

COVID-19 RESOURCE CENTER

The State of BC Wineries: Planning for Summer 2021 and Beyond

March 1, 2021

Financial results in 2020 for BC wineries were mixed, depending largely on the individual winery's ability to pivot to other channels during the March to May shutdown and as restaurant sales collapsed. Wineries that were already well positioned to shift to upscale 'by reservation only' tastings, direct-to-consumer sales to loyal customers and e-commerce generally performed well. Small, under-scaled wineries relying heavily on walk-in traffic or restaurant sales, and without a loyal customer base or a strong internet presence, had a difficult year.

Here are some comments on how things might evolve in 2021, with an emphasis on recent trends, recent regulatory changes and regulatory changes that still need to happen. This is a general overview only and is not intended to provide legal advice.

What should BC wineries expect in 2021?

We are currently in a race between the rollout of the vaccine and the spread of more contagious variants of the virus. As it is now, the restrictions on tourist travel and the restrictions on social gatherings beyond your own residential pod could delay the start of the tourist season and may be extended indefinitely if the spread of the virus gets out of hand.

Once things open up, expect 2021 to unfold in two stages – a COVID-restricted period with occupancy limits and distancing requirements similar to what we faced last summer, followed by a return to some version of 'normalcy' late in the year. Even if a herd-protection level of vaccination of the population is achieved by the targeted date of September 30th, it is unlikely that all restrictions on group activities will be removed or that all occupancy limits and social distancing requirements will be eliminated.

As in 2020, the new year is likely to throw some curveballs, but those best able to come up with creative solutions, and execute quickly, should be able to achieve another good year.

Status of regulatory changes

The provincial government has announced that it intends to make permanent certain significant COVID relief measures. Solicitor General Mike Farnsworth's Mandate Letter specifically references three changes: authorizing the expansion of service areas, allowing restaurants and pubs to purchase alcohol at wholesale cost, and allowing liquor delivery with takeout. It will be interesting to see what tweaks are made to the permanent regulations. Other interim measures, like permitting shipping directly to consumers from registered secondary storage sites, are not being made permanent but should be.

With inter-provincial trade restrictions continuing to block access to a national market, BC wineries need further regulatory changes to enhance market access within the province. Dropping the current restrictions requiring BC wineries to locate their tasting rooms at their manufacturing facility would be a big step in the right direction and would put BC wineries on an equal footing with wineries in competing tourist destinations

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such as Washington State, Oregon and California where tasting rooms clustered in rural communities and urban centres are a major attraction for wine tourists. This change would establish an important new distribution channel for BC wineries, preserve valuable agricultural land within the ALR and provide a significant economic development opportunity for rural towns and cities.

Tasting rooms and bespoke tastings

Currently, the public health rules restrict tastings to local customers only and only to groups who are from the same household. Even if tasting rooms were to take the uncomfortable view, as the restaurant industry has, that it is not their job to monitor or enforce compliance, these limitations will seriously dampen tourist travel and traffic in tasting rooms.

Once health authorities get on top of the newer variants of COVID with the help of vaccines and warmer weather, look for the current restrictions on tourist travel to be lifted. At that point, expect large crowds. A recent Wine Growers Canada survey reveals that a significant portion (50%) of regular wine drinkers are planning to, are likely to, or might visit the Okanagan this coming summer.

Wineries need to double down on what they did right last summer. Bespoke sit down tastings by reservation only are here to stay. They are the norm in more mature markets such as Napa and are the best way to develop a loyal customer base, maximize spend per customer and gather members for your wine club. With higher tasting fees, customers expect wine savvy wine ambassadors and a higher level of hospitality, You need to upgrade staff hospitality training and deepen their knowledge of your wines.

Expect even more stress on your team in dealing with customers this summer. Customers generally are becoming less tolerant of COVID restrictions and those who have been immunized are likely to feel a sense of entitlement – that the rules shouldn't be applied to them

Outdoor tastings and extended tasting areas

Expect the popularity of outdoor tastings to continue so long as we remain mostly free of forest fires and smoke in the Valley again this year. Many customers feel more COVID-safe with and are enjoying outdoor tasting experiences.

