



WINE COUNCIL  
OF ONTARIO



# GROWING ONTARIO'S WINE CULTURE

## - OPPORTUNITIES FOR GROWTH

**Presentation to LCBO**

**Wine Council of Ontario**

**November 27, 2012**

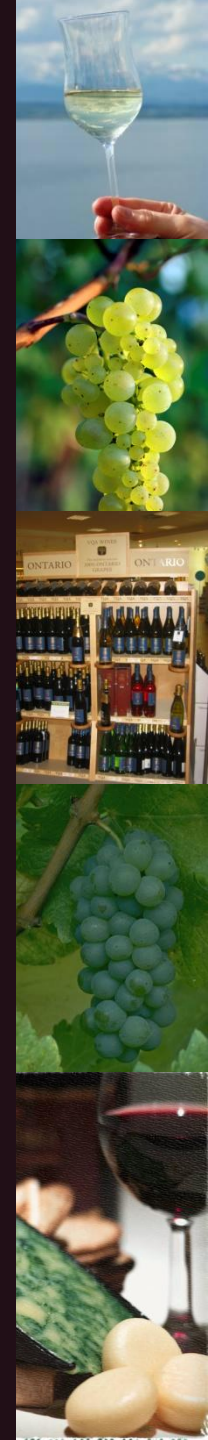
**COMMERCIAL CONFIDENTIAL**

# WHY GROWING ONTARIO'S WINE CULTURE BENEFITS US ALL?

- ◉ Supports government investments and strategy
- ◉ Supports strategic alignment of LCBO and VQA wines
- ◉ Parallels approach in other provinces
- ◉ Growth in access to wine will necessarily have positive results:
  - More revenue for government
  - More revenue for LCBO
  - Necessary growth in points of access for VQA wines
  - Growth in consumption reflecting a new wine culture



COMMERCIAL CONFIDENTIAL



# ONTARIO WINE INDUSTRY ENCOURAGED AND SUPPORTED TO GROW VQA

- ▶ VQA Support Program
- ▶ October 2009 Announcement giving policy alignment around VQA
- ▶ Greenbelt
- ▶ VQA Marketing Program
- ▶ Wine Content Act to 40% (until 2015)
- ▶ Federal and Provincial tender fruit replacement/grape replant programs
- ▶ OMAFRA/FedDev Ontario initiatives
  - Manufacturing supports to encourage growth in capacity
  - OVIP dollars designed to encourage growth of quality in viticulture to support VQA
- ▶ Tobacco transition dollars
  - Wine Grapes are now becoming key transitional crop in tobacco belt
  - Regions like Norfolk County have now built growth and development of wine grapes and wineries as core economic driver (like Prince Edward County had done – the model)



# STRONG PARTNERSHIP WITH LCBO SUPPORTS VQA GROWTH & COMPLIMENTS GOVERNMENT INITIATIVES

- ▶ VQA wines continue to perform well in this channel
  - This is our most important channel in terms of volume
- ▶ Growth in higher price bands remains strong and will found the strategy for continuing to grow VQA in this category going forward
  - Shari Mogk-Edwards – “you are a premium priced business in our portfolio”
- ▶ Proactive and successful partnership with LCBO to grow VQA performance
  - Increase in shelf space to accommodate capacity
- Collaborative planning with category and marketing teams have led to strategic alignment
- # of wineries in LCBO up from 37 in fiscal ended 2007 to 63 in fiscal ended 2011 (and continues to grow)





# VQA INDUSTRY CHANGED AND EVOLVED

- ◉ Number of wineries have grown over past 10-15 years
- ◉ Far more small wineries producing premium priced product at smaller volumes
  - Volumes still commercially significant enough that there is a need for retail beyond the winery.
- ◉ Regulatory environment has not evolved since free trade and doesn't serve most wineries in Ontario well
  - No ability to open off site stores
- ◉ VQA packaging regulations evolving
- ◉ VQA support program allowing for greater breadth at retail
- ◉ Still been successful, but to continue the momentum and grow the business, there has to be some change to the environment to facilitate more growth
  - Look to other provinces for guidance



# GROWTH CAN BE ACCELERATED BY FOLLOWING THE LEAD OF OTHER PROVINCES

## ◉ BCLDB

- Embraced new channel and its role as wholesaler
- Saw growth in wine consumption and in revenues for province
- Led to tremendous growth for BC VQA

