ASSESSMENT OF THE VALUE AND FEASIBILITY OF VIRTUAL WINERIES IN CANADA

Presented to Donald J.P. Ziraldo, Chairman and CEO Ziraldo Icewine

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Introduction

The Canadian wine industry is a small region competing in an increasingly globalized market. In Canada, wine is largely produced in Ontario, British Columbia and to a lesser extent in Quebec and Nova Scotia. There are more than 350 wineries. Most have vineyards, production facilities and farm-gate sales. All face intense domestic competition. There are just a handful of large retailers who accommodate the demand side of the market with five major wineries providing more than 90% of the supply side. The remaining 10% is filled by a very large number of smaller wineries. In 2007, France, Australia, Italy, Chile and the United States contributed $1.5 billion in wine imports. These imports make up more than 67% of the domestic wine market. [1]

Wine is a highest valued agricultural food product in the world. It has multiple revenue streams from growing grapes to producing wine to marketing and sales and exports. However, establishing a bricks and mortar winery with cellar door retail sales takes a considerable amount of start-up capital and time.[2] Driving costs for new producers is the inability to compete with larger producers which have economies of scale and the rising cost of land. In 2006, Statistic Canada investment data revealed the wine industry increased capital investments to more than 12%. Many expanded their production or established new vineyards mainly in Ontario. Today, some of the best vine land in Ontario and British Columbia is at an all-time high. Further, once a vineyard is planted it takes up to five years before grapes are ready to produce premium-quality wine. The constraints have pushed new entrepreneurs to look at cost effective alternative to producing wine called the Virtual Winery.

Objectives

The goal of this report is to examine virtual winery business plans in Canada, California, New Zealand and France to assess their value and feasibility in the Canadian Wine industry. The primary objective of our research is to investigate what business strategies account for successful virtual wineries in current world markets. The secondary objective is to examine how aspects of these models are implemented in Canada and whether they are a viable options for any entrepreneur with skills in farming, winemaking, marketing, retail, public relations or business administration.

Executive Summary

Today, virtual wineries in Canada are a valuable sector of the wine industry. Based on our limited but representative sample of more than 50% of virtual winery operators in Ontario and British Columbia we consider them a feasible option for new entrepreneurs and investors.

The future of wine in Canada is bright. Wine consumption has jumped by 22%. Since 2005, Canadians drink more than 40-million cases. A number that is expected to increase another 19% by 2014. Canada now sits third behind the U.S. and China for the vast of amount of wine it has consumed over the last decade. The fastest growing wine consumer segment is the Millennial, aged 18 to 29. We found virtual wine brands have found success appealing to this growing segment for corresponding reasons.[3]

In our research we found many positive examples that demonstrate the feasibility of virtual wineries. They are an accessible entry point for entrepreneurs with limited resources as start-up capitol is lower. Entrepreneurs with skills in winemaking and business can partner with larger wineries and take advantage of economies of scale. They can hone their wine styles and obtain a consumer following before committing to larger volumes. Further, they can easily accommodate consumer trends due to their flexibility of sourcing grapes rather than starting a new vineyard.

An area of weakness involves licensing. In Canada, virtual operators produce wine under the license of a host winery putting the virtual winery in the vulnerable position of losing their brand should a partnership with a host winery go sour. Capacity challenges at a host winery could also limit the growth of virtual wineries forcing the operation to have multiple sites to fulfill its target volume.

Nonetheless, the value to the industry is large. Virtual wineries take advantage of the skills and resources of a wine-producing region. Winemakers who already work for a winery can have a separate brand to produce different wines. The operation provides a environmentally sustainable model that uses existing resources and facilities. More importantly, virtual wineries are a viable option for investors who are looking for a faster return on investment in comparison to a conventional winery.

Defining the Virtual Winery

Historically, conventional wineries are based on traditional agricultural business models. In Canada, they include vineyards, production and retail facilities and are marketed as a tourism-based product. A conventional winery has the typical production chain: grapes, wine, packaging, marketing and distribution. Historically, new entrepreneurs used romantic motivations to establish an estate winery, but in today's competitive market it has its limits.[4]

Establishing a winery in Canada is a multi-million dollar investment mainly for costly land in Ontario and British Columbia. Once a vineyard is planted, the lead-time is three to five years before grapes are at a quality to be considered commercially viable. Furthermore, a vineyard is always susceptible to climatic extremes, disease and pest problems that impact the quantity and quality of the raw material. Once a production facility is built most of the work occurs within a span of three to four months. Thus, the winery sits idle most of the year.

