

Guide for Small Wineries in Central Ontario

Includes:
Final Report

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A Guide to a Guide to Starting a Small Winery in Central Ontario

Firstly, a special thank-you to Larry Paterson and the members of the Central Ontario Viticulture Association (COVA) for their expertise and insight into this mammoth task. In addition, thank-you to John Rufa of Kawartha Country Wines for his hospitality and willingness to share his expertise in the challenges of starting a commercial winery as well as a tour of his operation.

Regulatory Challenges

Wine drinkers enjoy a special relationship with the wine they consume. It is almost a romantic relationship. However romantic the relationship is between wine drinker and wine, the transition from wine drinker to wine drinker/producer/seller is difficult in terms of the regulatory barriers that will arise as the operation gets, or at least tries to get, off the ground.

The final guide's purpose should not be to outright scare someone out of starting a winery. However, it should clearly lay out that if someone wishes to start a commercial winery, there are many barriers to overcome, and regulations are a big part of those barriers.

So what is meant by “Regulatory Challenges”?

It is important that a guide to starting a winery in Central Ontario include this section on regulations. “Regulatory Challenges” is an umbrella term meant to describe aspects of starting a commercial winery such as business regulations, health code regulations, start-up regulations, etc. While these regulations are the same ones that would apply to someone who wants to start a winery in any other part of Ontario, save a couple of exceptions, it is incredibly important to include them , as all of the seemingly boring government jargon could potentially throw a kink in someone starting a commercial operation.

What will follow is an outline of some key regulatory challenges, some testimony from some members of COVA on what they see as some main regulatory barriers in starting a commercial winery in Central Ontario, some testimony of an actual winery operator and what he saw as the main regulatory barriers he faced when he started his business, and some key literature on the subject to include in the final guide.

...So you want to start a winery...Are you crazy?! Can it be done?!

Where to start...

It’s important for the final guide to express to the reader that the most important thing to think about in starting a commercial winery before getting all excited about

making wine, buying vines, and cultivating grapes and fruit, is to determine whether or not they will be able to do the operation in the first place. In terms of regulations, this means thinking “locally”.

Thinking “Locally”

Thinking “locally” means getting the approval of the municipality, city council, and even people with neighbouring property. While this may seem like an insignificant step, it can halt the entire operation. City council may have issues about traffic to and from the winery, water usage, runoff, pollution. There isn’t a form to fill out per se about getting on the good side of the local government; it’s a trial and error sort of situation as the reception to a winery may vary by each locale. This is an area in which further research could be done. Since COVA situates itself within Central Ontario, a useful section of the final guide might be to contact those agencies in different municipalities within COVA’s “jurisdiction” and compile their feedback on the start-up of commercial wineries within their limits.

In Peterborough County, useful agencies include:

Member of Provincial Parliament (MPP):

Member: Jeff Leal
207 – 349-A George St. N, Peterborough ON, K9H 3P9
Tel: (705) 742 – 3777
Email: jleal.mpp.co@liberal.ola.org

Member of Parliament (MP):

Member: Peter Adams
313 Water St, Peterborough ON, K9J 7W7
Tel: (705) 745-2108
Email: Adams.P@parl.gc.ca

City Council:

Mayor: Sylvia Sutherland
1403 Monaghan Road, Peterborough ON, K9J 5M6
Tel: (705) 742-7777 Ext. 1870
Email: mayor@city.peterborough.on.ca

Other contacts, including councillors for the various wards in the Peterborough area can be found at <http://www.city.peterborough.on.ca/>

Otonabee Conservation Authority:
250 Milroy Drive, Peterborough ON, K9H 7M9
Tel: (705) 745-5791
Email: otonabeeca@otonabee.com

Alcohol and Gaming Commission of Ontario:
20 Dundas St. W, 7th – 10th Floor, Toronto ON, M5G 2N6
General Inquiries: (416) 326-8700
Toll free in Ontario: 1-800-522-2876
Email: Licensing@agco.on.ca

Again, while this seems like a trivial step when someone is excited about starting a new business, thinking “locally” first can save time and money in the long run. Under Ontario Law, any land that is reverted back into agriculture (growing grapes or other fruit for wine making) does not require a permit. However, since a commercial winery must produce and sell its wine from the property it is grown on (more on that a little later), the municipality has to zone and license for that kind of operation. Furthermore, before the LCBO will license a commercial winery, the permits from the city or municipality must be in place (more about that later).

A Story from the Field:

John Rufa, the owner of Kawartha Country Wines in Buckhorn, ON spoke once about an initial start-up barrier which focussed on thinking locally:

Kawartha Country Wines (County Road North of Buckhorn Ontario, (705) 657-9916) is located right next door to a small Catholic Church. Mr. Rufa had already planted a number of vines on his property before he learned from the local municipality that he would need to gain the permission of his neighbours before his operation could be granted the necessary permits for his winery. Luckily his neighbours approved of his winery and he was allowed to open his business. If his neighbour had not been willing to approve his business, his entire winery may not have been approved for creation.¹

This is just one small illustration of the importance of thinking locally. Thoughts of business and building regulations are not worth very much if permits are not granted because the neighbours don't approve.

The winery must decide what kind of winery it wants to be before it begins as the regulations pertaining to the business. There are three main types of wineries:

1. Wineries already in operation before 1993 enjoy much more freedom than those created today. NAFTA was created in 1993 and as a result, restrictions were

¹ John Rufa, "Kawartha Country Wines," ERST 334H, Buckhorn ON, 24 Nov 2004.

placed on how and where wine is created and marketed. Wineries created before 1993 may use as many grapes as they like from wherever they like. This means not all wine called “Ontario” wine is made from grapes from Ontario. Those created after 1993 fall into the following two categories:

2. “50/50” Wineries: 50/50 wineries are located outside of designated grape growing areas (like Niagara). The Term 50/50 means that half, or fifty percent of the grapes used in the winemaking process must be grown on the site of the winery. The other half can come from wherever the operator chooses. This seems simple enough however growing grapes is difficult in certain areas of Ontario, Central Ontario being one of those areas. More of this information will be included in the “Production Issues” segment of the final guide.