## ◉ Saskatchewan

- Allowing the private sector to lead the expansion of retail going forward

## ◉ Nova Scotia

- Good results from pilot of private stores

## ◉ Manitoba

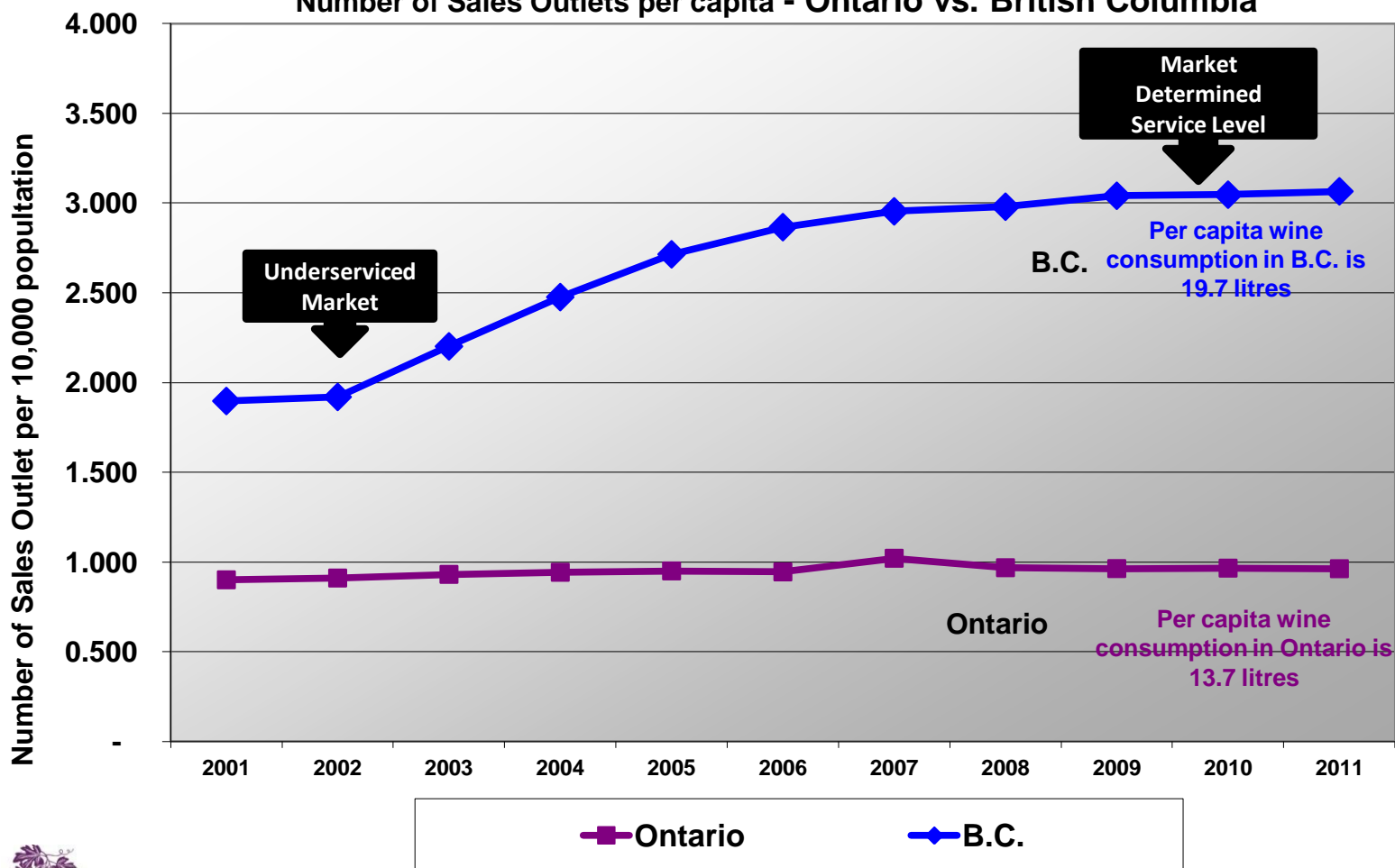
- Parallel private system



# BY THE NUMBERS - GROWING A WINE CULTURE

## Wine Council of Ontario

Number of Sales Outlets per capita - Ontario vs. British Columbia



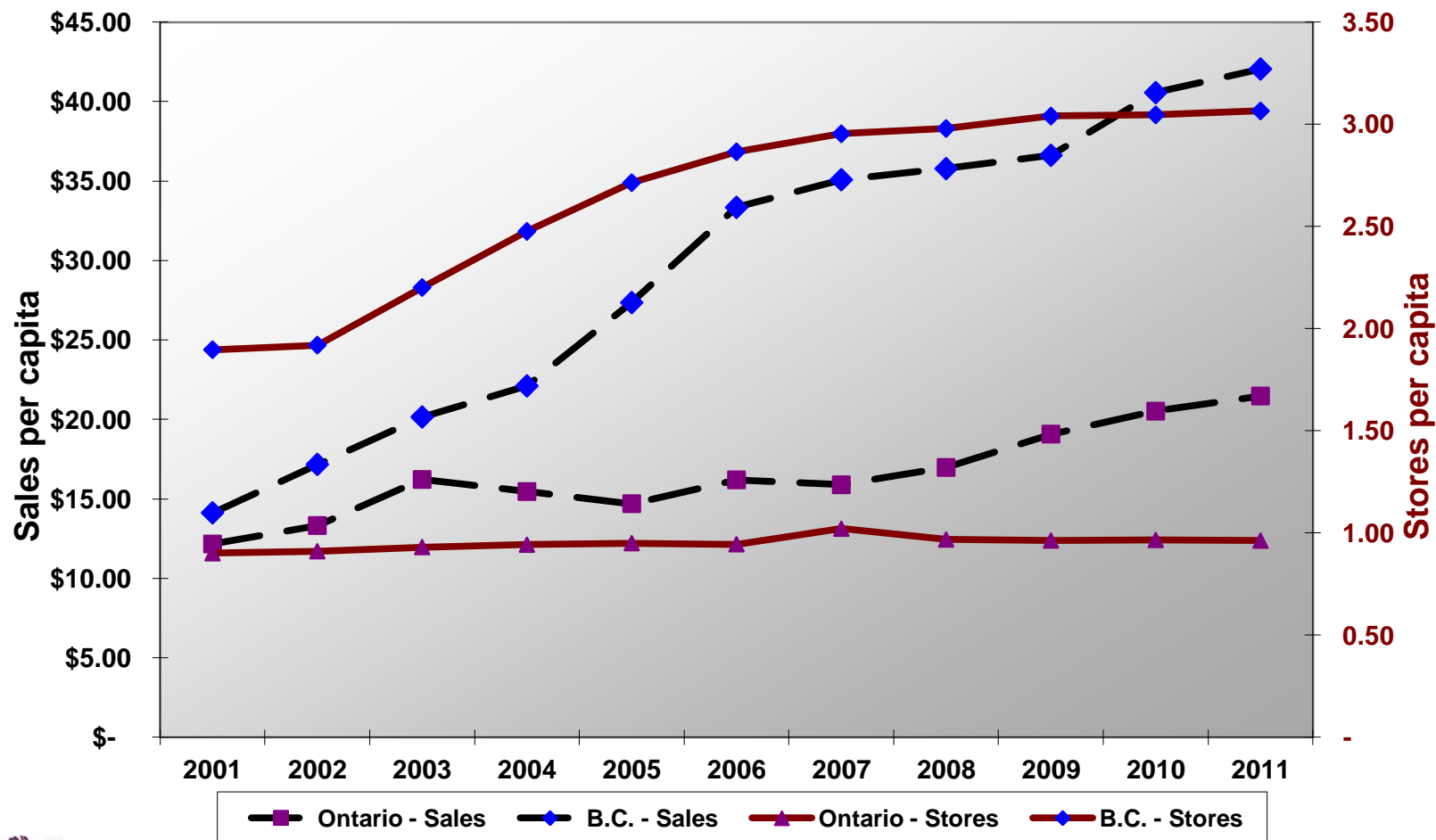
WINE COUNCIL OF ONTARIO  
COMMERCIAL CONFIDENTIAL



# BY THE NUMBERS - GROWING A WINE CULTURE

## Wine Council of Ontario

Sales and Number of Stores Per Capita - Ontario vs. British Columbia



WINE COUNCIL OF ONTARIO  
COMMERCIAL CONFIDENTIAL



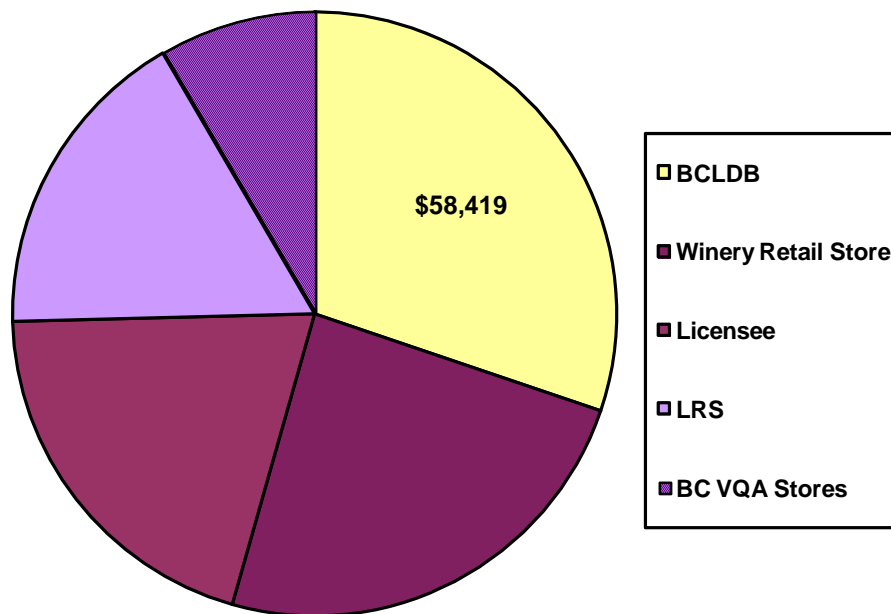


# GROWING A WINE CULTURE = GROWING REVENUES

## Wine Council of Ontario

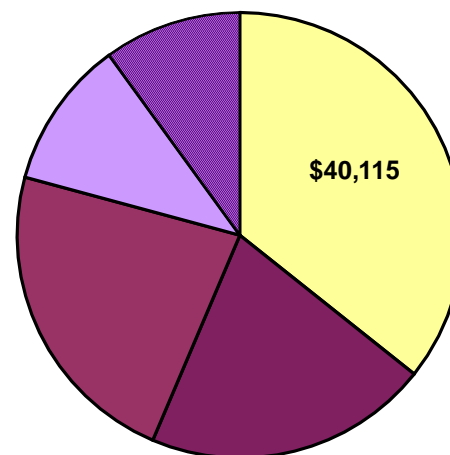
VQA Wine Sales in British Columbia - by channel  
(total revenue in BCLDB indicated - in 000s)