Under the Temporary Expanded Service Area (TESA) authorizations, many wineries are offering expanded service beyond their normal licensed patio and picnic areas. These authorizations expire on October 31, 2021 and you need to apply for permanent extensions. Expect the application process to be long and tedious as it has been in the past; and get your applications in early. Wine Growers BC (the new name for BCWI) is advocating for updating the current manufacturing liquor service area policies to be less restrictive and more open around hospitality venues.

Remember also that under the terms of existing licenses, manufacturers can offer tastings beyond their licensed areas (such as in their vineyard or in their winery or barrel room). Farm gate wineries can also offer tastings at farmers markets.

Cooperative off-site tasting rooms

In 2021, look for municipalities and regional districts in wine country to bring pressure on Solicitor General Mike Farnsworth, the Minister now responsible for the LCRB, to reform current laws limiting BC wineries to one tasting room located on the same property as their production facilities. A commercial winery can locate in an urban area but only if it also locates its production facilities there.

For land-based wineries, the current rules mean that wineries are required by the LCRB rules to locate their tasting rooms on a vineyard property. This makes no sense. As the wine industry has matured, wine lovers

are looking for a more multi-faceted tourist experience and wineries are responding by building multi-purpose facilities including restaurants, wedding and entertainment venues, and shopping, together with associated roads and parking lots, on-site in the vineyard on prime agricultural land. This increases development pressure on scarce and valuable agricultural land.

What social policy purpose is furthered by forcing commercial development onto ALR lands in this manner to the detriment of surrounding towns and cities that are denied the economic development opportunities that would arise from allowing tasting rooms to locate in cities or towns?

All along the US west coast, in each of the competing wine tourism regions, small rural towns and cities have established thriving tourist economies around clusters of winery tasting rooms located within the community. Wine tourists swarm to these communities where they can sample wines of a number of producers on foot in close proximity to restaurants and shopping attractions. Strangely, this business model is currently illegal in British Columbia, and rural communities are lobbying forcefully to change this. Expect this to be a big issue at the BC Union of Municipalities meetings in September.

For their part, its time for BC wineries to start thinking about the business opportunities that could be generated by removing the current restrictions.

Obviously, investment in a secondary tasting room may not be worthwhile for some wineries; but for others it will open up major opportunities. For example, a group of wineries within a sub-appellation might open a collective tasting room in a nearby city or town to serve as a gateway to introduce their products and to encourage tourists to visit their region. New entrants, facing the high cost of vineyard properties along major tourist routes, might choose to nevertheless establish their tasting room in such high traffic areas but locate their vineyard and winery elsewhere where land prices are lower.

Wine clubs and customer lists

Wineries with large wine clubs and a loyal customer following did very well at weathering COVID. This has heightening interest in the further build-out of this important high-margin sales channel.

Your tasting room team needs to be trained and coached to solicit email addresses and club memberships. This can significantly increase the volume of follow up sales to customers who have visited your tasting room. Also, you should learn how to use your social media presence to garner further applications for club membership from those unable to visit your tasting room.

US experience is showing that wineries that convert from a traditional club model to a more flexible subscription model that allows customers to choose the size, content, and timing of orders achieve higher sales per order and reduced customer attrition.

Be aware that you are legally obligated to protect the privacy of personal information collected from customers. British Columbia's Personal Information Protection Act requires all businesses, including wineries, to establish policies and procedures to govern the collection, use, and disclosure of personal information. The Office of the Privacy Commissioner has announced that this year it will review BC's licensed private liquor retailers' privacy practices under its Audit and Compliance Program. All wineries need to appoint a compliance person and to put in place privacy controls and a privacy policy.

Third Party Marketers

Wine clubs organized by unlicensed third-party marketers are becoming a popular sales channel for BC wineries. These clubs feature a different winery each month and receive a marketing fee based on sales by the winery to club members generated by the third party's efforts.

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Since these clubs are unlicensed, the participating winery must retain title to the wines, collect the funds, consummate the sale directly with the customer, and look after shipping and customer fulfillment.

If you offer your wines through an unlicensed third-party wine club, realize that your winery is ultimately responsible for their actions. The same LCRB and CRTC rules that apply to traditional forms of advertisement like magazines and radio ads apply to advertising on social media by a third party marketer; and given the more casual environment of social media, it is easy to go astray of some of these traditional rules.