3. Fruit Wineries: These are the most common kind of wineries found in areas where growing grapes is difficult. The most major regulation of a fruit winery is that 100% of the fruit wine that the winery produces must be grown and cultivated on the premises of the winery. The winery cannot exceed 20% of its production with grape wine (limits competition with the LCBO). Fruit wineries are beneficial for areas outside traditional grape growing areas (i.e., Niagara), because they are easier to start up. Using fruit or other crops takes much less time to grow and produce into wine unlike grapes which take a number of years to become established enough to make a large quantity of wine from.

The next section of the guide in terms of regulations should cover the business plan. In the book *Starting a Winery in Ontario*, the framework for the business plan that would need to be produced in order to make the approval of the LCBO.² John Rufa said that it was a really tough thing to do, there were numerous considerations that had to be thought of.³

These regulations can all be found in the book *Starting a Small Winery in Ontario* however it might be a wise idea for the guide if some of them were listed in order to give the reader a sense of things that they should be thinking about.

Here are some regulations within the business that should be included in the text:

1. Production Plan: This will include the knowledge of what kind of equipment is needed for the winery, how the wine will be made, layout of the floor plans of production and sales, storage areas, equipment sizes and costs.⁴
2. Financial Plan: This plan should include projected income flow, a balance sheet for projected costs, loan information, various kinds of insurance for the business and the people who are working in it.⁵
3. Marketing Plan: This will be covered in the “marketing issues” section of this project.

² *Starting a Small Winery in Ontario*. Ontario: Ministry of Agriculture and Food. Toronto, ON: Queen’s Printer for Ontario, 2003: 10.

³ John Rufa 2004.

⁴ *Starting a Small Winery in Ontario*, 11.

⁵ *Starting a Winery in Ontario*, 11. The financial plan is laid out in great detail on Chapter 6 of the book.

4. Human Resources: This should include information on numbers of employees (if required), how they will be paid and insured.⁶

There are three levels of regulations that have to be met in order to operate a small winery in Ontario. They are found at the municipal, provincial, and federal level.

Municipal:

Every municipal regulation may not need to be mentioned in the final guide as a potential winery operator can contact their local municipality about what codes may pertain to them. However, these are things that a potential winery operator should be thinking about:

-Fire Codes

-Building Codes

-Wheel Chair Accessibility.

Since a winery is considered a manufacturing facility, these kinds of building codes will have to be considered.⁷ The local building inspectors will judge a winery on a

⁶ *Starting a Small Winery in Ontario*, 11.

case by case basis as not all facilities are the same and some may require more construction than others. This is why a large, detailed section about building codes may not need to be covered in depth in the final guide since each winery may need its own unique set. Nevertheless, the few codes mentioned above should be included if only for a potential winery operator to start thinking about.

These are the kinds of things that need to be mentioned in the final guide. Repeat it over and over again throughout the text, when starting up, or even just thinking of starting up; think small before thinking big (locally before delving into big business regulations).

John Rufa spoke about how he had to redesign part of his operation to make it accessible to wheelchairs. It's not something that seems like a big deal in passing, but when the building inspectors go through, it can become a major barrier. The final guide should list these kinds of regulations as they were a concern for COVA.⁸

Provincial:

⁷ Starting a Small Winery in Ontario, 20.

⁸ Central Ontario Viniculture Association (COVA), "COVA meeting with TCCBE project team," Peterborough ON, October 2004.

These are regulations that a potential winery operator should be thinking about when they start their business:

- Registering the name of the business. This is done through Ontario Business Connects (OBC). Other things done through the OBC include provisions on sales taxes, Employer Health Taxes, and the Workplace Safety and Insurance Board (WSIB). More information on these provisions can be found at the OBC website: www.cbs.gov.on.ca.obc/

-There are several environmental regulations. These include a permit to take water. This is for any business that uses more than 50,000 litres of water per day on any day of the year.⁹ The permit may be obtained from the Ontario Ministry of the Environment (MOE):www.ene.gov.on.ca/envision/gp/3151e.pdf

Other permits include a certificate for the disposal of waste. This is for wineries that dispose of more than 10,000 litres of waste water on any day of the year or that has a waste-holding capacity greater than 10,000 litres.¹⁰ The certificate can be obtained through the MOE at: www.ene.gov.on.ca/envision/gp/4181e.pdf.

Lastly, the provincial government oversees food premises regulation. The government encourages winery operators to contact their local health unit for provisions on these matters. In Peterborough, the health unit can be contacted at:

Peterborough County –City Health Unit
10 Hospital Drive, Peterborough ON, K9J 8M1
Tel: (705) 743-1000
Email: info@pcchu.peterborough.on.ca

⁹ Starting a Winery in Ontario, 21.

¹⁰ Starting a Winery in Ontario, 21.

Federal:

There are a few federal regulations that apply to the production and sale of wine. These should be mentioned in the final guide to get a potential winery operator thinking about how their business will be scrutinized at the federal level. Some of these provisions include:

- Goods and Services Tax (GST);
- payroll deductions;
- corporate income tax (if it applies);
- import/export account (if it applies).¹¹

Information about each of these of these provisions is available on the Canada Customs and Revenue Agency (CCRA) website at: www.businessregistration.gc.ca.

I hope this section on the regulatory issues facing small wineries will be helpful in the final guide. It is important to keep these many regulations in mind in the final guide. Owning a winery may fulfill a desire to share the joy of winemaking and drinking with others, but it is also a very complex business. These thoughts should be kept in the minds of all new winery owners before they plant a single wine or fruit tree.

¹¹ Starting a Winery in Ontario, 21.

Useful Literature:

Starting a Small Winery in Ontario. Ontario: Ministry of Agriculture and Food. Toronto, ON: Queen's Printer for Ontario, 2003.