In a means of controlling costs while capturing all the steps of production, entrepreneurs are debunking vertically integrated models in favour of a supplier-based virtual winery. Our primary research in Canada revealed that medium to large producers are allowing smaller start-ups to access their facilities to produce wine under a virtual brand. In most cases, the only asset a virtual company actually owns is the brand name or IP (Intellectual Property). All finished goods and sales are reported under the name of the host winery.

Logistically, the model varies slightly between the two major wine regions in Canada; Ontario and British Columbia. Most of the key differences involve licensing and distribution and will be address in this document. Typical business practices are found through primary research in these two regions.

- Once a brand is registered, the virtual owner will typically secure an agreement with a host winery that holds a manufacturing license from the liquor control board of its province.
- In securing raw materials, virtual owners will work with partner grape growers or source grapes on the market. They typically have some control over the growing conditions such as canopy management and crop yields, depending on their relationship with the grower.
- At harvest time, the virtual owner will have the contracted fermentation facility and staff ready to crush and make wine. The virtual owner may choose to contract a winemaker at the facility, secure a consulting winemaker or make the wine him or herself.
- After crush and fermentation, virtual owners will typically bottle, age and store their finished goods at the host winery or, they may choose to lease a separate warehouse space.

- Many virtual winery owners will have some overhead, including tanks, barrels and winemaking supplies usually stored at the contracted production facility.

Sales and Distribution are typically on par with conventional wineries including on-line sales, on-premise licensees and distributors. However, there are some limitations in on-site retail sales that will be discussed as we look closer at our example wineries in each key region.

Assessment of Virtual Winery Business Models

For the purpose of this research we interviewed 11 virtual winery owners in Ontario and British Columbia in hopes of revealing similar practices in their business plans. Two virtual winery operations in Ontario were unable to participate, including Daredevil Wines due to restructuring and Charles Baker due to unavailability. To assess virtual wineries with long-term success in world markets we looked at operations in major wine growing regions. Two were found in the wine regions of California; the Napa and Central Valley. We used secondary research to demonstrated large growth and success of virtual wineries in New Zealand and again in California.

The tables below were developed from primary and secondary research conducted through a questionnaire (Appendix Six) and interview process. The data is a snapshot of each business model. The tables were developed as an adjunct to their assessments and verbatim comments from operators also found in the Appendix.

1.0 NEW ZEALAND

OPERATION	SKILLS	CASES	PRICE	LICENSE	DISTRIBUTION
KIM CRAWFORD WINES LTD. (KCW)/ CONSTELLATION BRANDS INC.	Winemaker Biochemist	1996 - 4000 2003 - 300,000	Premium and ultra-premium	1996 - host winery 2000 - own facility Vineyards	export, licensee, distributors, supermarkets

1.1 CALIFORNIA

OPERATION	SKILLS	CASES	PRICE	LICENSE	DISTRIBUTION
FLYING GOAT CELLARS	winemaker	2000- 240 2011- 3000	premium and ultra-premium	2000 - host winery 2008 - bonded urban facility No vineyards	on-line, distributor, licensee, retail tasting room in urban tasting room.
TIN BARN VINE-YARDS	winemaker	2000- 650 2011- 3000	premium and ultra-premium	2000 - host winery 2005 - bonded warehouse facility No vineyards	on-line, distributor, licensee, retail tasting room in warehouse tasting room.
BRONCO WINE CO.	winemaker	2010 - 20-million a year	basic to premium	1974 bonded faci-ity 2011 - 35,000 acres of vineyards	distributor and su-permarket. No on-site retail store.