E-commerce grocery delivery services are currently joint venturing with licensed retailers to deliver wine with groceries under the temporary COVID relief provisions that allow delivery services to purchase and deliver liquor and wine on behalf of their customers from a licensed retailer.

Building your E-commerce presence

Sure, your internet sales sky-rocketed last year during COVID, but don't leap to the conclusion that you have suddenly become an e-commerce juggernaut. The growth was from a very small base, as loyal customers, unable to visit, sought you out on the internet. Look for a partial reversal of this channel shift in the fall of 2021 as customers, once immunized, return to purchasing in restaurant and 'brick and mortar' retail channels. Closely monitor the trends so that you can shift your allocation of wines and your marketing efforts among channels in real time as the relative importance of channels changes.

Internet sales will remain as an increasingly important part of your business but look for it to get a lot more competitive as your neighbouring wineries hire the expertise and the tools necessary to grow a serious on-line presence.

Establishing a vibrant e-commerce business involves more than just adding a shopping cart button to your website. Hire a knowledgeable expert specialized in e-commerce to focus your digital marketing efforts; someone with data analytics experience to supervise the collection of customer data and who knows how to use it in a targeted fashion to grow internet sales. Learn from the experience of retailers in other consumer goods sectors who are much further along than the wine industry in selling over the internet.

Also, realize that most customers are looking for variety - a broad array of products and that, as in the United States, licensed retailers rather than individual wineries will increasingly dominate internet sales by offering customers that variety.

Shipping to customers from registered secondary storage sites

The original COVID relief package allowed wineries to deliver wine directly to retail customers from registered offsite storage facilities. But this rule expired on October 31, 2020 and has not been renewed. This is both irritating and illustrative of the degree to which the BC wine industry is currently over-regulated. What possible social benefit is gained by devoting LCRB enforcement resources to prevent the use of registered secondary sites for deliveries to consumers?

BC wineries routinely bulk ship pallets of wine destined for restaurants, bars or retail stores in climate-controlled trucks to third party distribution centres where individual orders can then be processed for delivery. Why should they not be allowed to ship directly to consumers in the same fashion?

As internet sales grow and shipping volumes increase, the requirement to ship directly from the winery is becoming problematic for boutique wineries who do not have the staffing or space to process high volumes of consumer orders from their tasting rooms. Shipping wine from the Okanagan to the Lower Mainland is challenging in both the hot summer months and in the cold winter months, except by climate controlled trucks. It would be easier and cheaper to bulk ship when temperatures are moderate. Also, it is costly and energy inefficient to ship single cases to consumers rather than to ship in bulk and it is cost prohibitive to ship single

bottles or gift packs.

A return to group activities

Special event licenses have been suspended indefinitely. There is a pent up demand for wine festivals, trade tastings, winemaker dinners, pick-up parties, weddings, on-site concerts and the like. By the end of the summer, maybe by the time of the fall wine festival, we may have reached sufficient herd immunity that such events will return, but don't count on it.

One way to get there earlier, health orders permitting, would be to limit participation only to attendees who have been vaccinated. It is an open question whether public health authorities will relax the prohibitions on gatherings earlier for individuals who have a 'vaccination passport'.

Ontario's Minister of Health has commented favourably on allowing persons with proof of vaccination more liberal access to sporting events and other group activities; but Trudeau has rejected the idea for situations under federal jurisdiction. Currently in British Columbia, all public health orders remain applicable even to people who have been vaccinated. The question is whether BC will at some point implement some form of 'vaccination passport' system.

Opportunities in the restaurant channel

COVID has had a devastating impact on the hospitality industry (restaurants and pubs), and it will probably take four to five years for these sales channels to recover. As the sector recovers, expect it to be reconfigured with more neighbourhood restaurants featuring lighter fare and wines, and fewer high-end downtown restaurants with large cellars. Takeout and delivery will continue to be an important element at many restaurants.

As the industry rebuilds, now is the time to redouble efforts to secure placement on wine lists for your brands. You need to have a game plan. Prominence in the restaurant channel is important both for sales volume and as a way to build your brand. New restaurant openings (there will be many) present fresh opportunities for you to develop relationships in this sales channel.