FY2011



Total Revenue of ALL channels -  
\$193 million

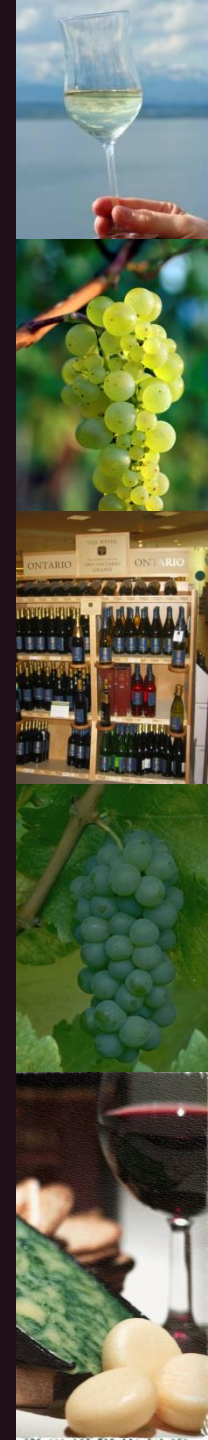
FY2005



Total Revenue of ALL channels -  
\$112 million



WINE COUNCIL OF ONTARIO  
COMMERCIAL CONFIDENTIAL



# OPPORTUNITY TO GROW OUR WINE CULTURE

- ◉ We have proposed to government that they need to look beyond the LCBO to diversify access points for the consumer and drive revenue for the province
  - In line with the retail models in other provinces, especially those with wine producing regions (NS, BC, Quebec)
- ◉ Framed our approach in a way that aligned with the government's priorities
  - Responsiveness to the marketplace and consumer demand
  - Lessening the burden of capital costs on the public purse
  - Propose solutions that appreciate the potential for economic development and driving value into the economy
- ◉ Supported the analysis with research and support
  - Public opinion research
  - Retail store analysis – Grant Thornton LLP
  - Legislative, Regulatory and Trade Review – Fraser Milner Casgrain



# OUR APPROACH - PRIVATE WINE SHOPS

- ◉ We believe that this model can offer the province many things
  - Sales generated by this new channel will increase taxes collected by Provincial and Federal governments
    - The study concluded that the opportunity for the province in terms of new incremental revenue could be as much as \$200million per year
  - Incremental new revenues for LCBO
  - With an increase in sales and consumption, VQA wineries will have to increase production and demand, and imports will also increase
    - With this increase the two levels of government will collect significant additional taxes (HST, excise, wine basic tax, volume tax, environmental tax)
  - This new channel will allow for increased distribution and sale of VQA wine
    - This necessarily will mean demand for more quality, high value grapes
- ◉ For us this helps VQA wineries support their goals on growth, profitability and helps level the playing field for our wineries that do not have access to a private retail network



# BACKGROUND

- For some time the Wine Council has been developing a proposal for government around the establishment of private wine stores
- 1<sup>st</sup> step was some analysis of the retail viability of stores
  - Grant Thornton Report – 2007
- This report analyzed a series of options including private wine-only stores
  - The analysis was focused on developing a model in which the retailer could be successful
- After some initial discussions with the government at that time, it was clear to us that we still had to answer a few key questions in our mind to ensure that we were on the right path
  - What did this mean for all partners in terms of revenues and benefits?
  - What was the path forward from a legislative perspective that made the most sense?
  - What did the public think?
  - Were we maximizing the power of our partnership with the LCBO?



# BACKGROUND

- ◉ One of the most critical steps that we took was to ensure that we were able to answer the existing issues that are in the lexicon of government on this issue
- ◉ We are confident that this model can address stated concerns around:
  - Trade Compliance
    - Trade legal model
    - Reaction of imported wine business
  - Net negative impact on the LCBO
    - Concerns over sharing the consumer versus growing the market
    - Revenue risks to LCBO
  - Public acceptance of the option
    - Social responsibility concerns





# APPROACH

- ◉ To answer our questions and the questions raised by the government, we augmented our initial work with Grant Thornton and did the following:
  - Invested significant time and effort into building and maximizing industry performance at the LCBO
  - Public opinion research – presented to FIN and other stakeholders which illustrated consumer comfort with the proposed model as well as a desire for more points of access
  - Asked Grant Thornton to extend their work on the wine store model to project revenues
  - Commissioned work with Fraser Milner Casgrain – both their public policy and international trade practice to work with us to analyze legislative and regulatory options with a view to being able to propose a model to the government
- ◉ This work could be combined with our separate work with KPMG to estimate the impacts of our proposal on the Ontario economy



# GRANT THORNTON REPORT

- ▶ Building on its earlier work, Grant Thornton was asked by the Wine Council to build on its store modeling to assess the impact of the proposed model to each potential impacted stakeholder, but primarily the government in terms of revenue
- ▶ Success factors that were mandatory:
  - Net increase in revenues to the Province
  - No net loss in revenue to LCBO – LCBO to remain importer of record
  - Financial viability for Ontario wineries
  - Financial viability for the retailer
  - A pricing structure that would not undercut the current pricing structure for similar wines carried at the LCBO
- ▶ Analysis layered on retail model considered in 2007
  - Stores at high, med, low rent models
  - Break even after 3 years



# GRANT THORNTON KEY ISSUE - MARKET CONTINUES TO BE UNDERSERVED

Jurisdiction	Population	Retail Outlets	Population per Store	Consumption Per Capita
Ontario	13,100,000	1,262	10,380	13.7 litres
Alberta	3,700,000	1,690	2,189	15.9 litres
British Columbia	4,500,000	1,303	3,454	19.7 litres
Canada	33,700,000			15.9 litres
Canada (excluding Ontario)	20,600,000			17.3 litres

- ▶ After updating data from the previous study (2009 data vs 2003 data) it was clear that the increase in the number of retail outlets in Ontario has kept pace with population growth
  - ▶ Population per store remains virtually unchanged and well above the other provinces
  - ▶ Consumption per capita in Ontario has increased since 2003, but has not increased at same rate as Canadian average
- ▶ Grant Thornton concluded that it would be reasonable to assume that increased retail access could be supported by an increased consumption per capita, more in line with other jurisdictions and approaching the national average



**COMMERCIAL CONFIDENTIAL**



# GRANT THORNTON ANALYSIS

## - MARKUP STRUCTURE

Markup Structure - VQA wines					
Revenue Distribution of Consumer Price	WRS		LCBO	VQA Direct Delivery to Licensee	VQA Direct Delivery to NEW Licensee / Retailer
Winery	\$ 9.05		\$ 5.09	\$ 8.06	\$ 7.46
Province direct	1.69		1.10	2.60	1.80
Federal	0.50		0.50	1.07	0.56
Container Deposit	0.20		0.20	-	0.20
Retailer - LCBO			4.55	0.54	
Retailer - Restaurant or NEW				11.86	2.92
Total	\$ 11.44		\$ 11.44	\$ 24.13	\$ 12.95



