

MARITIME WINE TRADING COLLECTIVE



Foreign Affairs and
International Trade Canada



Wine
Country
Ontario

US Market and Importation Overview - Canada

March 24th 2011

Background: Maritime Wine Trading Collective

National Import, Sales, and Marketing agency located in San Francisco, CA

Founders

- Chris began in the wine industry 20+ years ago and has held senior positions at NWS in Chicago, Vincor and Constellation. He along with his family have owned and operated restaurants, wine distribution and import agencies along the way.
- Elijah's family owns one of the largest fine wine and liquor retailers in the United States. He has spent the last several years in senior management positions at organizations small and large and before starting Maritime worked as a management consultant for Cisco, Sun and Fed-Ex. Elijah holds an undergraduate from UCLA and an MBA from Stanford.

Background

- Maritime began humbly five years ago when Chris began importing South African wines for the Beck Family
- Over the last several years Maritime has added regional producers from New Zealand, Argentina, Italy, France and California (Sonoma and Napa) as well as Oregon.
- Maritime has a national footprint with a team of sales agents (NY, CA, TX, FL, IL) who oversee sales and distribution management in 32 US States and 10 Canadian Provinces
- In 2010, Maritime added private label offerings to its branded wine business
 - Now makes up almost 20% of our business
- Maritime will import and sell over 100,000 in 2011 to the US and Canada this year
- Please look us up at www.maritimewine.com

Market Overview

The playing field in general

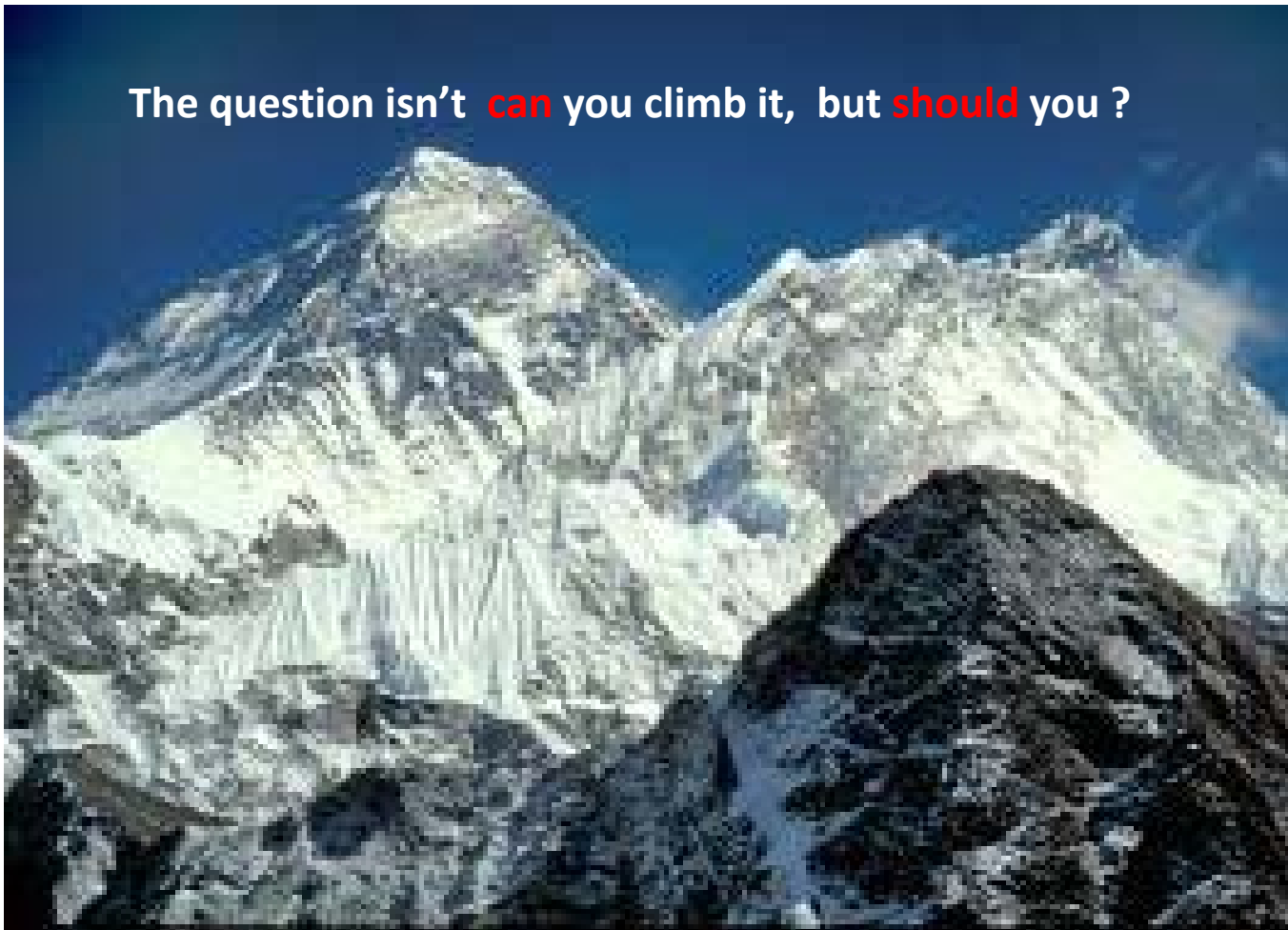
- The US Market is now considered one of the most attractive wine markets in the World
 - Growth of 3% per annum in CY 2010
 - The US market has grown in wine consumption every year for the past 17 years. Resulting in the US becoming one of the most competitive markets in the world
- Major categories:
 - Domestic (+60% of the wine sold in the US is California wine)
- Balance in imports:
 - France (31% of imports)
 - Italy (28%)
 - Australia (<15%)
 - Spain (5%)
- Canadian wine imports represent <1% of wine sold in the US in CY 2010
- More than 50% of all “on-prem” accounts in the US exclusively pour either domestic or “Old World” European imports.
- The US wine trade is still governed by the three tier system
 1. Producer
 2. Distributor
 3. Retailer (on/off premise)
- Additionally compliance laws and regulations govern wine distribution state to state, sometimes county to county.