Unfortunately, margins in the restaurant channel for BC wineries have been severely negatively impacted by recent regulatory changes requiring wholesale pricing in the hospitality sector. The new provincial government has signalled that it intends to make these changes permanent, meaning that revenues in the restaurant channel will be forever reduced except for wineries that were already discounting in the channel through the twinning of SKUs or other means (whether permitted under the rules governing inducements or not).

The new wholesale pricing regime, coupled with the typical 15% agent's commission, along with expected lower volumes, significantly reduces the profitability and attractiveness of the restaurant sales channel for BC wineries.

Many BC wineries were supportive of the change to wholesale pricing on the basis that, although it hurt their bottom line, it was helpful to their friends in the restaurant industry. Hopefully the restaurant lobby group will reciprocate by supporting other regulatory change initiatives that favour manufacturers. Hopefully, also, restaurants will pass along the benefits of wholesale pricing by lowering pricing to their customers. We would all benefit if BC's reputation as a high priced tourist destination for wine lovers was repaired.

Look for the Province, when it makes wholesale pricing for restaurants permanent, to also permit restaurants and bars to purchase specialty products from LRS stores. Currently, BC restaurants can only purchase liquor from BC government liquor stores. If you want a product not stocked in government stores, your only option is to make a special order through the LDB. This requires purchasing a full case and often involves a long leadtime to receive the product. This is just not practical for high end or limited availability wines. Now that

the LDB has given up its extra margin from selling at full retail to restaurants, it is more likely that the province will allow restaurants to purchase at least specialty products from private liquor stores.

Wine sales with takeout and delivery

The Province has announced that the rules permitting restaurants to sell wine with takeout and delivery, scheduled to expire on March 31, 2021, will be made permanent. Depending on the flexibility of the permanent rules, this could open up an important new sales channel for BC wineries.

Provided that the rules apply to both restaurants and takeout shops such as delis and sandwich shops, and do not require the purchase of a full meal, there is an opportunity for restaurants to become 'bottle shops' along the lines of Spanish bodegas. This is already happening in Toronto.

Ontario and Quebec have already made restaurant delivery of wine with takeout and delivery a permanent feature, and it is becoming an important new distribution channel for innovative restaurants that are actively promoting the sale of sommelier-curated wine selections for delivery or takeout with food.

Quebec has taken the most expansive approach - removing restrictive rules that had required that the pricing for takeout be the same as for in-house consumption and that the accompanying food be a full meal. In Ontario, the rule is available to all existing restaurants whether or not their primary focus is on in-premises dining, but is not available to new restaurant licensees whose primary focus is on takeout and delivery.

The wording of BC's existing COVID relief permits the sale of wine with a takeout or delivery 'meal' rather than using the more general wording referencing 'food' as used in the Quebec rule. Currently the distinction is not being enforced. One of my favourite current offerings is a restaurant offering a sommelier-curated case of wine with a loaf of bread.

If the wording of the permanent rule is not changed from 'meal' to 'food', look for regulators to enforce the distinction. In California, the regulator, Alcohol Beverage Control, has recently provided guidance. It gets complicated. The ABC acknowledges the difficulty in defining a meal given the tremendous variety of foods available, but looks at the totality of the circumstances in determining whether or not the food service provided by a licensee is a legitimate offering of a meal in a bona fide manner. In evaluating this, the ABC generally looks at the various menu offerings available during typical meal hours, and whether the food offered is served in a reasonable quantity and what a reasonable person might consider to be a meal consumed at breakfast, lunch, or dinner. For example, although multiple courses are not required to constitute a meal, in order for the patron to be served a meal there should be a sufficient quantity that it would constitute a main course in a multiple-course dining experience. The ABC finds it easier to say what doesn't constitute a meal and this includes snacks such as pickles and chips; appetizers such as cheese sticks, fried calamari, chicken wings, egg rolls and pot stickers; side dishes such as bread, french fries, onion rings and small salads; and desserts. Strangely, reheated or frozen entrees also do not qualify as meals.

In British Columbia, there is legal precedent holding that crackers and cheese are not a meal. This decision goes back to the days when, on Sundays, bars were allowed to sell liquor only to travellers also consuming a meal. In England, it was determined recently that a scotch egg is a snack and not a meal. Lord, spare us from this extreme type of over-regulation in British Columbia!