This is an incredibly useful piece of literature for anyone who is wondering about the various regulations of starting a winery. It includes lists of regulations, regulatory bodies, and contact lists specific to starting a winery in the Province of Ontario.

Heinricks, Geoff. *Starting a Winery in Prince Edward County? A Viticulture Primer for Investors and Growers*. Prince Edward County: Prince Edward County Economic Development Office, 2001.
< <http://www.thecounty.ca/wine/Intro-Historyqxd.pdf>>.

This is a good resource as it lays out starting many issues faced by investors and growers. It is also useful in that it is fairly local.

References

Central Ontario Viniculture Association (COVA), "COVA meeting with TCCBE project team," Peterborough ON, October 2004.

Rufa, John. "Kawartha Country Wines." ERST 334H. Buckhorn ON. 24 Nov 2004.

Starting a Small Winery in Ontario. Ontario: Ministry of Agriculture and Food. Toronto, ON: Queen's Printer for Ontario, 2003.

COLD CLIMATE PRODUCTION ISSUES/CHALLENGES

This section addresses the challenges of growing and cultivating grapes in the County of Peterborough for the purpose of making wine. The purpose of this section is to identify what the challenges are; address why they are considered a challenge; outline general accumulated knowledge addressing these concerns; identify any gaps in information/knowledge with suggestions for future study; and to provide a list of useful references. Areas of interest include: local and regional climates and microclimates; grape variety attributes; cold weather particularities; information relevant to making

good decisions in choosing the appropriate variety of grape for particular climate conditions.

Issues not addressed include: issues pertaining to the actual processing of grapes into wine i.e. fermentation; equipment; pests/disease; fertilization/nutrition; other information considered general knowledge common to the growth and cultivation of grapes outside of cold-weather climates.

GRAPE VARIETIES

Grapes are usually chosen for their particular traits. It is important to note that not all grapes are created equal. According to Plocher and Parke, authors of Northern Winework, there are over 16,000 varieties of grape listed in the Federal Research Institute for Grape Breeding in Germany. Each grape variety has unique characteristics relating to growth, flavour, hardiness and other qualities peculiar to its suitability in different climatic regions. All things being equal a variety would likely be chosen according to particular appreciation for its taste as a wine alone. Unfortunately for grape growers there are many other complicating factors that must be considered.

For growers in northern climates plant hardiness is a major concern. Picking a grape variety that is suitably hardy to the local climate is of outmost importance to a successful grower, suggests Larry Paterson (2004). Hardiness refers to the plants' ability to survive other stresses such as drought, flood, pests and disease. But in this section we are concerned with Cold Climate Hardiness. Other important varietal considerations are the ripening requirements and the taste characteristics of the fully ripened grape.

Hardiness

Simply saying that a plant is hardy or is hardy to a certain temperature is oversimplifying the issue to the point of being misleading. The climate of each vineyard

is unique and the process of over-wintering complicated (Plocher and Parke 2001). To select a vine based on hardiness the grower must first understand the processes the plant goes through to protect itself from the cold. These processes are themselves complicated and qualify an entire section or book to explain them properly which is beyond the scope of this section. However, a brief description is warranted.

The decreasing day length and temperature of late summer and early fall stimulate what growers call “hardening off”. Put simply, hardening off is the process of decreasing the amount of water present within and between the cells of the plant. Decreasing the water concentration decreases the risk of damage to plant cells from the expansion and crystallization of water. This process also increases the concentration of natural antifreezes in plant cells which contribute further to the plants protection. Through mid winter the plant is still actively trying to protect itself, termed “deep supercooling”, by producing other sugars such as raffinose which behave as an antifreeze.. Also, water is still being moved from within the plant cells to the intracellular space (Plocher and Parke 2001). After the coldest points of midwinter, plant protection in the late winter is mostly related to the plants relative endodormancy. This describes the plant’s resistance to deacclimation during warm spells in the late winter and how quickly they begin to bud in the spring.

Varieties respond differently in terms of how quickly they harden off, deep supercool, and to what degree they are endodormant (Plocher and Parke 2001). Table 1 categorizes grape varieties into hardiness by low temperature but does not include information regarding hardening off. There are many references to variety hardiness but it seems that there is not much information concerning other processes that are linked to a plants overall hardiness. For example a plant may be hardy to -40° C because of its ability to deep supercool but if it is prone to deacclimation or cannot harden off properly, it may still suffer winter damage. Also different parts of the vine have variations in tolerance which further complicate the meaning of hardiness.

Table 1. Hardiness ratings and periods of ripening for selected grape varieties. (Source: Plocher and Parke 2001)

Ripening requirements

Of course, the whole point of maintaining the health and survival of the vine through winter is so that it remains exceedingly capable of producing large amounts of ripe fruit the following season. Outside of the health and general condition of the vine itself the ripening of grapes relies principally upon accumulated heat or degree days, and the amount of frost free days. Fruit, according to Plocher and Parke, ripen ultra-early, early, midseason, or late. Table 1. shows some variety with their periods for ripening. Table 2. Shows what these classifications mean relative to heat and frost free days.

Table 2. Ripening Classification with associated degree days and frost free days. (Source: Plocher and Parke 2001)

Taste Characteristics

Wine grapes are chosen particularly for their characteristics as a wine. It is possible to make wine out of any grape but arguable that only certain grapes would produce a wine that one would want to drink. A wine grape must be low in acid, have good sugar content, tannins, aroma, fruitiness, and body. Most wine grapes are great in some categories but come up short in other categories. For example a grape may have great sugar content and body but not enough aroma. In fact very few wines can stand alone on their own merits. Most wines are blended with others to make up for their weaknesses. So wine grapes must not only be picked for their heartiness and ability to ripen in the climate but also for their taste characteristics. There are virtually no grapes grown in the northern climates that stand on their own.

