bettertastingwine.com/red\_wine\_types.html. [↑](#endnote-ref-38)
38. Larry Lockshin and Armando Maria Corsi, “Consumer Behaviour for Wine 2.0: A Review since 2003 and Future Directions,” *Wine Economics and Policy* 1, no. 1 (December 2012): 2–23, https://doi.org/10.1016/j.wep.2012.11.003. [↑](#endnote-ref-39)
39. E. & J. Gallo Winery, “Survey Reveals Only Seven per Cent of Canadians Feel Buying Wine Is Easy,” Cision, November 24, 2009, accessed February 20, 2019, www.newswire.ca/news-releases/survey-reveals-only-seven-per-cent-of-canadians-feel-buying-wine-is-easy-539009071.html. [↑](#endnote-ref-40)
40. Ontario Public Health Association, ‘Seasonal trends in alcohol consumption,’ Ontario Public Health Association, July 25, 2016, assessed December 5, 2019, https://opha.on.ca/Events-News-and-Media/News/Seasonal-Trends-in-Alcohol-Consumption.aspx. [↑](#endnote-ref-41)
41. Liz Thach and Janeen Olsen, “Profiling the High Frequency Wine Consumer by Price Segmentation in the US Market,” *Wine Economics and Policy* 4, no. 1 (June 2015): 53–59, https://doi.org/10.1016/j.wep.2015.04.001. [↑](#endnote-ref-42)
42. Ambrose O’Callaghan, “Should You Bet on Wine or Weed Stocks over the Next Decade?,” The Motley Fool, May 15, 2018, accessed February 20, 2019, www.fool.ca/2018/05/15/should-you-bet-on-wine-or-weed-stocks-over-the-next-decade/. [↑](#endnote-ref-43)
43. Lockshin and Corsi, op. cit. [↑](#endnote-ref-44)
44. [Kostuch Media Ltd](https://www.foodserviceandhospitality.com/author/kostuch/)., “The 2017 BAR Report,” *Food Service and Hospitality,* June 30, 2017, accessed February 20, 2019, www.foodserviceandhospitality.com/the-2017-bar-report/. [↑](#endnote-ref-45)
45. Ibid. [↑](#endnote-ref-46)
46. Angelo A. Camillo, “A Strategic Investigation of the Determinants of Wine Consumption in China,” *International Journal of Wine Business Research* 24, no. 1 (2012): 68–92, https://doi.org/10.1108/17511061211213792. [↑](#endnote-ref-47)
47. Ibid. [↑](#endnote-ref-48)
48. Emiliano C. Villanueva, J. Sebastián Castillo-Valero, and M. Carmen García-Cortijo, “Wine Consumer Profiles from Producing and Importing Countries in Europe Are Different,” *Ciência e Técnica Vitivinícola* 32, no. 2 (2017): 115–125, https://doi.org/10.1051/ctv/20173202115. [↑](#endnote-ref-49)
49. Lockshin and Corsi, op. cit. [↑](#endnote-ref-50)
50. Shipcompliant, "2018 Direct-To-Consumer Wine Shipping Report," n.d., accessed February 20, 2019, www.shipcompliant.com/dtcreport18/?utm\_campaign=DtC-shipping-report&utm\_medium=Referral&utm\_source=Wines&