First things first...

Why do you want to import wines to the US?

The US market is very difficult to operate in and most producers are **NOT** successful. Make sure you've made a solid plan of attack that accounts for spending a lot of time, money and energy growing your business in the United States.

The question isn't **can** you climb it, but **should** you ?



What makes a good importer/distributor

Smaller, hungry distributors with focused books that can give your wine the attention necessary

To be clear importers and distributors come in all different colors and flavors mostly relative to size, scope and funding. You must determine which type of distributor makes the most sense for your aspirations long term otherwise you will end up getting whatever stumbles in the door...

Blocking and tackling:

- Oversee or assist all logistical aspects of getting your wine from warehouse/port to points of distribution in the US market
- Oversee or assist federal and state compliance registration and renewal
- Assigns distributors by region managing all aspects of sales/marketing:
 - This includes coaching and marketing of your wines with distributor staff and buyers
 - Creating incentives and trade programming, and overseeing sales goals and targets
 - Presenting your wines to buyers **DAILY**
- Oversees and helps coordinate public relations activity in the US market
 - Submitting wines to publications and relevant and meaningful contests
 - Attending and representing your wines at special events, tastings and seminars
- Coordinating market visits for VIP's, winemakers and viticulturists to work "in market"
- Solid and **numerous** connections to distributor and retail partners in markets you want to sell your wines. This is how you get distribution.
 - "I know Rajat Parr", So... what...
- To be clear, this is a relationship business. It doesn't matter how hard someone is willing to work, to get distribution of your wines, your distributor needs to be connected.

What's your goal and do you have a strategy?

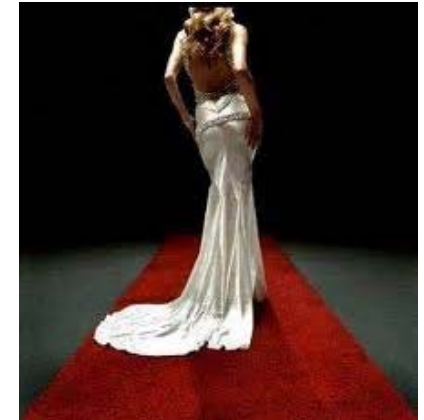
Why do you want to import wines to the US?

This may sound like an elementary step but you'd be surprised how often producers approach distributors without a clear understanding of what they want to do in the US market with their wines.

Your goal(s) will determine which importer/distributor you choose, the markets you approach first and long term will provide a roadmap as to whether or not your importer/distributor is doing a good job for your brands.

Therefore, do you want:

- Volume growth (Create a 5 year plan)
- Brand recognition (Maybe focus on regional distribution close to home)
- Profitability (What is the peer group you're targeting in the US and the relevant price points?)
- Vanity (Sound strange, many do...)



What are you offering?

Now you know why you want to export, what are you going to do to get you there?

After considering your goal, assemble a plan relative to this that you can in-turn present to a prospective importer/distributor.

- What brands or varietals do you think would be a good market fit for the US?
 - Do your research, what does the US wine buyer want?
 - A suggestion: Focus on just a couple “best of the best” wines. Don’t expect the entire offering will be listed.
- Should your wines be distributed nationally, regionally, on an exclusive or limited basis or directly to market via private label or exclusive product.
- What volume do you have to export to the US?
 - A suggestion: Have reasonable expectations for what is achievable. Growing an esoteric wine in the US takes time. You will not start at 1000 cases and grow to 5000 cases in 12 months.
 - Also, if you only have 200 cases to export, don’t bother. Distributors want to grow with you. Either you’re committed to building a presence or you just have some extra wine to sell.
- Price point, price point, price point
 - Know you’re peer group and price your wines accordingly.
- What channel do you see your brand competing?
 - On/Off Premise, Independent or corporate retail. Who’s buying your wine at home?
- Do you have a marketing budget? What are you going to spend to sell wine?