Delivery services generally

The pandemic has increased the use of third party delivery services. In other jurisdictions, such as Ontario, a licence is required to deliver alcohol. This year look for the introduction of licensing or otherwise more formal oversight of delivery services including mandatory Serving It Right certification for drivers. This certification is already required for restaurant deliveries.

Sales in the retail store channel

British Columbia has some outstanding private liquor stores and wine shops. You all know the ones I am thinking about. Unfortunately, though, liquor stores in BC, both government and private are for the most part non-descript, lethargic and complacent, lacking the spirit of innovation that characterizes the most successful US liquor retailers. There is a lack of competition as a result of the moratorium on increases in the number of government and private liquor stores that has been in place since 2008, together with a rule preventing a liquor store from locating within one kilometre of an existing liquor store. BC has significantly fewer liquor outlets per person than other jurisdictions where competition is allowed. For example Alberta, with a smaller population, has over double the number of liquor outlets.

The current NDP government has announced, as one of its election promises, that it intends to extend the moratorium for another 5-10 years. If the moratorium is extended, it will (along with the moratorium on grocery outlets) continue to stifle growth, innovation and competition in the Province's liquor retail market. The moratorium creates an artificial scarcity value of \$500,000 or more for each LRS license. An argument can be made that current owners of these licenses should be compensated for the loss of this value that would result if the moratorium were lifted. This payment would reduce their opposition to the restoration of competition in our marketplace through the elimination of the moratorium.

Notwithstanding the moratorium, most consumers purchase most of their wine from BC Liquor Stores, private liquor stores and wine shops, or grocery stores. Wineries need to be proactively aggressive and creative in developing marketing and sales relationships with private retailers notwithstanding the lack of competition and innovation in the sector. Don't leave it all to your agent. Your best customers in the liquor retail and hospitality sectors deserve your personal attention. Think of involving some of your best tasting room people in these sales channels as a way of offering them year round employment.

Consumers like to buy their wine with their groceries and the grocery channel is the dominant channel for the sale of wine in most of the world. In British Columbia, however, the number of grocery stores allowed to sell wine is strictly limited. Nonetheless, there is a government or private liquor store next door to or in close proximity to almost every grocery store in the province. Most of the grocery licenses in British Columbia are held by grocery stores within the Jimmy Pattison Group which chooses, as part of its buy local philosophy, to sell only British Columbia wines.

There has been an unfortunate reduction in the number of specialized licenses available to wineries. These licenses should be restored. Watch for new life to be breathed into rural agency stores now that regulatory authority has been switched to the LCRB and the LDB appointments have been changed to transferable licences.

Give customers what they want

Rethink your attitude to alternative packaging. Increasingly, consumers are demanding the convenience of wine in cans, bags and boxes, and in smaller single serving containers. These forms of alternative packaging are cheaper, more convenient and more energy efficient. Customers want tasting packs for virtual tastings, but very few wineries are currently providing them.

BC wineries recently voted in favour of continuing the existing prohibitions against selling VQA Wines in alternative packaging. They are worried that alternative packaging, which has historically been associated with cheaper, lower quality wine, would tarnish the VQA brand image.

Farm-based wineries can sell non-VQA BC wine in alternative packaging, but few are interested in the market opportunity and commercial wineries are deterred from entering the market by LDB policies which deny them margin rebates on wine in alternative packaging. The cumulative result is that the market for wine in alternative packaging (which is currently 30% to 40% of the market and growing) is effectively surrendered to imports

from foreign wineries. This probably explains the fact that, while overall wine sales in the province have grown during the pandemic, BC VQA market share growth continues to decline.

Customers want healthier, lower alcohol wines. Everyone knows that there are 95 calories, 3 grams of carbs and 5% ABV in a White Claw; and that a Tito's vodka with soda is the most dietary bar drink, at 60 calories. But what are the calories and carb contents of a 5 oz. pour of Chardonnay? Customers want to know what is in their beverages and want labelling transparency.

Consumers want organic, gluten-free and no sugar wines. They want variety, including wine spritzers, wine coolers, wine cocktails, piquette and tea or CBD-infused wines; all in convenient containers. We should give consumers what they want, when they want it and how they want it.

