WGAO

Winery & Grower Alliance of Ontario

March 2, 2011

WGAO Response to the "Local Tastes Better" Draft Strategic Marketing Plan, February 23, 2011

1.0 Executive Summary

The WGAO cannot and does not support the Draft Strategic Marketing Plan dated February 23, 2011. Four of the primary reasons for this lack of endorsement include:

1. To our knowledge there are no established 5 year, $15 million objectives and quantitative metrics as a foundation, therefore it is impossible to judge how well the Draft Annual Marketing Plan list of activities supports those undefined longer-term objectives. This is compounded by the fact that the draft annual plan also lacks overall metrics which would help determine the priorities and most effective mix of marketing, including financial and resource trade-offs. Every activity listed in the plan has some merit in isolation of clear overall objectives but the real marketing discipline is deciding the set of actions that most effectively support what needs to be accomplished individually and as a whole. The Draft Plan does not accomplish this. If you don't know your destination, any road will get you there.

2. There was no active and ongoing engagement of marketing professionals together from across the entire industry over the past year. As a result the Draft Marketing Plan does not reflect the output that would have otherwise been produced from such an inclusionary process to leverage the assets and knowledge of the entire industry. Valuable participation and input into a $3 million plus marketing plan does not come from one PowerPoint presentation (December) and one written document (this one) alone, but from active and enriched discussion, debate and analysis among professionals.

3. The information and analysis needed for us to intelligently comment on the Draft Marketing Plan has not been done and/or shared with us. It is necessary to understand the financial expenditures and revenues of every potential activity in order to do a cost/benefit analysis. The financial information to date does not literally add up and the real costs of each potential activity are not clear. Who would approve a Draft Plan without understanding the financial and human resource implications?

4. Elements of this "Draft" Marketing Plan are already being implemented and acted upon before we have an opportunity to comment, therefore making much of the input irrelevant. While the timing of this process was no doubt difficult for the inaugural year of 2010/11, there is no reason that the process and timetable would be so late in planning for 2011/12.

The WGAO is thoroughly committed to the effective marketing of Ontario VQA wines and eager to work together with the entire industry and government to arrive at the best model and plan to achieve our common goals.

2.0 Background

As a preamble to this document, the reader should understand the recent process for developing the 2011/12 VQA Marketing Plan and related timelines set by the WCO.

In the fall of 2010 the WGAO suggested to the WCO that their respective Marketing Committees meet and work together as partners. This was rejected by the WCO.

As a result, the two Marketing Committees work in isolation of each other and there is no ongoing dialogue and discussion amongst a cross-section of experts in the industry.

The WGAO asked if the Draft Marketing Plan for 2011/12 could be directly presented to the WGAO Marketing Committee. The WCO invited us only to the "stakeholder" meeting of February 23. We understand that the WCO Marketing Committee was engaged and reviewed the Draft Plan in advance of the "stakeholder" meeting.

As a "stakeholder", there was a meeting held on December 16, 2010. In preparation for that meeting the WGAO and its marketing/tourism committee had 5 working days to review the findings of the 2010 Usage and Attitude Research Study. Based upon the 5 working days, the WGAO made a presentation on our insights from the research to the "stakeholder" meeting of December 16, 2010.

Between December 16, 2010 and the next "stakeholder" meeting of February 23, 2011, there was no ongoing dialogue, discussion or marketing meetings on the marketing plan development by WCO with the WGAO and its Marketing/Tourism Committee. Several emails were exchanged but that is all.

On February 23, 2011 the WGAO and other "stakeholders" had the <u>first</u> opportunity to view the Draft Marketing Plan 2011/12. (We were originally told that the Draft Plan would be available for review in January). We were then given 5 working days to analyze the information in the Draft Plan, which will then presumably proceed to government the following week.

So while there have been periodic "stakeholder" meetings with the WCO, there has been no ongoing process of discussion among the professional marketers across the entire industry. WGAO members produce and sell the majority of VQA wines in the province, and have the vast majority of professionally trained marketers on staff, but are not fully engaged in the process to contribute to the development and implementation of the VQA Marketing Plan for the province.

As of February 23 we also heard as "stakeholders" that a number of the initiatives for 2011/12 in the Draft Plan are already underway, agencies selected and commitments made, so we have to wonder if our 5 day turnaround feedback is even relevant or meaningful.

In spite of the above the WGAO and its members are committed to a successful VQA Marketing Plan and have met every deadline with the highest quality feedback possible.

3.0 <u>5 Year, $15 million Objectives</u>

The Government of Ontario is investing some $15 million over 5 years for the marketing of VQA wines (assuming VQAO member funding, this jumps to some $16,250,000 over the 5 years). This funding came as a result of the revenue produced though an additional tax levy applied to Ontario blended wines sold through Winery Retail Stores.

In none of the materials and planning that we have been privy to has there been analysis and articulation about what will be quantitatively and qualitatively achieved over the 5 years with the $15 million. No quantitative objectives or targets have been set.