Recommended Research

- Hardening Off
 - o Identify the specific climatic conditions that stimulate the response for each appropriate variety i.e. 6 hours of sunlight, and an average temperature of 10° C.
 - o Quantify the necessary time and conditions needed for varieties to harden off fully
- Deep Supercooling
 - o Identify varieties having greater tolerances for extremes
 - o Identify tolerances for different parts of the vine
- Endodormancy
 - o Identify the conditions under which different varieties will be stimulated out of endodormancy. i.e. degeree days

Local and Regional Weather and Microclimates

Once the grower understands the conditions under which the desired wine grapes will grow, survive and produce fruit the grower may then assess local climates and determine suitability.

Regional Weather/Climate

Regional weather patterns are a good way to begin thinking about what challenges and limitations to grape growing lie ahead. Agriculture and Agri-Food Canada have easy to access plant hardiness zone maps that can help the potential grower understand a geographical area's regional climate. Shum 2004 notes that cold hardy varieties should survive to zone 4.

Figure 1. Plant Hardiness Zones in Central Ontario. (source: Agriculture and Agri-Food Canada 2004)

Temperature and other determinants of climate can fluctuate significantly within a region. Although variations of minimum temperature may be as small as 5°C, the region of Central Ontario is already at the extreme temperature limits for viticulture making these fluctuations increasingly significant. Precise and relevant knowledge about climate is critical to potential grape growers.

Local Weather/Climate

The precision and reliability of acquired climate data is related to how close the vineyard is to the data source as well as how analogous the site of the data source is to the vineyard. For example, data collected from within a city's heat shield can be as much as 5.5°C warmer than sites located just outside the heat shield. Similarly, data collected at locations with a significant difference in altitude can yield misleading information. Fall nighttime temperatures can vary as much as 9°C between the foot and crest of a hill (Plocher and Parke 2001). In addition to variation over distances and elevation climate data may also fluctuate from year to year. It is therefore important for growers to get a large enough history of climatic data to be able to properly consider annual fluctuations. Climatic data useful to grape growing include:

- Lowest yearly temperature and mean minimum temperature over a thirty year period.

Yearly data records of local low-end temperatures yield valuable information when deciding how hardy your grape variety should be and the chances that you might experience an unpreventable damaging frost.

- First and Last Frost Days.

First and last frost days help determine whether the variety of grapes used should be early/late ripening and early/late budding.

-Frost Free Days

The calculation of min/max/mean frost-free days suggests to the grower how much time the vines have to acclimatize (harden off and supercool) during the winter and subsequently what varieties of grapes would be appropriate.

-Degree Days Between Frosts.

The Calculation of min/max/mean degree days between frosts suggest to the grower the likelihood of there being enough mild weather in the winter season to possibly stimulate early or premature bud growth and if the grower should choose for a grape variety that is more or less sensitive to de-acclimation.

-Degree Days in the Growing Season

The Calculation of min/max/mean degree days in the growing season estimates how much heat is available for accumulation and suggests to the grower what grape varieties may be chosen based upon varietal needs for ripening.

-The 10°C Date

The 10°C date is a marker to help the grower estimate the bud swell date. It is the date at which the average daily temperature reaches 10°C. This average is determined by adding the high and low temperature and then dividing by two.

-The Bud Swell Date

The bud swell date estimates when the grower can expect to see the beginnings of green growth and is marked by the accumulation of 24-29 degree days Celsius after the 10°C date. This estimation helps the grower to choose varieties that are appropriately suited to spring frost susceptibility. It may also help

growers determine whether they should frost protect their vines in the early spring.

-Snow Fall

Data accumulated on the average monthly snowfall and total snowfall can help growers determine how much winter protection (such as burying vines) if any needs to be considered.

Microclimates

The effects of microclimates are quite significant and may work for or against the grower. Microclimates can be thought of as small site-specific alterations of local climates created by the presence of natural or constructed windbreaks, shade, proximity to a heat radiating body, aspect of a slope, degree of slope, location on a slope and many other aspects. Use and manipulation of microclimates can increase the range and lower the risks of growing grapes in northern climates.

Since accumulated heat is of primary importance, selecting or creating microclimates that maximize heat gain is useful. Choosing for the slope and aspect of a hill are good ways to start. The slope of a hill can have multiple effects. Cold air has the tendency to drain off a slope rather than accumulate. Water also drains more effectively on a slope than a flat surface. A slope, especially a south facing slope, receives more solar radiation than a flat surface or slope with a different aspect. A 15° slope, according to Plocher and Parke receives 22.5% more radiation than flat ground and 50% more radiation than a north facing slope. Elevation on a slope also has beneficial effects on heat accumulation. A change of as little as 20 feet can mean a half degree average increase in temperature (Plocher and Parke 2001). Wind is another concern. Blocking wind properly can prevent it from blowing away heat.

Recommended Research

- Put together all relevant data from stations into comprehensive graph or chart that outlines all major considerations.

Resources for data accumulation.

- In a study by Shum 2004 climate data from six stations in the Central Ontario region were collected and put into tables and figures for each data set and source. Collected data includes: lowest recorded yearly temperature; highest minimum temperature over 30 years; mean minimum temperature; mean first and last frost days; min/max/mean frost free days; min/max/mean degree days in the growing season and min/max/mean degree days between two frost days.
- Environment Canada lists most climate data from stations in your area.
http://www.climate.weatheroffice.ec.gc.ca/climateData/canada_e.html
- The website of the Central Ontario Viniculture Association (COVA) and Larry Paterson is a plethora of useful links and information.
<http://www.littlefatwino.com>

References

Central Ontario Viniculture Association (COVA),” COVA meeting with TCCBE project team,” Peterborough On. October 2004.

Plocher, T and Parke, B, 2001. Northern Winework: Growing Grapes and Making Wine in Cold Climates. Northern Winework, Inc. U.S.A.

Rufa, John. “Kawartha Country Wines.” Interview with. Buckhorn On. 24 Nov 2004.

Shum, S. 2004. Climate Study for Grape Growing in the Central Ontario Region. Trent Centre for Community Based Education.