1.2 ONTARIO

OPERATION	SKILLS	CASE	PRICE	LICENSE	DISTRIBUTION
MIKE WEIR WINES	Business and Win-ery Opera-tions	2005 - 3500 2011 - 25,000	basic - premium	2005 - host winery 2011 - manufactur-ers license No vineyards	LCBO, Licensee, On-line, direct-to-consumer. No retail store.
UNION WINES	Winemaker and Busi-ness	2010 - al-most 10,000	basic	2010 - manufactur-ers license No vineyards	LCBO. No on-site retail store.
ZIRALDO ICEWINE	Wine-maker, Wine in-dustry Pioneer	2006 - > 500 2010 - >1000	Icon	2006 - host winery 2011 - host winery Own vineyards	Export, licensee, LCBO. No on-site retail store

OPERATION	SKILLS	CASE	PRICE	LICENSE	DISTRIBUTION
NYARAI CELLARS	winemaker and marketing	2009 - 900 2010 - same	premium	2009 - host winery 2011 - same No vineyards	direct to consumers, LCBO, licensee. No on-site retail store.
2027 CELLARS	winemaker	2007 - 100 2010 - 500	premium - ultra premium	2007 - host winery 2011 - host winery No vineyards	Licensee, distributor and direct to consumers. No on-site retail store.
100 MARKS WINES	Winemaker and Marketing	2010 - 300	ultra-premium	2010 - host winery No vineyards	On-line, licensee, LCBO Vintages. No retail store

1.3 BRITISH COLUMBIA

OPERATION	SKILLS	CASE	PRICE	LICENSE	DISTRIBUTION
HAYWIRE WINERY	Marketing and Business	2009 < 200 2011 8000	Premium and Ultra-premium	2009 host winery 2011 licensed facility 10 acre vineyard	Licensee, on-line, direct to consumer, distributor, Govt. and Private retail stores, VQA stores. No on-site retail store.
BLACK CLOUD WINES	Winemaker	2008 - 200 2010 - same	Premium and Ultra-premium	2008 host winery 2011 same No vineyards	on-line, direct to consumer, licensee, distributor. No on-site retail store.
JOIEFARM WINERY	Sommelier, Agent, Import and Sales	2003 - 800 2010 - 9500	Premium and Ultra-premium	2003 - host winery 2006 - licensed winery 12 acre vineyard	Licensee, on-line, direct to consumer, distributor, Govt. and Private retail stores, VQA stores. No on-site retail store.

These enterprises are a reflection of successful virtual wineries operating in current New World wine markets. Each business plan reflects a historical structure found in the Old World wine region of France. In order to appreciate the long success of this strategy, we looked at France where the model was implemented centuries ago.

The French Wine Merchant

The négociant model has its roots in France dating back to the eighteenth century. Négociants dominated French wine sales up until three decades ago when vineyard owners increasingly decided to make and bottle their wines themselves. As local merchants, négociants act as intermediaries between production and the final sale of the wine. Some négociants own vineyards but most don't. Instead they explore the countryside, finding superior lots of wine from independent producers. They buy grapes, juice and wines at various stages of fermentation and aging and label it under their own name. Négociants are as different as the wines they sell, ranging from active participation through the entire winemaking process to the purchase of finished wine sold directly to consumers without aging. Each of these négociant functions is seen in current day virtual winery models.[5]

French négociants played a major role in defining the image of wine by the sheer fact most wine passed through their hands. With interests that were more tailored to reflect business pursuits rather than terroir, the result was wine suited to a broad taste.[6] Négociants successfully located market demands and manipulated wine to suite the needs of the target market, a concept that has been widely expanded upon in current day entrepreneurial driven virtual wineries.

Hundreds of négociants exist in Burgundy alone. Popular merchant names include Bouchard Pere et Fils, Maison Louis Jadot, and Les Vins Georges Duboeuf. These merchants have maintained a reputation of quality to this day as they consistently place careful focus on expressing each appellation and varied terroir of their wine. Duboeuf provides an exceptional example of successful merchant methods, becoming the most widely respected supplier of Beaujolais worldwide. Duboeuf functioned unlike most other French merchants by developing democratic partnerships with growers based on crop sharing and respect for individual terroirs.[7] This communicative relationship reflects the operations of many current day vintner-directed virtual wineries.

A new phase of négociants in France is largely reflective in New World trends. Many smaller and quality-driven winemakers are having an impact on the marketplace. Similar to traditional merchants they purchase the product and oversee everything until the wine is bottled. But their main focus is on reflecting the terroir and sense of place of each wine.

When looking at negociants in France two characteristics stand out. The first is a focus on tailoring wine to suit market demands. The second is the importance of reflecting terroir and appellation when the vineyards are sourced from across a wide region. These characteristics have proven successful in the French market and provide a good model for New World markets to replicate.