Most consumers would prefer to purchase a mixed case of wines from several wineries rather than a case containing the products of only one winery. In the mind of the regulators, however, the right to sell mixed cases is a privilege reserved for retail licensees only. It is illegal for neighbouring wineries, for example, wineries that are part of one of the new sub-appellations, to get together and sell a mixed case of their wines unless they joint venture some arrangement with a licensed retailer. This is a silly prohibition. One of the main purposes for the establishment of sub-appellations was to encourage regional producers to co-market their wines from the region, yet we prohibit them from doing so.

Provincial trade barriers and limited access to market

BC's boutique wineries are denied access to a Canadian national market for their wine by inter-provincial trade barriers which prohibit the direct shipment of wine to customers in most of Canada's major markets. Given this reality, BC wineries need improved access to markets within the Province if they are to continue to grow and prosper.

Many BC wineries ship their wines inter-provincially notwithstanding the restrictions. Shipping to Manitoba, Saskatchewan and Nova Scotia is legal. Shipping to other provinces is at best a 'grey market' activity though probably low risk from an enforcement perspective.

The reason I say 'grey market' is because although a recent Supreme Court of Canada decision, *R. v. Comeau*, largely upheld restrictive provincial laws, it also indicated that provincial laws that discriminate as between 'out of province' and 'in province' producers could be held to be unconstitutional. This was the basis upon which the US Supreme Court, in *Granholm v. Heald*, struck down state restrictions on interstate wine trade in 2005 as contrary to the Commerce Clause of the US Constitution. Also, in some cases, it may be possible to challenge the validity of the way that particular provinces have implemented their restrictions.

The SAQ (the Quebec liquor authority) has recently issued an information bulletin threatening wineries outside Quebec with enforcement action if they direct ship wine to Quebec customers. Some BC wineries have received letters from the SAQ to the same effect.

Grey market shipping is a very sub-optimal solution. We cannot begin to achieve the full benefits of a national market until we can advertise and openly promote the availability of our products across the country. Most consumers in other parts of the country are not even aware of the opportunity to purchase BC wines over the Internet.

The current inter-provincial trade restrictions are frequently criticized, both in Canada and internationally and are an ongoing international embarrassment to Canada. A recent, popular article in the New York Times referenced the barriers as illustrative of the balkanization of the Canadian market, regional chauvinism and the major gulf between Western and Eastern Canada.

Elimination of these trade barriers is critical to the growth and prosperity of BC wineries. Most BC wineries

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are focussed on the production of premium and super premium wines. They have a significant market share in British Columbia in these categories, but require access to the whole Canadian market to grow and prosper.

Paul Rickett, who operates VARketing! has developed a proprietary model which uses detailed LDB data to calculate the market share of BC wines in various varietal, style and price categories. BC wines dominate in many categories, suggesting that we are reaching market saturation in some of the markets where we choose to compete. It also suggests that the future growth and success of the BC industry is highly dependent on obtaining better access to markets outside of British Columbia.

Currently, VQA wines and non-VQA 100% BC wines account for about 23% of the total BC market, but account for a third or more of the core market, being wines in 750 ml glass bottles. These aggregate market share numbers mask the true level of market penetration by BC wineries in the segments we choose to address. Almost all of the BC wineries producing with 100% BC grapes are focused on the sale of 750 ml glass bottles at premium and super-premium prices. Market share in the \$11 to \$15 wholesale price range in this category is about 40%; and its more like 50% for wines in the \$15 to \$18.50 wholesale price range. It reaches 60% to 70% in the market for certain categories of super premium wines in 750 ml bottles. We mostly ignore the market for wines in alternate packaging and value priced wines, hence a 5% share in those market categories.

The most recent initiative to achieve free provincial trade in wine is a federal private members bill sponsored by Dan Albas, a Member of Parliament from the Okanagan. His proposal would override current provincial restrictions on inter-provincial shipping by requiring the post office to deliver liquor to customers across the country, thereby overriding provincial restrictions. The proposal would also allow liquor retailers to ship between provinces opening up BC retailers to legal competition from Alberta where government imposed markups are lower.