LCBO

CHALLENGES FACING A SMALL WINERY IN CENTRAL ONTARIO

This section focuses on the challenges faced by small wineries in relation to the LCBO. It discusses obstacles to getting your product into the LCBO as well as keeping it there. It looks at pricing policies, advertising, and merchandising as well as options available for small wineries to remain competitive within the LCBO framework.

HISTORY OF THE LCBO

The LCBO or Liquor Control Board of Ontario, was established in 1927 by the Liquor Control Act of Ontario to “control the sale, transport and delivery” of alcohol beverages in Ontario. The LCBO buys spirits, wines and beers from domestic and foreign suppliers for distribution and sale to consumers in Ontario. The LCBO operates retail stores, oversees private agency stores in small rural communities, and regulates brewers’ retail stores, Ontario wineries and privately owned duty free stores.

TYPES OF STORES

Flag stop Stores:

These are the largest of the LCBO stores. They are usually located in major marketing areas, with high traffic. These stores carry the LCBO full product assortment.

Full Service Stores:

These are the one stop shopping stores. Along with carrying the full range of LCBO products, they are often equipped with event kitchens offering cooking classes

and wine tastings. These stores come complete with gift centers and provide gift-wrapping.

Image Rollout Stores:

Defined as the core of the LCBO network, the focus here is on the shopping “experience”. Attention to detail is important and much time and money is spent on coloring, lighting, signage and merchandising within the store. These stores also offer cold beer and wine.

Regular Stores:

These make up the balance of LCBO stores, and are generally smaller volume stores located in secondary markets and outlying areas.

Mini Stores:

These stores are limited in numbers and are often located farther away from busy, commercial areas. They offer a limited number of products, and only carry top selling brands. There is no sold display space available in these stores.

Kiosks:

These are the smallest of the LCBO stores and cater to ethnic groups. They are located in ethnic areas and sell specialized products.

The LCBO became a crown corporation in 1975 and in its first year of operation, opened 86 stores, employed 875 people and had net sales of 12.3 million dollars. Since those early years the LCBO has grown substantially, and is now the largest retailer of alcohol beverages in the Western world. Its operations have grown to include more than 600 retail stores, and more than 80 agency and duty free stores throughout the province of Ontario. Today the LCBO has more than 5000 full and part time

employees and in the year 2003 its net sales were 3.12 billion, up 6.1% from the previous year.

VQA Wines:

Although it is not necessary to be a VQA wine to be eligible for the LCBO, chances are if your wine is VQA certified it would be a lot more likely to be stocked by the LCBO. If you ever go into the Ontario wine section of the LCBO you will notice that approximately ninety percent of the wines on the shelves are labeled VQA. VQA or Vintners Quality Alliance is the wine authority in Canada. It is responsible for setting standards and regulations for wines, and was established on June 30, 1999 out of the informal group working under the umbrella of the Canadian wine institute. Having a wine that meets VQA standards can be very beneficial for regulatory, promotional, marketing and labeling reasons but, is also very costly and involves a long list of strict criteria that must be followed. To date only Ontario and British Columbia are producing wines to VQA standards. To have your wine registered as VQA there are two main criteria, which must be followed for Ontario winemakers. Firstly, the wine produced for sale must be produced from 100% Ontario grown grapes, which have been approved from a list of Vitis Vinifera or preferred Vitis Vinifera hybrids. If a wine is labeled by a single varietal name, it must contain a minimum of 85% of the variety named on the bottle and must exhibit characteristics predominate to that variety. Grapes must also reach a minimum natural sugar level, expressed in degrees Brix.

The second criteria that must be adhered to in order for a wine to be eligible for VQA certification are those dealing with viticulture areas. This has to do with the specific growing area, which has been identified as producing consistent premium

quality grapes. There are three designated viticulture areas in Ontario, which have been recognized as VQA areas, these are the Niagara Peninsula, Pelee Island, and Lake Erie North Shore. There is no VQA certification for fruit wines, which make up the bulk of wines produced in the Central Ontario region. This is by no means an exhaustive list of the criteria and regulations necessary to become eligible for the VQA standard; it merely touches on the two main areas of certification and could involve much more research for the final guide.

Getting Your Product into the LCBO:

The LCBO selects and approves all wines for sale in Ontario stores. It sets prices and conducts chemical analysis of each of its products. Each product sold at any of the LCBO stores, either retail, agency or duty free is thoroughly evaluated for quality, price value, and packaging before a decision is made to carry that product. To get your product into the LCBO involves numerous steps, paperwork, and strong competition. The first thing that must be done when applying for wine to be sold in the LCBO is to hire an agent. All products, which are selected for sale in the LCBO, must have an agent. An agent is responsible for the marketing promotion and sales distribution of the products they represent and must obtain a license to represent a manufacturer, which is issued by the Alcohol and Gaming Commission. The agent is responsible for, not only getting a product into the LCBO but also getting a customer to purchase that product, therefore, an agent should be chosen wisely. It is the agent who works with store managers regarding tastings, product knowledge, and participation in in-store programs. It is also the agent who works to build a reputation for a product outside of the LCBO through advertising and brand awareness.

The next step towards getting your wine into the LCBO is to apply; this is done through a new product application form. This application must be accompanied by a detailed product profile and marketing plan along with two 750 ml bottles of sample wine

for testing. The application is then reviewed, the wine sample is sent for chemical analysis, and the label must be approved. Once these steps have been taken and the application has been accepted your wine is ready for shipment to the LCBO where further testing is done, both chemical analysis and tasting. A special tasting panel that is judging your wine on color, flavor, and bouquet or scent does the tasting process. Although this may not seem like a very meticulous process, it is. At any point in the application process a wine may be rejected for one or more of the following reasons.