    Vines&utm\_content=ad. [↑](#endnote-ref-51)
51. Kostuch Media Ltd., “The 2017 BAR Report,”, op. cit.; Johan Bruwer, Isabelle Lesschaeve, Ben Campbell, "Consumption dynamics and demographics of Canadian wine consumers: Retailing insights from the tasting room channel," Journal of Retailing and Consumer Services, 19, 1, (2012), 45-58. [↑](#endnote-ref-52)
52. Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs, op. cit. [Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs, *Starting a Winery in Ontario* (Toronto: Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs, 2013), accessed February 20, 2019, www.omafra.gov.on.ca/english/busdev/facts/startingawinery.pdf.] [↑](#endnote-ref-53)
53. James Wainscott, “5 Predictions for 2018,” Wine Intelligence, December 12, 2017, accessed February 20, 2019, www.wineintelligence.com/5-predictions-for-2018/. [↑](#endnote-ref-54)
54. Stephen Buranyi, “Has Wine Gone Bad?,” *Guardian*, May 15, 2018, accessed February 20, 2019, www.theguardian.com/news/2018/may/15/has-wine-gone-bad-organic-biodynamic-natural-wine?CMP=share\_btn\_fb. [↑](#endnote-ref-55)
55. Lois Abraham, “Canadians Buying More Imported Wines and Tequila: Study,” CP24, February 17, 2015, accessed February 20, 2019, www.cp24.com/lifestyle/human-interest/canadians-buying-more-imported-wines-and-tequila-study-1.2240607. [↑](#endnote-ref-56)
56. “Canadian Wine and Grape Industry Contributes $9 Billion in Economic Impact to Canadian Economy,” Canadian Vintners Association, op. cit. [↑](#endnote-ref-57)
57. Swartz, op. cit. [↑](#endnote-ref-58)
58. James Wainscott, op. cit. [↑](#endnote-ref-59)
59. Paul Franson, “Number of Millennial Wine Drinkers Catches Boomers,” Wines Vines Analytics*,* March 17, 2016, accessed February 20, 2019, www.winesandvines.com/news/article/166313/Number-of-Millennial-Wine-Drinkers-Catches-Boomers. [↑](#endnote-ref-60)
60. Ibid. [↑](#endnote-ref-61)
61. Ambrose O’Callaghan, op. cit. [↑](#endnote-ref-62)
62. “History of Ontario Wine,” Wine Country Ontario, accessed February 20, 2019, www.winecountryontario.ca/sites/default/files/attachments/wco\_timeline\_vertical\_updated\_mar.24.14.pdf. [↑](#endnote-ref-63)
63. “Diamond Estates,” Wines of Canada, accessed February 20, 2019, www.winesofcanada.com/diamondestate.html. [↑](#endnote-ref-64)
64. Diamond Estates, “Corporate Presentation,” February 2017, accessed February 20, 2019, www.lakeviewwineco.com/files/DiamondEstatesInvestorPresentationFeb2017.pdf. [↑](#endnote-ref-65)
65. “Diamond Estates Wines & Spirits Ltd.,” op. cit. [↑](#endnote-ref-66)
66. Scott Rosts, “Diamond Estates Acquires B.C. Winery,” Niagara This Week*,* July 4, 2018, accessed February 20, 2019, www.niagarathisweek.com/news-story/8722465-diamond-estates-acquires-b-c-winery/. [↑](#endnote-ref-67)
67. Diamond Estates, “Corporate Presentation,” op. cit. [↑](#endnote-ref-68)
68. Diamond Estates Wines & Spirits, “Three Month Periods Ended June 30, 2014”, accessed May 7, 2019, www.lakeviewwineco.com/files/financials-diamond-estates-audited-annual-statement-08-21-2014.pdf. [↑](#endnote-ref-69)
69. Diamond Estates Wines & Spirits, “Management Discussion and Analysis. Three- and Nine-Month-Periods Ended December 31, 2018 and 2017,” released February 26, 2019, accessed February 2019, [www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00032682](https://www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00032682). [↑](#endnote-ref-70)
70. Ibid. [↑](#endnote-ref-71)
71. Diamond Estates Wines & Spirits, “Management Discussion and Analysis. Three- and Nine-Month-Periods Ended December 31, 2018 and 2017,” op. cit. [↑](#endnote-ref-72)
72. Diamond Estates, “Corporate Presentation,” op. cit. [↑](#endnote-ref-73)
73. “2018 Ontario Wine Awards Winners,” Ontario Wine Awards, accessed February 20, 2019, www.ontariowineawards.ca/medals-history; Lakeview Wine Co., “2 Double Golds at the All Canadian Wine Championships!,” June 19, 2017, accessed February 20, 2019, www.lakeviewwineco.com/site/blog/2017/06/19/2-double-golds-at-the-all-canadian-wine-championships. [↑](#endnote-ref-74)
74. Diamond Estates, “Corporate Presentation,” op. cit. [↑](#endnote-ref-75)
75. Information compiled from Trajectory Beverage Partners (website), accessed February 20, 2019, www.trajectorybeverages.com/site/home#top. [↑](#endnote-ref-76)
76. “VQA Ontario Appellations of Origin,” VQA Ontario, op. cit. [↑](#endnote-ref-77)
77. Lakeview Wine Co., Lakeview Wine Co. A division of Diamond Estates Wine & Spirits, Diamond Estates Wine & Spirits, n.d. assessed June 23, 2019, www.lakeviewwineco.com/site/home. [↑](#endnote-ref-78)
78. Ibid. [↑](#endnote-ref-79)
79. Diamond Estates Wines & Spirits, “Management Discussion and Analysis. Years Ended March 31, 2017 and 2016,” released June 23, 2017, accessed August, 2018, www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00032682. [↑](#endnote-ref-80)
80. Diamond Estates, “Corporate Presentation,” op. cit. [↑](#endnote-ref-81)
81. Ibid. [↑](#endnote-ref-82)
82. Ibid. [↑](#endnote-ref-83)
83. Diamond Estates Wines & Spirits, “Management Discussion and Analysis. Three- and Nine-Month-Periods Ended December 31, 2018 and 2017,” op. cit. [↑](#endnote-ref-84)
84. Agriculture and Agri-food Canada, *Consumer Trends: Wine, Beer and Spirits in Canada*, September 2013, accessed July 2018, www.agr.gc.ca/eng/industry-markets-and-trade/international-agri-food-market-intelligence/canada/consumer-trends-wine-beer-and-spirits-in-canada/?id=1422297046469. [↑](#endnote-ref-85)
85. Andrew Peller Limited, *Annual Information Form,* June 6, 2018, accessed February 20, 2019, www.andrewpeller.com/UserFiles/File/AIF%20(Final).pdf. [↑](#endnote-ref-86)
86. Wine of Canada, "Diamond Estates," n.d., accessed February 20, 2019 www.winesofcanada.com/diamondestate.html [↑](#endnote-ref-87)
87. Andrew Peller Limited, *Annual Information Form*, June 6, 2018 access July 31, 2019, www.andrewpeller.com/UserFiles/