Unfortunately, the Albas proposal suffers from the same problem as previous federal attempts to promote a national common market for wine. In recognition of the fact that wine trade is a matter of dual federal-provincial jurisdiction, it gives provinces the ability to opt out, as they have done in the case of prior federal efforts to liberalize inter-provincial trade. The idea, however, is to get free-trade oriented Premiers like Doug Ford in Ontario to acquiesce to freeing borders rather than suffer the political embarrassment of proactively reimposing the restrictions and opting out. Ford has been poised for years to pull the plug on the trade restrictions, but has repeatedly held back. Passage of the Albas legislation might force his hand.

If this doesn't work the only real solution is for British Columbia to advocate for free trade in wine in interprovincial trade negotiations. The problem with this route, though, is that negotiators in the interprovincial trade discussions have been disingenuous in their efforts to reduce interprovincial trade restrictions on wine. They have give pretence to the notion of truly 'freeing the grapes' but have focussed their discussions on eliminating barriers to the physical carrying of quantities of wine for personal consumption across provincial borders. This is beside the point. What wineries want is the same right that is available to wineries in every other country – the right to ship wine to customers anywhere in the country. Focusing only on physically taking wine across provincial boundaries ignores the modern reality of internet commerce and that most consumers want to ship their wine (rather than walk their wine) across provincial borders.

If and when trade restrictions are relaxed, look for the provinces where shipments are originated to impose tax regimes requiring manufacturers shipping into a province to collect provincial sales taxes and other fees on their behalf. As in the United States, compliance could get complicated as each province is likely to have its own separate and distinct set of rules.

Wine growing is a business, not a hobby

Running a profitable winery is difficult - you need to be a farmer, a manufacturer and a marketer. And you also need to be a businessperson laser-focused on profitability.

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Most small wineries track revenues but don't collect the detailed costing information necessary to track margins by SKU and sales channel on a daily basis; so they lack the data to perform the analytics necessary to inform profit maximizing decisions.

To achieve success, the search to maximize earnings needs to permeate every decision you make - what varieties you grow or purchase, SKUs and pricing points, sales channels, growth and preservation of wine club members, development of an internet sales channel, etc.

We are probably entering a severe post-pandemic recessionary period where it will be even tougher to turn a profit in your business. It is time to get more business minded. Too many wine growers in BC run their operations as hobbies rather than businesses, focusing only on top line revenue growth, and without imposing on themselves the discipline of the detailed cost accounting and financial modelling required to maximize profits by, for example, streaming product to the high margin distribution channels.

If you are serious about running a profitable winery you need to do more than just track your top line revenues. You need to understand and control your costs. You need to accurately track your costs of production and sale in a consistent manner and allocate these costs by varietal as well as by vintage and blend. The goal is a clear understanding of profit margins by SKU and sales channel. Only with this understanding will you be able to make the myriad of day-to-day decisions necessary to make your business profitable.

Succession planning and exit strategies

Nobody lives forever, and as the boomer generation reaches the age of retirement, many for a second time, thinking about exit strategies is timely. What are your realistic exit alternatives?

Some owners appear to have decided to just 'die in their boots', and leave it to their heirs and executors to figure out how to preserve or liquidate the business. Often, a distressed sale or a receivership auction is the outcome. Others are fantasizing about a serendipitous sale – where a wealthy buyer happens by, falls in love with the romance of your property and behold - the winery sells itself.

Many owners, operating their wineries as family businesses, are intent on orchestrating an inter-generational transfer; but unfortunately, they haven't thought through and wrestled with the potential impediments. For example, does the next generation possess both the aptitude, interest and drive required to successfully take over the business? Usually not. Is there enough value in the business to both provide for the cash needs of the founders in retirement and to keep the business well capitalized for the next generation?

If your winery is under scaled and unprofitable, don't expect a flurry of buyers and don't expect to realize a price greater than the appraised value of your vineyards and the depreciated value of your plant and equipment. Unless you get very realistic on price, it may take several years to sell. One hopeful approach is to convince someone just starting out in the business that is better to rebrand your business than to start greenfield by planting new vineyards which will take three or four years before they start to generate any significant cash flow. I don't know why more new entrants don't start out this way, but I guess everyone has their own unique dream of the winery they want to create. If a nice country home with a magnificent view is a big part of the value of your winery, sell it as a property through the multiple listing service rather than as an operating business.