New Zealand

The success of the negociant system in France is currently reflected in New Zealand. Once a small wine producing country, New Zealand has become one of the fastest growing wine regions in the world and home to some of the world's best luxury brands. The region is best known for its food-friendly Sauvignon Blanc and Pinot Noir. Many are listed on the menus of top restaurants. The region is typical of a New World market. Winemakers rely on terroir and technology to produce what they describe as distinctively clean and character-filled wines.[8]

For purpose of this research we looked at one shining example of success. Kim Crawford Wines started out as a virtual winery and grew into one of the largest exporters in the world. Erica and Kim Crawford didn't have a lot of money for their start-up, but they did have skills. He as a winemaker and she in biochemistry. In 1996, they started their wine company on a shoe-string budget working mainly from a home base in Auckland. They sourced grapes and production facilities to make 4000 cases of wine. Most of it was bound for export to the U.K. The rest of it went to restaurants. They grew quickly early on because of their ability to source grapes, source cash to pay for the raw materials and keep control of cost. They also leverage New Zealand's unique terroir and people to build brand loyalty to their style of winemaking.

By 2002, the Crawfords were producing 86,000 cases of wine. At this point they were exporting to the U.K., Australia and the United States. In New Zealand, they distributed their product in supermarkets where the majority of wine is sold. Worried that this strategy would dilute the quality of the brand, the Crawfords developed a secondary label to sell mainly at high-end restaurants.[9]

By 2003, the Crawfords had vineyards and production facilities. However, they realized the only way to grow further would be to sell. In one of the most interesting business deals, the Crawfords sold their Intellectual Property, Kim Crawford Wines, to Vincor International for US$18-million. Vincor later merged with Constellation Brands for US$1.27-billion in 2006. The Crawfords' success is a strong example of managed growth and what a home based virtual winery can ultimately achieve.

United States

Like New Zealand, the U.S. is one of the fastest growing wine regions in the world. The rapid increase in new wine consumers is driving the demand for basic and premium quality wines. Last year, the number of licensed wineries grew to 6,223, a 5% increase from 2009. More than 900 of them were virtual enterprises located in 29 of the 50 states. California has the most with 777 followed by Oregon with 119 and then Washington State at 22. For the purposes of this research we will focus on California.[10]

California

One of the main reasons why California has embraced the virtual business plan so successfully is their clearly defined licensing structure to allow some operations to exist independently from their host winery. There are two virtual winery scenarios. The first is a licensed alternating proprietorship where virtual wine companies contract grapes and make wine at shared production facilities. This option is good for producers who plan to make wine for commercial purposes, but are not interested in establishing a vineyard or estate winery. The Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau allows alternating proprietor companies with their own license to share the production facility. Many of these operators are the producers of California's famous "Cult Wines." The alternating proprietor is responsible for regulatory reporting of wine produced on site. The facility can have a retail tasting room and is able to take advantage of all distribution channels including, on-premise, off-premise, licensee, tasting room, distributor and on-line sales.[11]

The second is a virtual brand that contracts these facilities to make their wine. This operator is considered a wholesaler. Once the finished goods are reported and taxed by the contracted facility, the virtual owner takes possession of the product. He or she can the distribute and market the wine as they wish. One disadvantage of this option is operators are unable to have a permanent retail tasting room. This challenge is one of the main reasons why virtual brands move toward an alternating proprietorship or establish a traditional estate winery complete with vineyards.

One of the biggest brands in the U.S. is a virtual operation. The Bronco Wine Company uses its economies of scale to produce more than 20 brands, including a $2 bottle called affectionately by consumers, "Two Buck Chuck." Owned by Fred Franzia, Bronco Wine Company is the fourth largest wine producer in the U.S. It gets its virtual designation because it does not use tourism-based wine experiences to sell wine. Also, it doesn't have a visitor centre or website for each brand. Bronco specializes in vineyard development and building premium bulk wine contracts. It has a chain of four very large distributors. You can find Bronco wines in 65 countries.[12]

There are smaller examples in California that demonstrate how virtual wineries impact the industry, creating new types of wine tourism and consumer experiences. As part of our research we interviewed wineries in the Central and Napa Valley. Both wineries started out virtual because of the cost of establishing an estate winery in California. Later, both wineries moved into an alternating proprietorship and transformed into something completely different than the typical estate winery.