# GRANT THORNTON ANALYSIS

## - MARKUP STRUCTURE

Markup Structure - VQA wines						
Revenue Distribution of Consumer Price	WRS	LCBO	VQA Direct Delivery to Licensee		VQA Direct Delivery to NEW Licensee / Retailer	
Supplier Quote/Bottle	\$ 5.0907	\$ 5.0907	\$ 5.0907		\$ 5.0907	
Federal Excise Tax	-	-	-		-	
Total Landed Cost	5.0907	5.0907	5.0907		5.0907	
<b>Taxes / Markups</b>						
Ministry of Rev Wine Tax	0.5880	-	0.5880		0.5880	
Ministry of Rev Enviro Tax	0.0893	0.0893	0.0893		0.0893	
Ministry of Rev Bottle Tax	0.2175	0.2175	0.2175		0.2175	
LCBO Wine Tax	-	1.2150	-		-	
LCBO Mark-up	-	3.3344	-		-	
Equivalent of LCBO Wine Tax retain	1.2150	-	1.2150		1.2150	
Equivalent of LCBO Mark-up retain	2.7464	-	2.7464		2.7464	
	4.8562	4.8562	4.8562		4.8562	
<b>Basic Price</b>	<b>\$ 9.95</b>	<b>\$ 9.95</b>	<b>\$ 9.95</b>		<b>\$ 9.95</b>	
Discount for Licensees (from winery)			(0.99)	10%	(1.59)	16%
LCBO Manufacturers' Markup			0.54	6%		
			9.49		8.36	Wholesale Price to Licensee
			21.35	Resto price	11.28	Retail price (before HST) for licensee
				125% markup		35% markup
Federal H.S.T	1.29	1.29	2.78		1.47	
Container Deposit (see note)	0.20	0.20			0.20	
<b>Consumer Price</b>	<b>\$ 11.44</b>	<b>\$ 11.44</b>	<b>\$ 24.13</b>		<b>\$ 12.95</b>	





# GRANT THORNTON ANALYSIS

## - MARKUP STRUCTURE

Markup Structure - IMPORT wines				
Revenue Distribution of Consumer Price	Import LCBO	Import to Licensee (restaurant)		Import to NEW Licensee / Retailer
Supplier (Importer)	\$ 4.45	\$ 4.45		\$ 4.45
Province direct	1.10	2.11		1.21
Federal	0.96	1.59		1.03
Container Deposit	0.20	-		0.20
Retailer - LCBO	4.73	4.80		3.14
Retailer - Restaurant or NEW		12.52		2.92
Total	\$ 11.44	\$ 25.47		\$ 12.95



# GRANT THORNTON ANALYSIS

## - MARKUP STRUCTURE

Markup Structure - IMPORT wines						
Revenue Distribution of Consumer Price	Import LCBO	Import to Licensee (restaurant)			Import to NEW Licensee / Retailer	
Supplier Quote/Bottle	\$ 4.4476	\$ 4.4476			\$ 4.4476	
Federal Excise Tax	0.4650	0.4650			0.4650	
Total Landed Cost	4.9126	4.9126			4.9126	
<b>Taxes / Markups</b>						
Ministry of Rev Enviro Tax	0.0893	0.0893			0.0893	
Ministry of Rev Bottle Tax	0.2175	0.2175			0.2175	
LCBO Wine Tax	1.2150	1.2150			1.2150	
LCBO Mark-up	3.5125	3.5125			3.5125	
	5.0343	5.0343			5.0343	
<b>Basic Price</b>	<b>\$ 9.95</b>	<b>\$ 9.95</b>			<b>\$ 9.95</b>	
Discount for Licensees (from LCBO)		(0.50)	5%		(1.59)	16%
LCBO Manufacturers' Markup		0.57	6%			
		10.02			8.36	Wholesale Price to Licensee
		22.54	Resto price		11.28	Retail price (bef HST) for license
			125% markup			35% markup
Federal H.S.T	1.29	2.93			1.47	
Container Deposit (see note)	0.20	-			0.20	
<b>Consumer Price</b>	<b>\$ 11.44</b>	<b>\$ 25.47</b>			<b>\$ 12.95</b>	



# GRANT THORNTON REPORT - CONCLUSIONS

- ◉ Creation of stores with proposed model will meet goals of Wine Council
- ◉ Sales generated by this new channel will increase taxes collected by Provincial and Federal governments
- ◉ Incremental revenue to LCBO will necessarily increase
- ◉ With an increase in sales and consumption, VQA wineries will have to increase production and demand, and imports will also increase
  - With this increase the two levels of government will collect significant additional taxes (HST, excise, wine basic tax, volume tax, environmental tax)
- ◉ This new channel will allow for increased distribution and sale of VQA wine



# GRANT THORNTON REPORT

## Wine Council of Ontario

### Summary of ANNUAL Incremental Revenues to Ontario

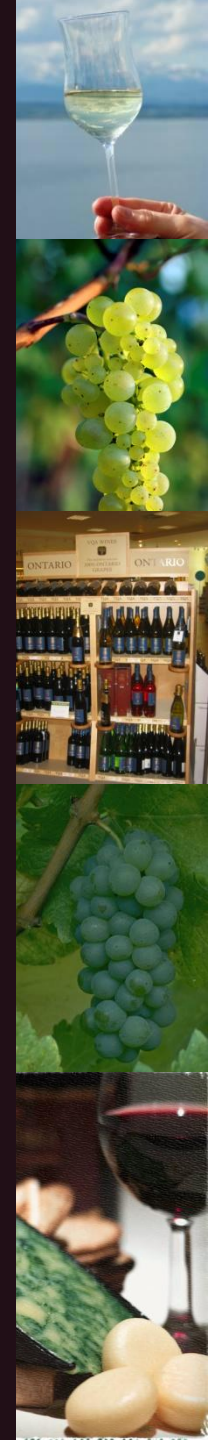
(for 20% VQA market share)

All \$\$ amounts in 000s

Number of Stores	20% VQA market share		
	Direct	LCBO	Total
65	\$ 12,003	\$ 22,696	\$ 34,699
185	34,162	64,596	98,759
385	71,095	134,430	205,525



COMMERCIAL CONFIDENTIAL



# GRANT THORNTON REPORT

## Wine Council of Ontario

### Summary of 5 YEAR TOTAL Incremental Revenues to Ontario

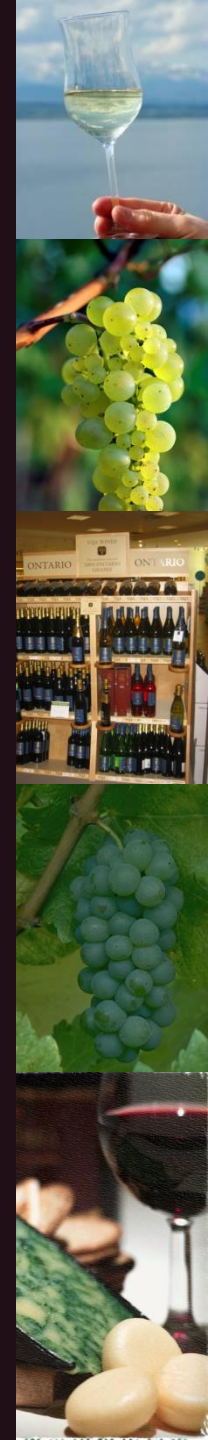
(for 20% VQA market share)

All \$\$ amounts in 000s

Number of Stores	20% VQA market share		
	Direct	LCBO	Total
65	\$ 60,015	\$ 113,480	\$ 173,495
185	170,812	322,982	493,793
385	355,473	672,151	1,027,624