Size matters when it comes to selling a winery. It takes almost as much due diligence to buy a large winery as a small one; and buyers prefer scale. Given the level of your capital investment in your winery and vineyards, you need to go as far as you can in maximizing revenues, brand reputation and earnings. Once you have done that, the next decision is whether you bring in partners to provide the additional capital required to take the business to the next stage, or whether you exit at an attractive multiple and move on to your next adventure (which or may not involve retirement).

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British Columbia wineries that are appropriately scaled and profitable, with a strong brand, are eminently saleable. There can be no stronger evidence of this than the sale last year of Unsworth Vineyards to members of the family behind Jackson Family Estates in California. The Jackson family are dedicated to the creation of quality fine wines in a sustainable manner that nourishes resilient and healthy ecosystems. Their acquisition of Unsworth is a testimony to the future of the BC wine industry and a show of confidence and support for the Cowichan Valley.

So how do you go about selling a marquee BC winery and who are the likely buyers? There are many buyers in the market looking for boutique wineries with strong brands and a history of profitability. These include industry consolidators, wealthy entrepreneurs looking for a second career, other strongly capitalized middle sized wineries looking to diversify or achieve economies of scale, real estate developers, liquor distributors and restaurant chains.

The right way to sell a profitable winery is to hire a group of professionals to help refine your winery's value proposition and to package it in a way that potential buyers can easily understand. This means building a financial model which can be used to project the future performance of your business under different scenarios; together with a confidential information memorandum that tells your story and the vision behind your business.

These materials are used to solicit expressions of interest from selected prequalified buyers with a view to engaging buyers in a controlled auction process that generates the maximum competitive tension among potential buyers. This process can easily take six months or more and requires a lot of pre-planning.

Conclusion

Businesses which were performing poorly before the pandemic generally have not weathered COVID well. COVID has accelerated trends that were already under way, and wineries that were in a position to vigorously pursue those trends have done well.

Wineries with a strong brand and a loyal customer base have strengthened their position in direct-to-consumer channels by further developing their for a fee, by reservation only tasting rooms and their e-commerce platforms. For the most part, the most successful operators can sell whatever they produce right now, with grape supply being the constraining factor. We have just come off of two years of short crops; but given the current high level of plantings, we will probably cycle into another period of excess supply in the next two or three years.

Weaker wineries that are poorly positioned to compete with the top tier wines in traditional markets need to shift their focus to satisfying the rapidly growing consumer demand for innovative, non-traditional products. The problem is that, over time, even these new markets will be dominated by the most business minded operators. Small wineries should give more consideration to joint venturing with neighbours as a way of achieving economies of scale.

I remain very optimistic about the future of our industry. Overall, the BC industry is doing well but it needs access to a national market if it is to grow and prosper into the future. Absent access to a national market, the BC wine industry needs expanded access to local BC markets. The BC wine industry is a value-add agricultural industry that is driving a thriving agro-tourism sector and is consequently a very important part of our rural development strategy.

Recent BC measures aimed at helping private retail stores and restaurants have been detrimental to manufacturers. These include wholesale pricing for restaurants, the cap on grocery store licenses and the likely extension of the moratorium on additional government and private retail stores.

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Sometimes I question the efficacy of wine producers directing their lobbying efforts through The Business Technical Advisory Committee. It is good to coordinate our efforts with those of the artisan distilleries and the craft brewers, but in terms of number of businesses represented, BTAP is dominated by the industry associations representing restaurants, bars and private liquor stores. Often the interests and priorities of these retailers differ from the interests of growers and producers. It is time for our retail focused friends at BTAP to help us out by fighting for some of the regulatory changes that the manufacturing sector needs.

The BC wine manufacturing industry needs flexible rules allowing wine sales with delivery and takeout by licensed restaurants and delis. BC wineries need to be able to establish co-op tasting rooms offsite from their production facilities. Clusters of urban tasting rooms are permitted in competing US wine tourist regions and allowing them in British Columbia would put us on an equal footing with other jurisdictions. It would provide a significant economic development opportunity for rural towns and cities, preserve valuable agricultural land and provide a new and important sales channel for BC wineries.

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