Flying Goat is owned by winemaker Norm Yost and located in an area called the "Lompoc Wine Ghetto." It's an urban winery and one of several virtual wineries in the Central Valley that has seen great success for their unique wines. The area has become a tourism destination where these boutique tasting rooms cater to enthusiastic wine seekers. Social Media is a big part of their marketing mix. Their target consumers are mainly younger aged 25 to 40+.

In Sonoma, a similar operator exists in a warehouse wine district. Tin Barn Vineyards started out virtual with no tasting room and moved into an alternating proprietorship. Like Flying Goat, Tin Barn does not own vineyards. Winemaker and owner Michael Lancaster believes his winery's success has been his ability to create the right marketing mix to allow for growth, even during the recession. Lancaster credits the tasting room at his warehouse winery for helping him generate sales in an otherwise depressed market. Lancaster believes virtual wineries are a vital part of the California wine industry because of their proven record of success.

In investigating existing virtual wineries in California we revealed a proven track record of success and growth. The region has addressed regulatory issues to provide accountability and opportunities for profitable distribution channels. The benefits to the industry is the experience of traditional wine experiences into urban and industrial settings where tourist seek out and buy California wines.

Canada

While the virtual winery model has developed significant roots in the countries listed above, it is well on its way to becoming the next big thing in Canada. Virtual wineries can have their own vineyard, source grapes from a range of properties and purchase wine through various stages of fermentation and aging. A major distinction in Canada is the regulatory environment that causes most virtual wineries to work under existing winery licenses, making it extremely difficult to track and obtain statistics on the range of virtual wineries that exist. The best thing about Canada's virtual wine industry is the quality and dedication to appellation of the wines produced, many baring the VQA symbol of quality on their bottles. Their emergence across the country signifies interesting wines that express the true essence of Canada's terroir. The virtual wine industry is flourishing in both Ontario and British Colombia, both of which are the focus of our research.

Ontario

Ontario is the largest wine-producing region in Canada. Virtual brands are making waves in the industry, receiving spotlight at prestigious awards ceremonies and features in large distribution wine publications. As part of our primary research, we interviewed six different virtual winery owners from Ontario. Our research revealed important distinctions in the business models between entrepreneurial oriented companies and vintner-directed companies as outlined below.

Three of the wineries are entrepreneurial endeavors.. All owners are pioneers in the Ontario wine region and have operated successful estate wineries of their own in the past. They include Allan Jackson, Chairman of Union Wines, Barry Katzman, President of Mike Weir Wines and Donald Ziraldo, Chairman of

Ziraldo Icewine. Their new virtual wineries reflect the historic négociant model in France, whereby merchants purchase finished wine and tailor the product to their specific market and taste. Their market orientation is reflected in their method of sourcing grapes based on grape quality and availability. These wineries are consumer oriented, producing wines to suite the needs of the target market. Both Union and Mike Weir exist through a "floating" manufacturer license that requires the product to be sold directly to the Liquor Control Board of Ontario. Union has excelled through this model selling approximately 10,000 cases a year, illustrating the prosperous growth a virtual business model can attain when products are tailored to LCBO demand. With a keen entrepreneurial mindset, these owners saw the opportunity to start a brand without binding attachments. Unlike a bricks and mortar winery, they could focus their energy on obtaining a secure place in the market.

Three of the wineries interviewed are vintner-directed endeavors. They include Kevin Panagapka of 2027 Cellars, Steve Byfield and Sharon Marks of Nyarai Cellars and Kimberly and Jeff Hundertmark of 100 Marks Wines. A strong background in winemaking and a desire to create their own product drives these winery owners. All produce their products and most are employed as winemakers at their host winery. Their success stems from the ability to put their resources into winemaking rather than the high capital expense of building a winery and establishing a vineyard. All operators interviewed felt they had a large influence over the products being produced. These owners build relationships and work closely with wine growers, sourcing grapes and producing wine in a manner that reflects the terroir. The virtual winery model allows winemakers to excel in their craft and have the freedom to create their own brand.