    File/AIF%20(Final).pdf [↑](#endnote-ref-88)
88. Andrew Peller Limited, *2017 Annual Report*, accessed February 20, 2019, www.andrewpeller.com/UserFiles/File/Annual%20

    Report%202017%20(FINAL)%20v4.pdf. [↑](#endnote-ref-89)
89. “2017 Annual Report,” Corby Spirit and Wine, accessed February 20, 2019, http://reports.corby.ca/2017/. [↑](#endnote-ref-90)
90. Viña Concha y Toro S.A., Form 6-K, May 22, 2018, accessed February 20, 2019, http://secfilings.nasdaq.com/filingFrameset.asp?FilingID=12772698&RcvdDate=5/22/2018&CoName=CONCHA%20Y%20TORO%20WINERY%20INC&FormType=6-K&View=orig. [↑](#endnote-ref-91)
91. Truett-Hurst Inc., Form 10-Q, March 31, 2018, accessed August 12, 2019, http://app.quotemedia.com/data/downloadFiling?

    webmasterId=101533&ref=12258693&type=HTML&symbol=THST&companyName=Truett-Hurst+Inc.&formType=10-Q&

    dateFiled=2018-05-15. [↑](#endnote-ref-92)
92. Treasury Wine Estates, *Interim 2018 Results*, January 31, 2018. accessed February 20, 2019, www.tweglobal.com/-/media/Files/Global/ASX-Announcements/2018/2018-Interim-Results-Investor-and-Analyst-Presentation-31-January-2018.ashx. [↑](#endnote-ref-93)
93. Arterra Wines Canada, Company Website, accessed Feb 12, 2019, www.arterracanada.com. [↑](#endnote-ref-94)
94. Constellation Brands, Form 10\_K. Feb. 28, 2018, Company Reports and SEC filings accessed Aug 12, 2019, www.cbrands.com/investors/reporting?group=Quarterly%20Filings. [↑](#endnote-ref-95)
95. Diamond Estates, “Corporate Presentation,” op. cit. [↑](#endnote-ref-96)