COMMERCIAL CONFIDENTIAL

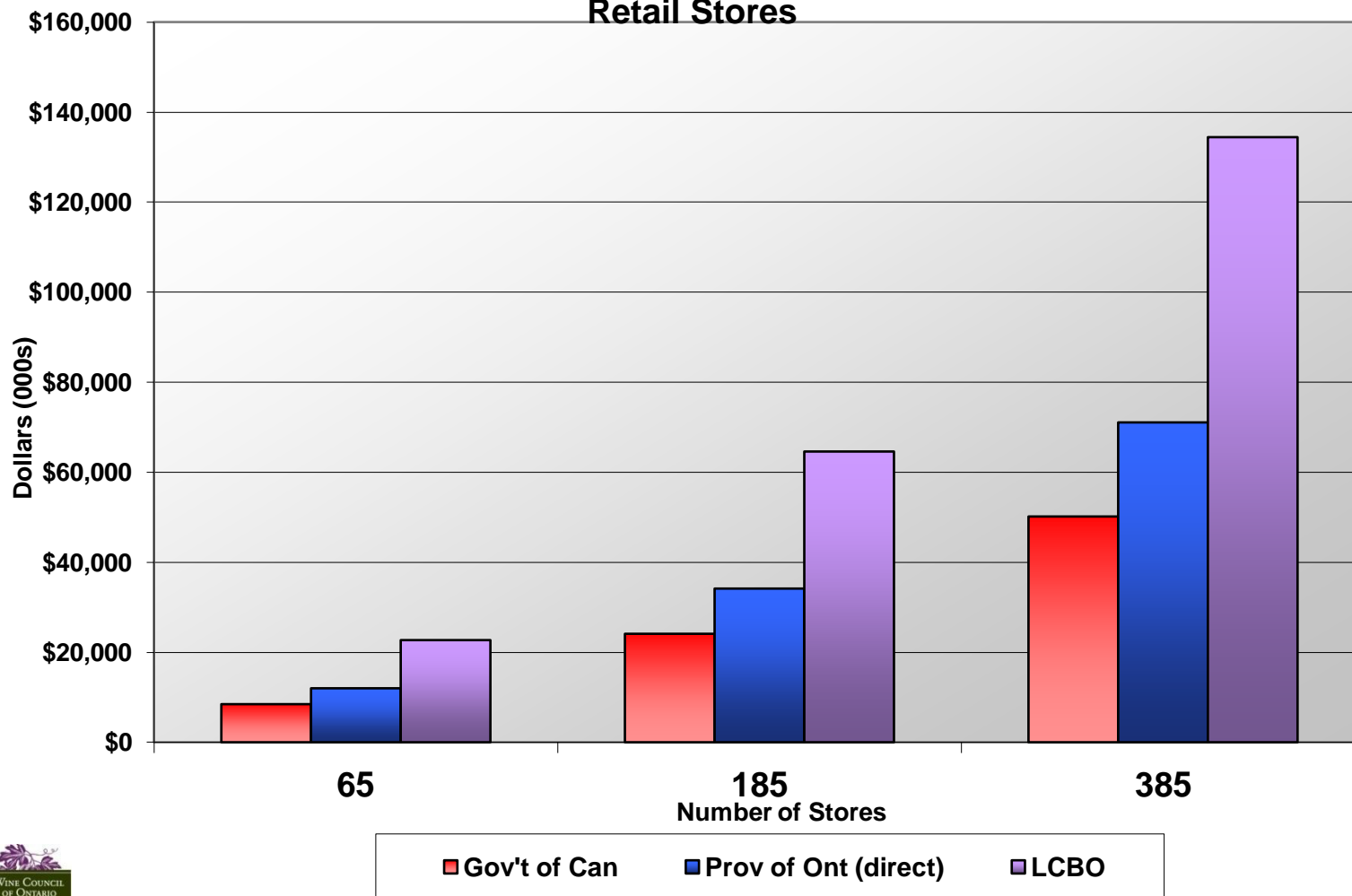




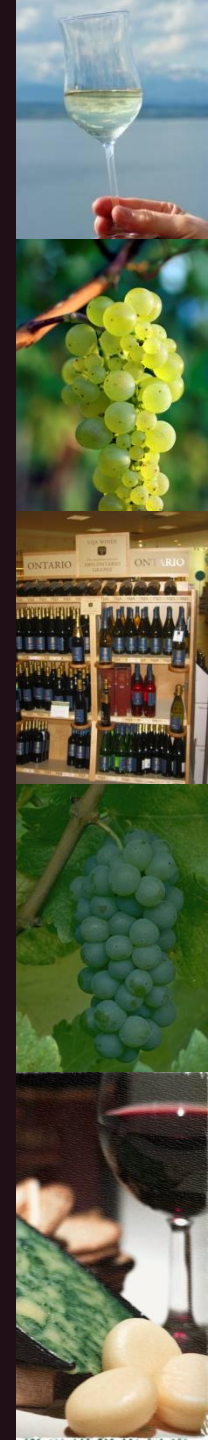
# RESULTS IMMEDIATELY POSITIVE

## Wine Council of Ontario

### Incremental ANNUAL Government Revenues with Additional Retail Stores



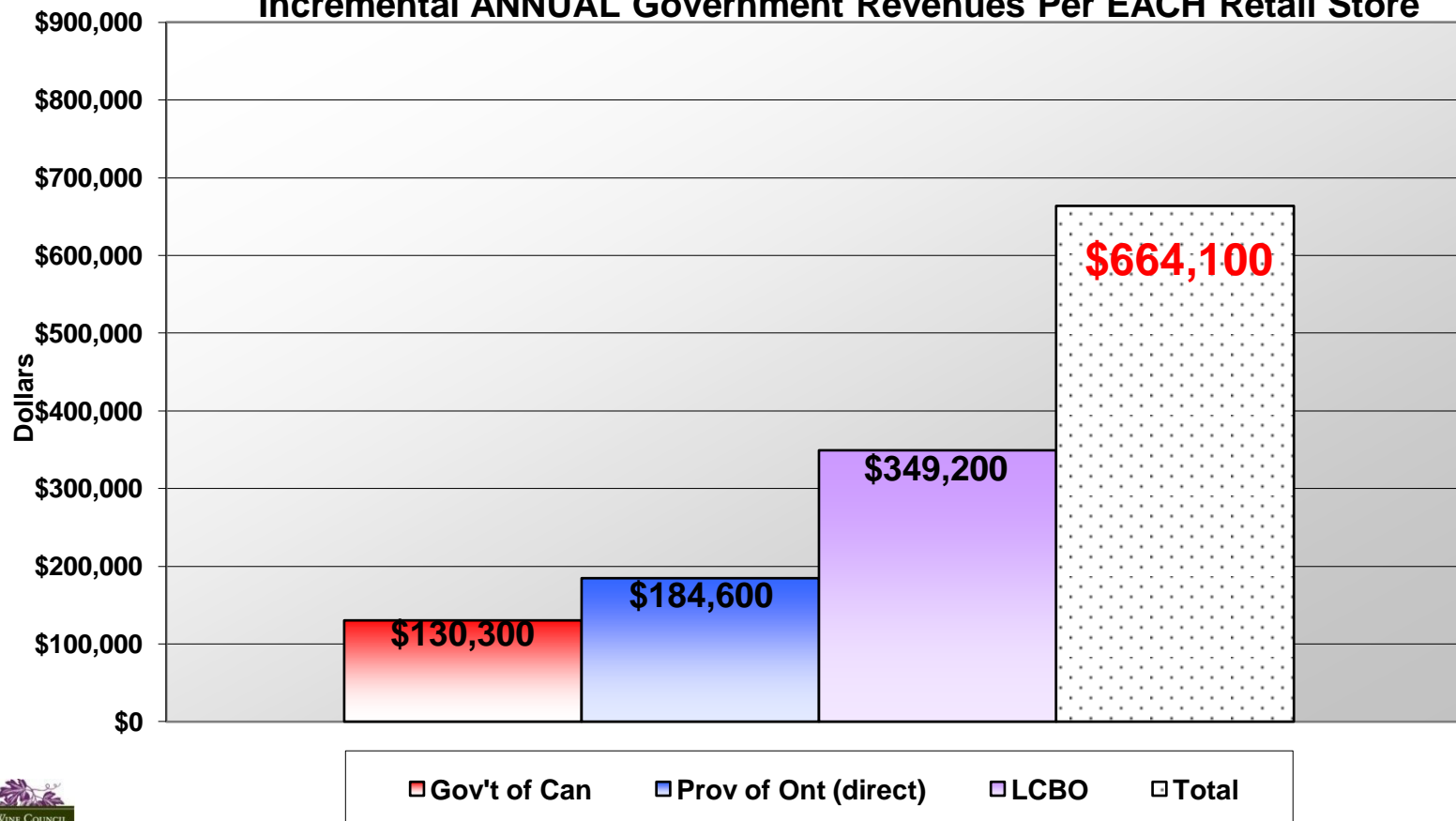
COMMERCIAL CONFIDENTIAL



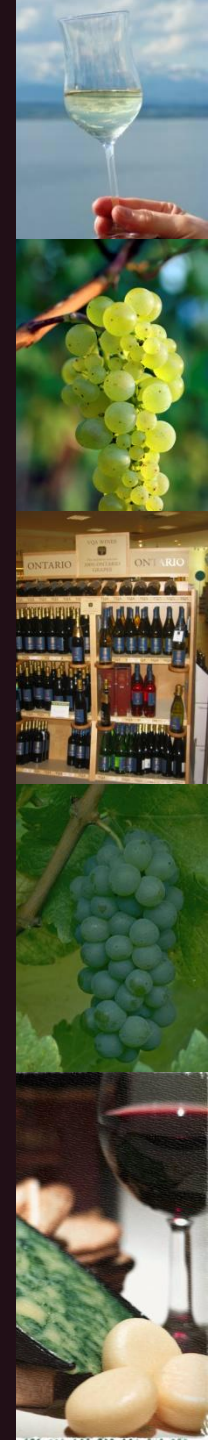