Licensing concerns were expressed by a number of the virtual wineries interviewed in Ontario. Panagapka, owner of 2027 Cellars, gave the following suggestion, *"give virtual wineries the ability to have a floating manufacturing license so they can be inventoried like a normal winery and have legal rights to the wine."* Panagapka believes this would also open up the gates to entrepreneurs who would like to produce wine but don't have the financial means or capacity to reach the LCBO. Allan Jackson of Union Wines operates from a distribution license, he believes the Ontario Government should look into changing licensing categories for small virtual wineries. *"It is arduous to get an LCBO license," states Jackson, "it is complex legislation. We needed a good lawyer to help get (us) along the pathway."*

In exploring the current virtual winery situation in Ontario, a few things are evident. Small-scale operations run by winemakers are the most predominant model. Their method of creating strong ties with growers has made a direct impact on the premium wine they are producing. It is also evident from our research that having an entrepreneurial sense and a business plan centered on consumer demand is indicative of success. Moreover, having the business savvy to obtain a distribution license is a valuable asset. As a new prospective entrepreneur, it would be ideal to find a balance between the two models. Having a strong hand in the wine making process while being market oriented would allow Ontario virtual wineries to excel and expand into a more vibrant industry.

British Columbia

As part of our primary research we interviewed three operations in the central Okanagan Valley. Two produce VQA wines; Haywire Vineyards and Black Cloud Wines. The third operation, JoieFarm Wines, produces Non-VQA wine.

All gave similar reasons for starting a virtual winery, including the high cost of land in British Columbia and start-up capital needed to build and establish an estate winery. Haywire Vineyard owner Christine Coletta and Steve Lornie started with a vineyard first. They soon realized it wasn't a viable option because of low profit margins. They began producing wine at host wineries using their own grapes. As their volume grew they found themselves looking for more space. They decided to put their money into a custom crush facility to produce their virtual wine label and offer the same service to other winemakers. Bradley Cooper winemaker and owner of Black Cloud Wines and Michael Dinn and Heidi Noble of JoieFarm Wines both entered the industry with little or no money. All three sourced grapes and fermentation facilities. In the first three years, JoieFarm had winemaker and capacity challenges at their host winery. Production capacity in the Okanagan is very limited, so virtual wineries have been forced to make their wine in multiple facilities. In the case of Bradley Cooper, his production is limited by the contract he has with his host winery where he also works as a winemaker. This model is working for Cooper right now, but he is limited to 1000 cases as stated in his contract that expires in two years.

Similar to Ontario, virtual wineries in British Columbia cannot have a retail tasting room. They can, however, sell on-line, to licensees and distributors. They do have one advantage over Ontario. Virtual wineries are not limited to selling their wine at provincial liquor stores. There are 1300 private retail sellers in BC, including VQA stores. However, all three virtual operators expressed the need for a retail tasting room that is unavailable to them in their current structures. Many have turned to other channels for building their brand image including Social Media. All three believe it is a relevant media tool for these times. They use it to build credibility and bring awareness to their brands. All three are targeting a mix of consumers aged 25 - 55+. They also described customers as Millennials, wine aware clients and affluent wine enthusiasts.

As revealed in Ontario, these virtual wineries in British Columbia commented on regulatory challenges that limit potential sales. Despite this challenge there remains a large potential for growth. The virtual operations are growing in production size and are viable operations. According to these owners the benefits to their region are the ability to create more opportunities for start-up entrepreneurs, winemakers and investors looking for quicker return on investment.

Recommendations

In researching and summarizing information regarding the value and feasibility of virtual wineries in Canada, we have developed these recommendations for the industry and entrepreneurs:

Industry

- The industry should support these establishments and encourage new entrepreneurs to take advantage of this feasible entry into the Canadian wine industry.
- The industry should support and educate established bricks and mortar wineries as well as established grape growers of the potential benefits and value of working with virtual wineries in their region.
- In order to address autonomy issues in the case of regulatory reporting and taxes, we recommend the Canadian wine industry and regulatory bodies explore licensing structures for virtual wineries based on the models currently at work in California including an alternating proprietorship.
- We encourage the Canadian wine industry and regulatory bodies explore a limited retail authorization for virtual wineries so they may have access to wine consumers. This channel would benefit many of the small-scale virtuals and enable them to garner more presence in the market.

Entrepreneurs

- We believe the best skill-sets to enter the virtual winery industry are expertise in marketing, business and winemaking as well as strong entrepreneurial spirit.
- We encourage investors to choose entry into the industry as a virtual winery because of low capitol costs and attractive return on investment timelines.
- Finally, it is clear virtual winery enterprises are in their infancy here in Canada. We recommend developing a virtual winery support organization to share expertise, in winemaking, long-range planning, regulatory and distribution and to build consumer awareness.