The 3-tier system

A present from prohibition that just keeps giving and giving

- In the US, by law, an entity can only (primarily) operate in 2 of the 3 tiers of the wine/liquor trade
 - Example: Maritime is a producer, distributor but we cannot operate retail businesses focusing on our brands exclusively.

What this means for you:

- Channel management
 - Selecting an importer and distributor largely effects your sales channel in the US
 - EX: Many importers work with either small/medium sized distributors who do a very good job selling wines to independent on/off premise accounts.
 - Others have strong relationships with large regional/corp distributors who do a good job servicing **large** independent and corporate chains.
- Pricing
 - When you're evaluating your peer group for pricing purposes you need to consider how the 3-tier system impacts "on the shelf" and "by the glass"

Pricing exercise example:

- ❖ FOB Canada of \$100/case
- ❖ Importer will charge 25-35% margin commission (~\$144/case FOB CA)
- ❖ Distributor will charge a standard 28% margin (~\$199/case Wholesale)
- ❖ Off Premise retailers will mark-up the wine 50% (~\$298 Retail Off Prem or \$24.99/bottle)
- ❖ On Premise 2 to 4X wholesale on a wine list (~\$35 to \$70/bottle list or \$16 BTG)

First Steps

How do you get an importer?

- Use your existing network
 - Best option is to be introduced by someone you know
 - An distributor is far more likely to review your wines and extend an invitation to meet if you're referred to them through someone in their network
 - And likely because they're in your network, you'll like them as a person.
- More than a personal connection, start networking.
 - Ask around, who using what importer?
 - Go to the US and ask restaurateurs, independent shops who they like buying from
- Regardless you have to be relentlessly trying to find and follow up with import prospects
 - Distributors live and die by sales, they are inherently busy. Keep following up until you hear the words "NO!" maybe even more than once.
- Go visit the market
 - Coordinate a visit and try to reach out while you're there.
- It's OK to send samples AFTER discussing your wines with an distributor, but I've never heard of someone not taking a meeting (or several) before importing a wine.
 - Give them time to review and then follow up, many, many times.
 - Present samples that you feel would be market relevant while letting them know your entire offering.
 - Include FOB pricing and any literature you have, sales kits, accolades, POS

Selling wine in the US is 24/7.

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What questions to ask?

Think through each of the steps required to get your wines to market

- Time in market?
 - Education, experience, background...
- Brands and volumes of existing portfolio
 - Are they a brand collector or do they already have sixteen brands represented from the Okanogan?
- What is their company's strategy and long-term goal?
- National or regional in scope?
- How developed is the sales team?
- What sort of training do they have for their sales team?
- What channel do they primarily sell?
- What are some key relationships they have in the US?
- Where do they see your wines fitting in to the US market?
- Price points they think you'd be most successful and why?
- Do they require a marketing budget? If so how much? 10% of FOB is a pretty standard starting point.
- What % margin or commission do they require?
- Will they work under contract?
- ...

You've signed a deal, now what?

Map out the first year's activity

- Number 1: Get distribution
 - Many distributors will accept brands within an importer's portfolio after a thoughtful review of the wines and pricing but others may need a visit to help garner traction.
 - Plan to be in the market for 3 to 6 weeks "kicking off" the wines with distributors and sales teams that you've targeted for your initial launch
 - Your importer/distributor should coordinate relevant buyer meetings where you'll be showing the wines and talking about what sets them apart from others
 - As well as coordinating dinners with key accounts and "influencers" in market where you'll be asked to present and talk about the wines.
 - Coordinate PR activities where available to get the wines written about and reviewed by columnists, bloggers, food and wine publications of note.
- Number 2: Track performance
 - Be sure to put together a system to track your own performance in the US market.
 - Most important is volume sales "ships" vs. depletions. Initially, after launching a brand you'll want to target 75% depleted due to higher than normal sampling activity. Over time you'll want to see this percentage go up, indicating that what you're shipping is selling through and pulling of shelves
 - Spend – Track how much you're actually spending. Marketing budgets, shipping samples, trips etc all add up. On its own does it capture enough profit? Or does it help to drive more business at home or globally?
 - Have this well planned (thought out) before quoting pricing to your potential importers...

Do you stand a chance?

By and large the answer is “yes”

- While the current market for Canadian wines is small the opportunity in the US market is great. Some things to consider.
 - The US, outside of China, is one of the few remaining markets that has a wine consuming population that is growing.
 - And while our palates are not quite as sophisticated, there in lies even greater opportunity. IE through education and developing “mind share” regarding what is possible you have the opportunity to show what is possible outside of California selling above \$9/bottle.
- What wines should you present?
 - American’s shop on a relatively narrow bandwidth including:
 - Label, varietal, price
 - Currently price is of particular note, “It’s gotta taste like \$20 and cost \$10.
 - That stated use these as a guide for what you present to the US market. Consider:
 - What are you best at creating relative to the price?
 - Is the varietal one that resonates with the buying culture in the US?
 - Is there a winning combination that is selected?
 - In short, yes. Outside of the wine quality to price aspect, are you someone the importer would like to work with?
 - Do you understand the market challenges?
 - Are your expectations reasonable?
 - Are you committed?

Q&A

Thank you and Good luck!