- inventory
- quality
- price
- price/quality (value)
- competition (lost to similar products in tasting)
- insufficient consumer interest

So now, assuming that your product was approved and not turned down for any of the above reasons it is ready for sale in the LCBO. It is important here to talk about the pricing policies of the LCBO. As I said earlier the LCBO sets the price of all products sold in its stores. The supplier can recommend a price but it is ultimately the decision of the LCBO to set the final price. There are a number of other taxes and levies, which must be paid to the LCBO and the federal and provincial governments. Following is a list of these fees:

- LCBO mark-up: currently 58%
- wine levy: \$1.50 per liter
- bottle levy: 29c per liter
- environmental fee: .09c for each non-refundable bottle or container
- PST: 12%
- GST: 7%

To put this in real terms if I produced a bottle of wine, which was sold at the LCBO for \$19.95, after taxes, levies, and the LCBO, mark-up I would receive \$9.32.

Keeping Your Product in the LCBO:

Now that your product is in the LCBO you probably want to keep it there. There are a number of different options for marketing your product within the LCBO. These include promotional programs, in-store placement of your product and advertising. Depending on which type of LCBO store your product is carried in, will determine which programs you are eligible to participate in, this is because all stores do not offer paid display space and promotional options. Another important point is that to be eligible for VQA and LCBO promotions you must be a member of the Wine council of Ontario at a cost of 6,000 dollars annually. If you are a member some merchandising options may include, buying display space within a store, buying advertising space in one of the LCBO publications, such as Food and Drink, or their promotional calendar, and in-store tastings. Air Miles partnerships are also offered and may include coupons, e-marketing, or placement in the air miles brochures.

Where your product is displayed in the store is very important and can have a significant impact on the volume of sales. Most “prime” display space such as blockpiles, or end aisles are sold space and are available in select, high volume stores. Branded columns are also available and are strategically placed throughout the store and are accompanied with a backlit sign that includes the product with a poured drink. These options are very expensive and often are limited only to VQA wines and are simply not affordable for smaller wineries. Products which are displayed in community space are delegated by site managers on the bases of customer demand, sales potential, and available space. If a product does not meet its quota, once it is in the LCBO it can be de-listed, meaning it will be taken off the shelves and not reordered.

While all of these may be sound marketing tools they are expensive and hardly seem practical for small wineries that produce a small volume of wines and operate on a tight budget. So what is the LCBO doing to promote small Ontario wineries? The answer to that question is, not much. The LCBO offers a lot of rhetoric and P.R in regards to its contributions to local economies and its efforts in supporting small business but its practices seem to be doing the opposite. Promoting Large, corporate, foreign wineries.

What the LCBO is doing for Ontario wines:

- partnered with the Ontario wine council of Ontario and the Ontario government to develop a wine strategy
- developed a VQA craft winery program to help smaller wineries compete
- launched an in-store program that highlights two Ontario 'superstar'
- trained some 300 employees to act as specialists in Ontario wines.

While these may be good starting points to promote Ontario wines they are not helping small wineries. The craft winery section, devoted to helping small wineries is limited to VQA wines only. The last time I visited the LCBO the "superstar" wines were, Jackson Triggs, and Pelee Island, both large Ontario wineries (producing 750,000 or more liters annually). The LCBO states that one of their goals is that of their total wine sales they would like 50% of these to be from Ontario; however they are far from reaching this target. Ontario accounts for 35% of the wine production in Canada, the number of full and part time employees is about 750 and it is estimated that farm gate value sold for processing in 2002 was approximately 23 million dollars, one third of all wine sales.

One option that is open to small wineries within the LCBO is the VINTAGES section. This is the fine wines and premium spirits section of the LCBO. VINTAGES are available through specialized stores as well as 7 boutiques and approximately 140

corners of regular stores. In the Vintages section producers may submit 5 cases (60, 750 ml bottle) which, once sold are rarely re-ordered. Although this may be an option for some wineries because of the small volume required, it requires that a wine be of a higher standard, this usually means a product already has a name for itself.

Unfortunately, most wines of Ontario are seen as inferior to imported wines by consumers. The VINTAGES section is also extremely competitive, not only are Ontario wines in this section competing against each other, but they are competing against premium wines from around the world.

As I have tried to show, getting your product into the LCBO is an extremely difficult process, it involves a substantial amount of money, a lot of paper work and red tape at every turn. The LCBO is simply not set up to promote small local wineries, despite what it may say. A small winery in central Ontario would have more success selling directly from its winery, although this still involves dealing with the LCBO it is a more affordable option. Other options do exist for small wineries which will be discussed in the marketing component of this project. This section is meant to give the reader an idea of some of the challenges he or she may be faced with in regards to getting a product into the LCBO, it is by no means an exhaustive list of LCBO challenges but will hopefully provide some insight into process.

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Marketing Challenges for a Small Winery Operator

In today's society, a certain appealing mystique comes from small business enterprises. Many people are willing to pay more money for products that come from small companies who are perceived to take more care in the products that they put forth. (Patterson, 2004) Small wineries in Central Ontario are able to take advantage of this interest with a look at marketing practices to get their name out there and recognized as a positive brand. The huge cottage industry in this region brings in seasonal population with expendable income. Local wine is a product that would appeal to them, as shown in other similar vacation regions that have had success with small wineries. As well, there are other groups that might live in the region year round that would be good target groups for marketing micro-winery products. Through research and interviews, this section will assess the marketing challenges that need to be explored through outlining the marketing strategies already in use by similar regions.

Basic Principals of Small Winery Marketing

There are some fundamental principals that need to be addressed in the marketing of wine and wine products from a small winery. Although many of these

principals seem simple, they must be addressed before a product is put forth into the marketplace in order for success of the wine sales and therefore the winery. Many wineries in certain regions in Ontario such as the Niagara region, have found out first hand that it is as important to address these marketing issues in the set-up stage of creating the winery. When the type of grapes or fruit is being chosen for plantation and even as early as the plot of land being purchased, the future marketing of the product must be foreseen.