Appendix One - Methodology

The research process focused on producing objective and relevant results for the final stage of this case study. The initial objective to obtain primary information via interviews with négociants in France was reexamined. During the information gathering process, it became readily apparent that primary information from current day négociants in France did not add further to our research on new world virtual wineries. Secondary data was used to describe the historical importance of the French wine industry and how it has impacted current virtual winery models. A focus was placed on obtaining primary and secondary information for New World virtual wineries, specifically in California, New Zealand and Canada.

The pre-interview process involved a number of stages. The first involved a customized participation call sent by e-mail to key contacts at established virtual wineries. Each region was approached with a document tailored to demonstrate the relevancy of this research to their industry. In approaching Ontario and British Colombia, we focus on the need to add depth to the amount of information currently available in Canada. In approaching New Zealand, we focused on the need for information regarding successful models in a developing industry. In California, we acknowledge their importance in being a virtual winery pioneer in the New World market and invited virtual winery owners to help us define the industry. The call out also includes the parameters of the study such as the objective of the research, the benefits to participants and the nature of participation involving a questionnaire and an interview. The intent of this call out was to create an open and communicative relationship with participants while giving them piece of mind by providing all information that pertains to the study.

Once interest was confirmed we sent a participation agreement along with the questionnaire. The participation agreement provides a background of the study, how the information would be used, the risks and benefits involved, along with a formal agreement to participate accompanied by a signature of the participant. The questionnaire was sent prior to the interview to give participants the opportunity to prepare. The format of the questionnaire provides distinct response options, with topics that range from production to the marketing of their virtual winery brand (refer to Appendix Six). We then set a time and date for the interview to take place. We gave participants the option of conducting the interview in person or via telephone. This allowed participants to choose an interview method that best suit their schedules and comfort level.

As part of a strategy to attain relevant information for this study, interviews were conducted through a tactical process. We provided a physical copy of the participation agreement as well as the questionnaire. The interview began with an information release that was documented on a tape recorder. The questionnaire was used as a concrete guide to ensure consistency among all interviews conducted. Interpretation of the interviews was done with care. All interviews were transcribed verbatim to ensure the accuracy of our findings.

Appendix Two - France

Bouchard Père et Fils

Established in 1731, Bouchard is one of the oldest merchants located in the city of Beaune Burgundy. This long-established merchant is the owner of some of the biggest and best estates in Cote d'Or. Being among the first wave of merchants, Bouchard specialized in the roulage of wines to Low Countries in return for textiles (Faith 67). It evolved into a successful business but faultered in the early 1990's. The quality has since improved with its purchase by Joseph Henriot, an inheritor of a respected family estate in Champaigne and the former director of Veuve Clicquot. The extra capital meant the firm could expand its holdings to become the largest landowner in Cote d'Or and a leader in the production of quality wines. Bouchard proves that large négociants can compete, appellation by appellation, with growers by producing wines that reflect the varied terroirs from which they come (Faith 138).

Maison Louis Jadot

Established in 1859, Jadot acquired grapes from across Burgundy, making over 700,000 cases of wine annually. The firm is among the second wave of merchants. It is based on estates owned by the local bourgeoisie in contrast to others at the time who acquired as many scattered vines as they could afford. Jadot has managed to surpass the criticism Burgundy wine has received over the decades. It remained untouched due to its careful focus on expressing the appellation of its wine. Managed by Andre Gagey until 1993, the firm was taken over by his son Pierre-Henri and winemaker Jacques Lardiere. In 1985, American proprietors of Kobrand altered Jadot's ownership but this did not affect the quality of its wines. Jadot is currently at the height of its success with expanded holdings and investment plans, including a new winery in Beaune (Jefford 101).

Les Vins Georges Duboeuf

Established in 1964, Georges Duboeuf has become the most widely respected supplier of Beaujolais worldwide. This négociant is known for assive production, blending and selling over 30 million bottles a year, with a correspondingly high level of quality. Prior to establishing Les Vins Georges Duboeuf, Duboeuf gained recognition by selling wine to a famous restaurant called Chapon Fin. His high standing was built on his reputation as a reliable supplier of the best wine Beaujolais had to offer. Duboeuf used his reputation to pursue a négociant business with the help of fellow wine merchant Alexis Lichine. Unlike most other French merchants, Duboeuf developed democratic partnerships with growers based on crop sharing and respect for individual terroirs. This step away maneuver from distinct buyer and seller roles into a more communicative relationship with suppliers, played a key role in his longstanding position as the biggest and most reliable supplier of premium Beujolais. Currently, Duboeuf has taken a step back from management to focus on producing premium Beaujolais in order to maintain the high standards he has created, while his son and team take over the firm (Faith128).