As a result, each year there is a new marketing plan which is not explicitly connected, tied to or building towards a clear set of objectives at the end of the funding.

We would think that both the government and the industry would want to have those 5 year metrics and performance measures in place so that each year there can be an evaluation of "how we are doing" and "what do we need to change" in order to achieve the longer-term objectives.

The Draft Marketing Plan does not address the longer-term goals and therefore it is not possible to evaluate the 2011/12 plan as to whether the right things are being done, the right investments are being made, and whether those activities and investments are leading us to specific multi-year results.

4.0 <u>Annual Objectives and Metrics</u>

Along the same lines as above, it is impossible to objectively support the 2011/12 Draft Plan because there are so few quantifiable objectives identified. Without the overall objectives and results quantified, how do you judge whether any single activity and the related expenditures are appropriate, efficient or effective?

The current Draft Plan provides a narrative of strategies and supporting activities but without additional detailed information and quantifiable objectives it is not possible to evaluate.

For example, the Draft Plan indicates that there should be $650,000 spent on advertising. From the information in the Draft Plan you cannot judge whether it is a good or bad investment. How will we measure whether a campaign is successful or not and is it a better or worst investment compared to other options? How does that activity contribute to building towards our 5 year objective?

The result of a thorough analysis and discussion might lead to the result that no funds should be spent on advertising, or alternately the more appropriate long-term investment should be double what is in the current plan.

As another example, in one place there is a clear objective set. In the social media investment of $155,000 in 2011/12, the objective is stated to double Facebook from 1,500 to 3,000 and Twitter from 2,500 to 5,000 along with the development of a tool kit. At least with this information one can then break down the dollars into activities and have a discussion about the ROI on the funding.

The same types of questions can be asked for virtually every activity that is identified and need to be addressed before one is able to provide a grounded and professional comment on the Draft Plan as a whole.

5.0 <u>Financial Transparency and Detail</u>

In any business there needs to be financial detail on the activities, the revenues and the expenditures. In the Draft Plan the expenditures are identified but not in the detail needed so that a marketing professional could judge the value for money or ROI.

There are no revenues identified in the plan that would show the net costs of each activity. For example, one of the measures that is often used in the tourism industry is the level of private sector dollars which are invested in an initiative. This is one way to gauge whether the "market place" (the industry) believes that the initiative has value.

In the documentation to date we are blind to private sector investments attached to government spending as well as investments by other third parties such as the Federal Government.

As just one example, many VQA wineries decided that the Wine Guide did not provide an adequate ROI for their investment. What analysis has taken place to evaluate the value of the Guide to the market place and potentially make adjustments for 2011/12?

From what we can see, the only adjustment is to increase the level of government funding to offset reduced industry investment.

In addition, during our review of the February 24, 2011 Draft Plan we were not able to reconcile the financial accounting contained throughout the report with the Budget Summary at the end.

For example in the body of the report LCBO activities for 2010/11 add to $650,000 and for 2011/12 to $770,000. In the Budget Summary they indicate $857,000 for 2010/11 and $780,000 for 2011/12.

As another example, Tourism in the body of the report states $575,000 for 2010/11 and $600,000 for 2011/12. In the Budget Summary the respective two figures are $660,000 and $643,500.

There are other examples as well where there does not seem to be alignment of figures between the report itself and the Budget Summary at the end.

As another example of lack of financial clarity, the document shows that $100,000 ($50,000 in 2010/11 and $50,000 in 2011/12) will be invested in the inaugural i4C Conference to be held in 2011. Yet from other sources it appears that DFAIT money will be used to provide matching dollars. Does that mean that the Government of Ontario funds for VQA Marketing will invest $100,000 into the conference, matched by $100,000 from the Federal Government or is the matching $50,000 with $50,000? From simply reading the document one could only assume the former as it is stated as an expenditure in the report.

For those who may not know, the first International Cool Climate Chardonnay Celebration (i4c) takes place on July 22 – 24, 2011 with a weekend ticket priced at $750.

Also, as an accounting practice we are not certain that the $50,000 can be charged against 2010/11 fiscal as the event takes place in July 2011.

To simplify some of the questions it would bring more clarity if the wine and grape industry knew specifically where the $3 million of government funds were spent in 2010/11 by the WCO and where the same amount is being planned to be spent in 2011/12. The same question can be posed for the VQAO funds that are flowed through that government body.

It is all quite confusing especially when one wants to understand the real costs of activities relative to the marketing results generated.

6.0 Fair and Equal Treatment of VQA Wineries

6.1 Implementation of the Plan

As it is often quoted "the devil is in the detail" and it applies to this draft Marketing Plan as it does not address how it will be implemented. It is one thing to agree directionally to an initiative, but if it is not implemented fairly, efficiently and effectively, it will not be a success.