First Marketing Principals:

The first main principal that should be addressed in terms of marketing a small winery is the target market for which the wine will be aimed at. For example, around a city like Peterborough, Ontario, that has a large young adult population with a summer explosion of tourism through the cottage country surrounding. A future small winery operator might consider marketing their product to this built in target group. A decision to market to such a group, who live busy lives on a budget with minimal expendable income would impact such decisions as the location chosen for the winery. It would also impact the type of fruit or grape chosen, as this target group would want an affordable product. Fruit wines would be particularly appealing to this age group, however traditional grape wine is gaining appeal with this group as well. In that case, the most important aspects would be the cost of the product and the accessibility to the product. As the fruit winery sector is not well researched, this is a marketing aspect that needs to be explored. Fruit wineries in Ontario presently tend to be spin off entrepreneurial

projects from fruit farms i.e. Andrew's Scenic Acres, which will be explored in detail later in this background paper.

The presently used and more researched target groups include people who are adult and middle aged professionals. This group would raise other marketing issues to be assessed. Most small wineries that have found success have found that this target market tends to enjoy wine from small wineries who have taken to selling the products as premium wines. (COVA, 2004; Andrews, 2004) Groups such as these might enjoy the idea of traveling out to the country to purchase wine products and touring the winery where their wine came from. Wine drinkers from this group would also appreciate the flavor and scent qualities of the wine and would be willing to pay top dollar for products that they enjoy. Organic wines might appeal to this target group, so that would be an aspect to consider when setting up the winery, as legislative restrictions would have to be addressed. Quality wines appeal to these people therefore marketing premium wine to this group will show the wine to be appreciated. However, the qualities that premium wine would possess still need to be researched.

Other Primary Marketing Issues:

There are other issues that seem like small decisions in terms of the choices that have to be made when developing a small winery. However, these decisions are very important, as they essentially will determine the outcome of the winery as a whole, promoting or deterring from sales. For example, the size and bottles that the wine products are sold in is a very important decision to a future winery operator. Will the wine be sold in bulk boxes? Sample sized bottles? The larger sizes would use the properties of bulk buying to create a more cost effective price which would appeal to people who might find themselves on very limited budgets, or people who were buying wine for mass entertaining. However, the adult and middle life professionals might be more prone to buy wine in 355ml and 750ml bottles. With the smaller sized packaging, these people would have the option of sampling wines to figure which ones they most enjoy. Also, these sizes are much more appropriate for single serve portions at the end of a day or with dinner.

The cost that will be charged for the product is another choice that must be made early in the production of wine. Will a set price be charged even though this might result in fluctuating profit margins from year to year? Or will a set profit margin be set, fluctuating the cost of the product from year to year. Would people be happier spending a set amount of money for a wine from a certain winery? Or would they prefer to pay for the product they are receiving that year? This has to do with the idea of selling the wine Vs selling the winery (to be addressed later.)

Another question that must be asked is if the small winery operator feels it necessary to get VQA certification for the wine. This is a highly recommended practice if the product is to be sold in the retail center of the LCBO. It is also recommended for ideals of authenticity in wine, allows the wine to be labeled in certain ways and reduces advertising restrictions on the product. VQA certification is a form of authenticity of wine products in the marketplace, however, the cost involved in getting certification along with regulations regarding the types of vines that can be used make gaining this certification a very difficult thing for the small winery to obtain. For example, there are restrictions on which grapes can be in VQA wine. Many of the cold climate grapes are not on that list.

In terms of selling wine in LCBO stores, the popularity of other wines from abroad or large wineries in the region reduces the popularity of locally sourced wines. Regulations in the LCBO would then make a small winery's product who does not sell the quotas set become "dead" products, resulting in them being pulled from the shelves.

As a result of the limitations of selling in LCBO stores, many small wineries find it more prudent and prosperous to sell directly from their wineries. Although a significant percentage of profits are still taken by the LCBO from sales revenue and many regulations exist in terms of municipal and provincial laws in terms of the structures for sales, this route still tends to be the most cost efficient for selling wines from a small winery. Another factor to consider is the massive

amount of wine being produced by a small percentage of wine makers in Ontario. This leads to a hurdle of brand recognition in terms of marketing wine. Perhaps when name is made for these wines, selling them through the LCBO would become a prudent factor, however the ratio between the volume of sales and profits in selling through the LCBO still needs to be researched, and it may be a possibility that a small scale winery could never produce enough product to be successful in selling through LCBO stores.

Marketing a Small Winery that is a Solitary Business

The majority of people who start a small winery without a related business are wine lovers who want to take the next step in their love of wine. Generally these are people who have a great personal appreciation for wine, and therefore want to make a unique product that is premium in flavor, care and quality. However, a lot of romanticism exists with the wine world, and many people tend to forget in terms of marketing that many premium wine drinkers will have very discriminating pallets in terms of the wine that they wish to drink. A slew of marketing challenges exists with this group, as for as many people have a passion for wine, many more are indiscriminant about their wine and therefore are a target group who might be very viable may not have a clue about the world of wineries and premium wines. Therefore, this section will focus on the two

approaches of marketing in the small winery sector; Marketing the winery and marketing the wine.