# RESULTS IMMEDIATELY POSITIVE

## Wine Council of Ontario

### Incremental ANNUAL Government Revenues Per EACH Retail Store



COMMERCIAL CONFIDENTIAL

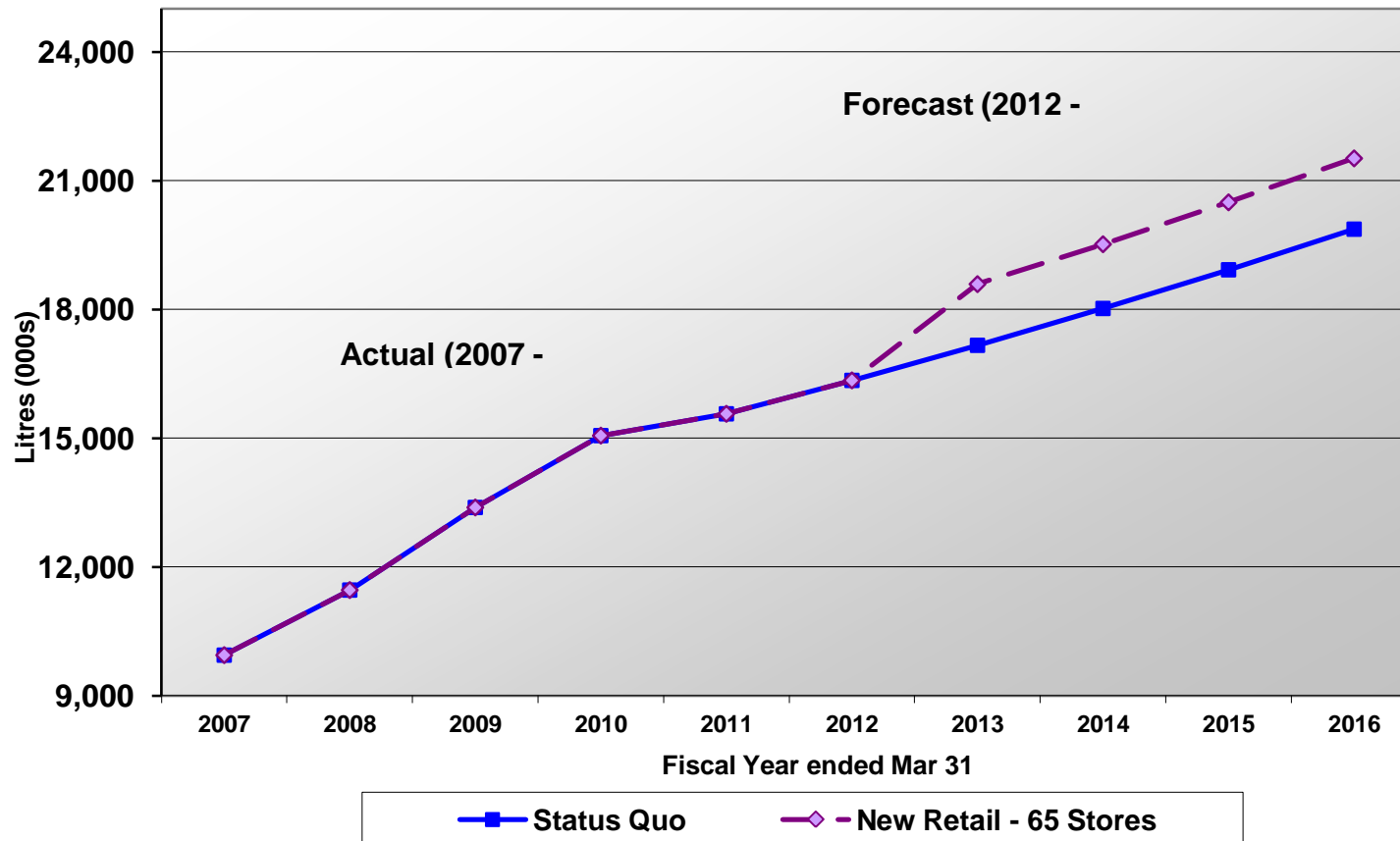


# INCREMENTAL IMPACT VS STATUS QUO

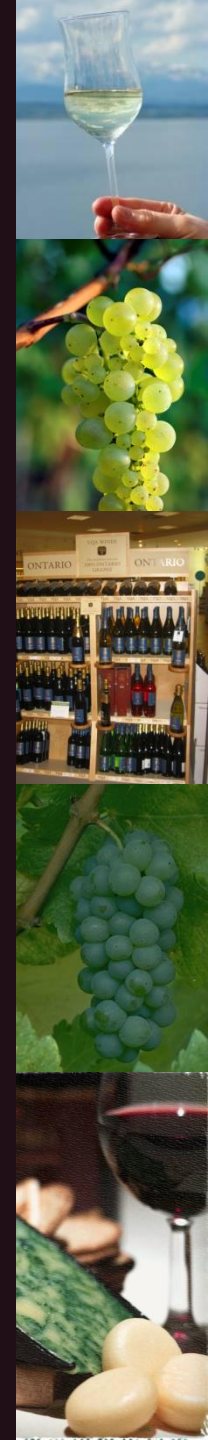
## Wine Council of Ontario

### Annual Sales of VQA Wine - Volume

(Assuming 65 new stores / 20% VQA market share)