We believe that there should be detail in the plan about the pricing of each and every activity (if applicable) and how each activity will be implemented so that the industry as a whole will have a reasonable level of comfort.

We fully understand that you cannot satisfy all the people all the time, but if there are explicit descriptions of implementation practices contained and approved by all parties upfront, then there will be a much easier and supported process of implementation over the course of a year.

As one example of many, if the plan were approved as drafted then $650,000 would be allocated to advertising. Who makes the decisions related to target audiences, media mix, suppliers, performance measures, etc.? If the organization representing over half of the VQA in Ontario, and with strong marketing bench strength is not involved in this decision-making, then how could one expect their support and possible complementary private sector investment.

6.2 Bundling and "Tied-Selling"

Rogers, Bell Canada and others are very good at bundling together various products. As a result you either end up buying one feature at an exorbitant price or you pay for the "bundle" even though you originally may not have wanted everything in that bundle. In marketing parlance this is called "tied-selling".

This would appear to be the case with the Wine Guide and the website. There is differentiated pricing for the Wine Guide between WCO and non-WCO members. Our understanding is that WCO members are priced as part of a membership bundle while non-WCO wineries are priced differently by individual feature.

If you want to be present on the website you need to buy into the Wine Guide. If you want to participate in the secret shopper program it is free if you bought into the Guide, and if not you have to pay extra.

The new Draft Marketing Plan carries this logic further by having government spend another $50,000 (website and web based mobile app), and another $15,000 (book now reservation feature) that are tied to the website. As we understand it, if you are a non-WCO member, you have to buy into the Wine Guide in order to get into the mobile app and now into the "book now" feature, etc. They are all funded by government yet bundled to disadvantage non-WCO members.

We do not have clarity whether the proposed $155,000 for Social Media is stand alone for all VQA wineries or whether it is "bundled" with the website as above.

7.0 Overhead Expenses

Like any business or industry the WGAO would like to maximize the dollars going directly into market as opposed to being consumed by overhead. We would think that the government and industry would have a similar interest.

In one of the original Wine Council documents concerning the Marketing Plan 2010/11 there was a figure of $360,000 for overhead.

In this Draft Plan we note that the overhead is stated as $466,000 for 2010/11 and projected as $450,000 for 2011/12. When the WCO was in receipt of $2 million annually for marketing, overhead was less than half it is today with $3 million annually.

There may be good reasons that overhead has increased to such a level but we have absolutely no information or detail to evaluate such.

Again, as a marketing professional, you evaluate the trade-off between overhead, staff and third party expenses with the direct in-market activities that you judge critical to achieving quantifiable results. We are in no position to make a value for money comment on the Draft Plan because of the lack of detail and transparency.

8.0 Strategic Trade-Offs and the "Mile Wide, Inch Deep" Issue

As every company knows, marketing is a discipline and every dollar has to work hard in order to be successful. In addition a lot of marketing dollars can end up being used even before they get to market.

As an illustration, let's take the core funding of $3 million from the provincial government. The equation of what actually gets to market is something like this:

$ 3,000,000	Funding
- $ 450,000	Overhead (internal staff, contractors, admin, etc.?)
$ 2,550,000	
- $ X	Agency and other costs
$ Y	Net Dollars that get into Market

With the information to date we are not able to understand these ingredients and therefore do not have any sense whether we are maximizing the "$Y" that go to market.

Related to the above discipline, any marketing plan needs to explicitly analyse the trade-offs between different strategies such as "brand" vs. "product", "consumer" vs. "trade" and "push" vs. "pull".

The Draft Marketing Plan does not adequately address these trade-offs and the financial implications of different strategic and operational mixes. For the most part the Draft Plan is incremental to 2010/11.

The result is a Draft Marketing Plan that tries to cover too many activities and initiatives. It does not have any "filters" that would guide hard decisions and trade-offs. For example, one primary filter would be the 5 year objectives, which have not been set.

The other implication is that the more initiatives you undertake, the more likely general overhead, third-party and agency expenses will climb.

The Plan should break-down the $450,000 of overhead expenses and for each initiative identify how many dollars go into market versus other expenses, such as agencies.

Finally, the Draft Plan does not identify what the private sector is doing in terms of marketing VQA. This is very important to know because ideally you would want the government and private sector money working together in tandem and as complementary as possible. There may be some initiatives in the plan that are valuable to do, but are best achieved by private sector players not government supported industry funds.

The process for the development of the Draft Plan has not allowed for these discussions to take place.

9.0 Trademark Issues

Although it is not an "association" issue, everyone is aware that there is a serious legal issue over the use of "Wine Country Ontario". Without getting into the merits of the various parties, is the Government of Ontario comfortable investing millions of dollars in this name before resolution and clarity?

As one example in the Draft Plan there is an initiative to spend part of some $60,000 on new highway signage under the new name.

We are not certain how wise some of these investments might be in the absence of clarity of trademark.