Marketing the Winery:

In a region such as the Kawarthas where the cottage industry is so strong a wonderful opportunity exists to market a winery to tourists and cottagers during the increasingly popular tourism season. The people who vacation in cottage country generally have a disposable income, and therefore can afford to pay for wine products which may find themselves more expensive than other recreation beverages. Also, these are people on vacation who are looking for activities for leisure and have to do with local entrepreneurs. Therefore, especially during the summer festivals, a trip to a winery would make an ideal day trip for these people. Possible other forms of income in this case would be pay tours, pay sampling sessions and outdoor dinners. However by making these services as pay services a winery owner/operator may find that many consumers become dissatisfied with paying for these services, and therefore there would be less repeat consumers coming to the winery or purchasing the product. The most pressing example of this is pay sampling sessions. Some winery operators have found that people are less likely to buy the products after paying to sample them, where as when the sampling is free, visitors would pick up a bottle of the product that they liked best. (Andrews, 2004)

Another idea in marketing a winery is adding other farm like tourist attractions thereby entering the growing agritourism sector, as per the Niagara region. In this region there have been many successful projects of this sort, including the renowned Wine Country Cooking School, where visitors spend the day on the winery learning “*Cooking and matching wine with food*” (Niagara Tourism, 2004) in a day trip. The Wine Country Cooking School brings in many paying consumers, and many of them will pick up a bottle of the wine they used from local wineries on the Niagara region wine trail. People might come in for the cooking lesson, but they leave with a new appreciation of local wine. Other successful agritourism in wineries in the region have been making a golf course that winds its way through the vines themselves, tasting rooms and the wine trail itself. In a region so dense with small wineries, a trail that connects them all by scenic highway is a great solution to getting people into the wineries. Once people are there many will purchase bottles of wine, especially if there is free sampling. (Andrews, 2004; Niagara Tourism, 2004)

Many of these initiatives to bring in consumers to a small winery through the addition of other agritourism activities may be a challenge in them to create. The municipalities’ government may have strict regulations for starting businesses. Food based businesses have as strict regulations as outlined for creating wineries previously in this paper. Municipal governments have zoning laws which may exist in terms of what can be done, and what cannot on land due to the property use around the land or protected lands etc. These need to be

discovered for each municipality individually, and a formula needs to be created as to the amount of wine profit that must be made in order for these initiatives to be suitable. Some more affordable alternatives to adding agritourism elements to a winery in terms of marketing strategies lie in advertising. The most effective advertising is in the forms of billboards and word of mouth, while newspaper and radio advertisements tend to be minimally effective.

Marketing the Wine:

Another approach to selling a winery experience and the wine itself is to market and make for certain that the product is a premium one. Relying on word of mouth as well as awards, which are given to exceptional premium wines, can make a winery a very profitable place. The key to a wine maker who wants to market their product, their wine, is to make for certain the wine is premium and unique. One option for these people would be to make their wine available through local establishments such as restaurants. However, the LCBO taxation rate for doing so is just as high when a wine is sold through a licensed distributor as it is through LCBO stores. This option is a very good one for winery operators who are certain that their wine is an excellent product. Therefore, wineries that have already been established for a while would be more likely to go for this option.

One especially good marketing tool for people who want to make this option for selling their wine is local festivals featuring local products. For example, Fiesta Buckhorn, which was in the summer of 2004, celebrated cottage country's local breweries and wineries. The cottagers who visited became a taste market for these products, and were able to choose their favorites through sampling them. An exceptional product would gain large popularity here and given that many of the visitors have local cottages, the opportunity them to visit the winery to pick up their new favorite wine is very simple to them. Another way to gain popularity of the wine that is produced is to enter it into contests and winning awards for it. Award winning wine would be a more marketable asset. Also, the wine shows are advertisements in themselves, such as the Toronto Wine and Cheese show. (Andres, 2004, COVA, 2004)

Marketing a Small Winery that is Created Off Another Business

Another option for wine lovers who wish to start their own winery and have access to another agriculture or agritourism business is to make a "spin off" winery. This can be a very successful small winery that can expand the business' income significantly. Fruit wineries as opposed to grape wineries are most suitable to this type of entrepreneurial project, especially for pick your own fruit farm. One exceptionally successful example of this is Scotch Block Fruit winery at Andrew's scenic acres. Owner and operation Burt Andrews has found success in what was "*[...] A natural extension of our customer oriented business of*

supplying fresh and frozen strawberries, raspberries, blueberries, currants, gooseberries and elderberries. We are also experimenting with tree fruits of apples, cherries, pears, plums and peaches." (Andrews, 2004) After three years of selling the wine products, Mr. Andrews has figured out what marketing techniques work, and which ones do not.

The best thing about starting a winery as a spin off business is the preset general marketing target group that exists. In a well-visited place such as Andrews Scenic Acres, there are many repeat customers who visit on a regular basis throughout the season of operation. This farm which offers tours, pick your own berries, pick your own asparagus, pumpkins and flowers and festive events such as hay rides was created in 1980, and since then has created a solid customer base. When the winery opened three years ago, people were very excited to try the new products. Since then, Mr. Andrews figured out many tricks to the business, including the fact that people are less likely to purchase wine after paying for samples, concentrating on one product as a staple product in sales and the virtues of billboard advertising on the highway.

Mr. Andrews started with offering pay tours and sampling sessions of his fruit winery. Through this he learned two important things. One, people do not like to pay for samples and two, his black current wine was thoroughly enjoyed by the public. From this he created two different types of wines from his black currents, one a port the other a dessert wine. These two wines are his top

sellers, but he also learned that people have very unique tastes, and therefore still sells a multitude of other types of wines aimed at many different pallets. There are grape wines aimed at the traditional wine drinkers, a selection of dessert wines, a selection of dry wines and port. His wines have won many awards at wine shows proving their quality and creating promotion for the products. There is no doubt from Scotch Block Winery of the market for a quality wine.

The sales of these wines have made financial sense, and Mr. Andrews believes with more focus of Scotch Block Winery, this can become a quite successful addition to his business repertoire. For a wine lover who wants to start a winery, adding it to another agritourism or agriculture project would be a prudent move in terms of marketing appeal, as the hardest marketing challenge is getting a market for your product in a marketplace that is full of brand named competitors who own the majority of wine brands.

Conclusion:

There are many steps to still be taken in terms of developing marketing strategies for small wineries. The most successful project for marketing such businesses are Wine Trails. Inclusive with this strategy is the ideal that small wineries are not in competition with each other, instead must work in conjunction to create a sector that has a lot of potential. Market research has to be done in

the form of surveys, further interviews and scientific research of what possibilities for both fruit and grape wines exists in order for this viable potential sector to be come a booming economic sector in Central Ontario. I hope that this background paper has been useful in outlining the areas that need further research.

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