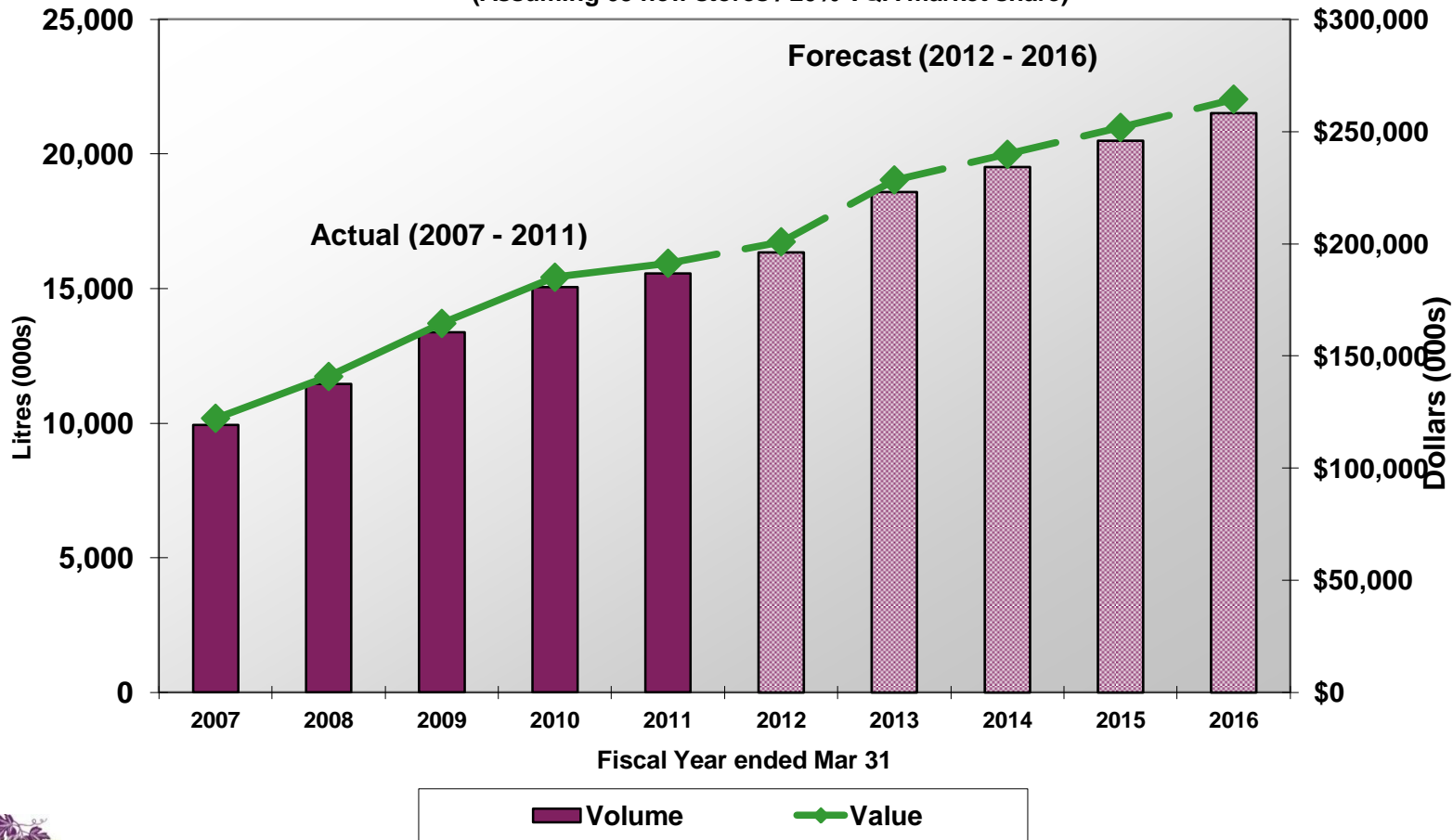
COMMERCIAL CONFIDENTIAL



# ECONOMIC VALUE ADD ALLOWS INDUSTRY TO ACCELERATE PERFORMANCE FOR ECONOMY

## Wine Council of Ontario

Annual Sales Volume of VQA Wine and Economic Value Add  
(Assuming 65 new stores / 20% VQA market share)



COMMERCIAL CONFIDENTIAL

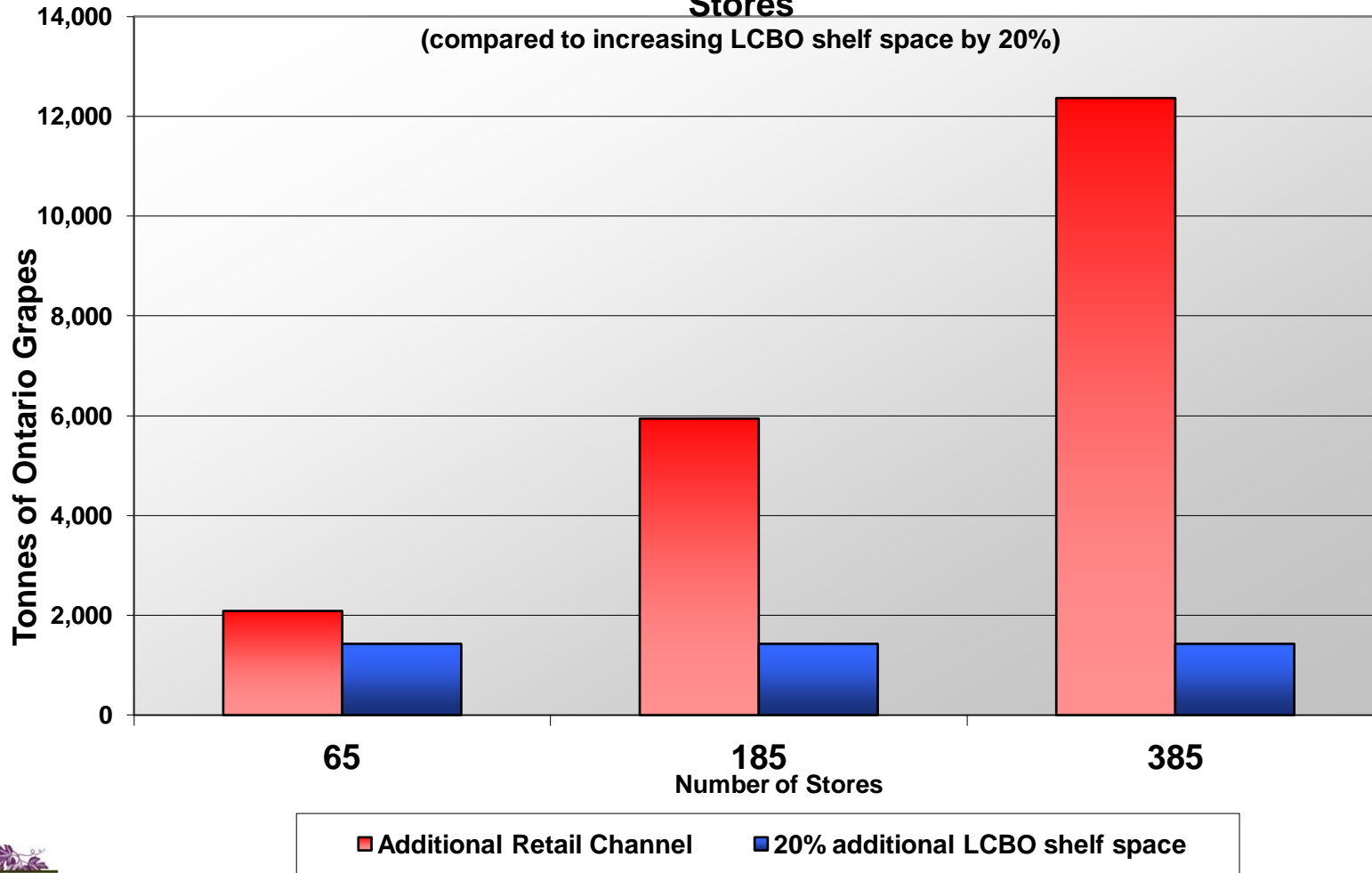


# BETTER OUTCOME FOR GROWERS

## Wine Council of Ontario

### Incremental ANNUAL Ontario Grapes used in Additional Retail Stores

(compared to increasing LCBO shelf space by 20%)

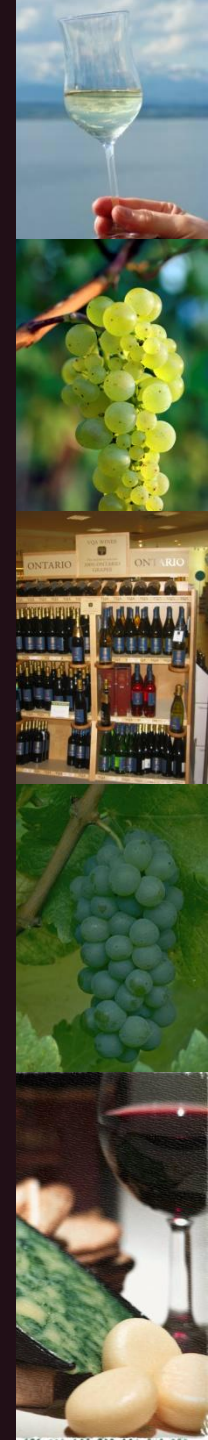


COMMERCIAL CONFIDENTIAL





# THE PATH TO A MODEL IS SIMPLE



# THE PATH TO A MODEL IS SIMPLE

## AGCO enabled to establish Independent Wine Retail Stores

- Amendment of 3(1)(d) of the Liquor Control Act to allow the establishment of Independent Retail Wine Stores
- Amend Table 1 of Ontario Regulation 141/01 to assign to the Registrar of the AGCO the powers that would otherwise be assigned to the LCBO
- Section 3(1)(g) should also be modified so that the Registrar can establish municipalities for stores
- Amend Section 8 of Liquor Control Act to be amended to authorize LGIC to make regulations governing the operations of these stores by adding parallel to clauses c-f in section that would be applicable to these stores
- Amend General Regulations of Liquor Control Act such that the Registrar is able to set hours of operation for these stores
- Removes the LCBO , a direct competitor of the nascent retail establishments, from the process and provides some protection against predatory behaviour.



# THE PATH TO A MODEL IS SIMPLE

**Allow for creation of licence which permits the operation of stores**

- Amend Section 6 of Liquor Licence Act to allow a person to apply to the Registrar for a Licence to Retail Wine. Make requirements identical to those in Section 6(2)
- Apply the prohibitions in Sections 6(4), 6(4.1), and 6(4.2) to apply to Licences to Retail Wine. This would prevent manufacturers from entering and controlling the market
- LGIC would be able to make regulations relating to the issuance of licences in concert with those in Liquor Control Act
- Amend Regulation 8 of the Licenses to Sell Liquor Regulations to indicate that it captures both a Licence to Sell and a Licence to Retail. This would include adding an additional class of licence at 8.1 that would authorize the retailing of wine and articles incidental to the consumption of wine by Independent Wine Retail Stores to members of the public.
- In order to maintain certain public policy objectives it is assumed that there would be similar conditions on a Licence to Retail Wine similar to those in Section 22 of the Regulations



# THE PATH TO A MODEL IS SIMPLE

**Make it lawful for members of the public to purchase wine from independent wine stores**

- **Amend Section 27 of Liquor Licence Act to provide that no person shall purchase liquor from a government store or from a person authorized by a licence or permit to sell or retail wines**
- **Amend Section 33.1(1) to ensure that persons can purchase for personal use wine from Independent Retail Wine Stores**



# THE PATH TO A MODEL IS SIMPLE

**Allow holders of a licence to retail wine to purchase wine in the same manner as holders of a Licence to sell**

- Amend Section 31 of the Liquor Licence Act to ensure to align provisions from Licence to retail with Licence to buy
- Add Section 31.2.(1) which would provide that a holder of a licence to retail wine may keep for sale and sell only wine the holder has purchased from a government store – maintains the LCBO's role as importer of record for non-Ontario wine. Section 31.2(2) should be added to provide that when purchasing wine under the Retail Licence that the licence holder should provide the government store with the licence number
- These amendments maintain the status quo of the role of the LCBO.
- An amendment to add Section 32.1(1) would require a holder of a Licence to retail wine to keep in stock and offer for sale a variety of wines from variety of manufacturers. This provision would preclude a Retail Licensee from stocking wines from a single manufacturer.





# THE PATH TO A MODEL IS SIMPLE

## Allow VQA manufacturers to Direct Deliver to holders of a Licence to Retail Wine

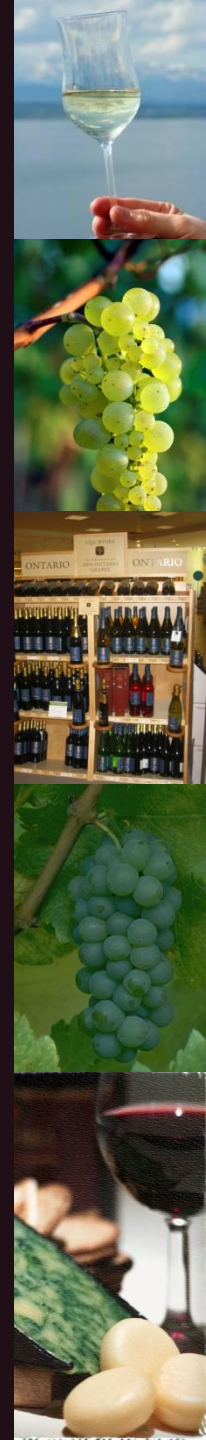
- Amend the current licencing framework in Section 5 of the Liquor Licence Act such that there is no restriction under Section 5(4) and its related regulations. This would ensure that the holder of a manufacturer's licence or a licence to represent a manufacturer is not prohibited from selling or delivering wine from a manufacturer to a Retail Licencee.
- Such a sale, replicating the current Direct Delivery process, would be deemed a sale from a government store under the Liquor Licence Act.
- Direct Deliveries are LCBO sales. The Direct Delivery Authorization Form, a standard form contract drafted by the LCBO, requires amendment to reflect that a wine manufacturer may direct deliver to holders of a licence to retail wine



# THE PATH TO A MODEL IS SIMPLE

Allow for minimum pricing legislation to be applied to Independent Retail Stores

- Amend Section 15 of the Minimum Pricing of Liquor and Other Pricing Matters Regulations from the Liquor Control Act such that Section 15.1 is added to provide that the operator of an Independent Retail Wine Store shall not acquire wine for retailer at a cost that is less than the reference rate established in accordance with the regulations.



# ADDITIONAL CONSIDERATIONS

- ◉ Limit holders of a Licence to Retail Wine with respect to:
  - Percentage of outlets they could own province wide
    - We would recommend one per owner – no ability to develop chains or consolidate
    - Review after first 5 years of implementation
  - No Manufacturers



# PUBLIC INTEREST IS THERE....



- ◉ Our challenge from Minister Duncan – show me that the people want it....
- ◉ Soft launch to wineries and a few wine writers already producing impressive levels of interest
- ◉ Designed to help the consumer understand the opportunity – selection and convenience
- ◉ Already driving expressions of support to MPP's



# OPPORTUNITY FOR LCBO

- ◉ Revenue generation
  - Embrace the opportunity as wholesaler
- ◉ Less pressure to accommodate product
  - Retailer and winery can be more strategic
- ◉ More efficient stores
- ◉ Greater selection for Ontarians
- ◉ Private sector investing capital
- ◉ Growth in consumption benefits all





# ADDITIONAL OPPORTUNITIES FOR GOV'T TO SUPPORT GROWTH OF WINE CULTURE

- ◉ We are also looking to additional opportunities to support our goal of growing Ontario's Wine Culture
  - Our approach is that government efforts are directed towards channels where all wineries compete
  - Focus on changes that allow wineries to become more competitive - benefits are related to effort and changes reward entrepreneurship, investment and partnership
- ◉ LCBO could amend their current policies to:
  - Allow wineries the ability to charge delivery fees when they deliver to licensees if they choose (as LCBO, importers can do now)
  - Allow wineries to store and ship wine together to allow for off-site support of sales to trade
    - *As part of the changes, govt could consider a volume cap on dd sales*
- ◉ Ensure benefits focused on Ontario wineries are for VQA wines versus ICB





WINE COUNCIL  
OF ONTARIO



# QUESTIONS?