Appendix Three - California

As for virtual brands in California there are two key distinctions. The first is the Alternating Proprietorship. Federal and state laws allow small operators to share winery facilities while maintaining separate businesses and licenses. They can sell their virtual brands to consumers through on-site tasting rooms, distributors, licensees, direct-to-consumer through on-line sales and in a handful of states. This gives virtual operators flexibility in their business approach and makes it accountable for the winemaking, regulatory responsibilities, insurance coverage and taxes.

The second is a virtual winery operator that holds a wholesaler license and produces one or more brands. This operator sources fruit from different regions and contracts an existing winery or custom fermentation facility to make and bottle wine. They have more restrictions on the sale of their wine, including no tasting room. They also have fewer responsibilities. The host-winery or alternating proprietorship controls the winemaking process and has regulatory responsibilities like reporting and taxes for the virtual brand. Virtual Wineries take possession of the product after it is bottled, labeled, reported and taxed. Virtual operators cannot have a tasting room, however, they can sell their wine in California and other U.S. states through distributors, licensees and direct-to-consumer online sales.

In our interviews with virtual winery owners in the Napa and Central Valley wine regions, we've found examples of the two types of business models. Tin Barn Vineyards is owned and operated by winemaker Michael Lancaster and three other partners. He began making wine at a custom crush facility in Sonoma in 2000. Today, Tin Barn is a bonded warehouse winery that produces its own wine and custom crush releases for other clients. It has a retail space but it's only open on weekends. The winery is part of a large warehouse winery community that holds special tasting events to highlight the quality of these small to medium producers.

Flying Goat Cellars is owned and operated by Norman Yost. A winemaker for 30 years, Yost started at a host winery in the Central Valley wine district called the Lompoc "Wine Ghetto." This urban and industrial wine area has grown rapidly in the last decade and includes notable brands like Brewer-Clifton, Fiddlehead Cellars and La Vie Vineyards. Yost has since moved into his own facility in the same area. The key target market for this wine region includes Los Angeles. Our research revealed important distinctions in their business models.

Start-up and Skill Sets

Both Yost and Lancaster brought personal skills in winemaking and business to their start-up company. They entered into virtual business plans because it was cost prohibitive to build a conventional bricks and mortar operation. Lancaster comments: *"Our cost outlay was just to buy the equipment, put a little bit of plumbing and electricity in the building, spent a little extra money to build a nice tasting room. We did all that for $600,000 dollars. Not $2-3-5 to $10 million (to build an estate winery)."*

Grapes and Production

Before evolving into urban and warehouse wineries under the alternating proprietorship license, Flying Goat and Tin Barn contracted fermentation facilities to produce and bottle their wines. Both wineries don't have vineyards. They work with growers to supply their raw materials. Yost and Lancaster sourced grapes from growing regions that are important to their business and marketing strategies. Yost comments: *"I got a little bit involved but I look at these guys and they do such a good job that my theory is that if it ain't broken don't try to fix it."* Lancaster comments: *"There is such a strong history of contracting grapes and contracting over periods of time. You can develop vineyard sources and relationships with your growers. You don't have to own the vineyards."*

Marketing and Sales

As virtual wineries there are limitations in term of selling directly to their consumer. Once an operator takes possession of their product from their contracted facility they are only allowed to sell it through a distributor, licensee and on-line. As alternating proprietorships, both Flying Goat and Tin Barn have a retail space that has helped them get through this past recession. Yost comments: *"About two years ago we started a second label called YNOT for lack of a better term it is our recession red." "I saw it slow down in the market place and I thought you know what, we need to do something that creates a cash flow."* Lancaster comments: *"In general the average small winery direct to consumer exposure is key and the ultimate way to get that is a tasting room."*

Flying Goat's target consumers are Millennials, under 30 and with disposable income. They are wine consumers who are looking for something fun. Yost comments: *"I think they're looking for things that are unique and where they can express their individuality." "Something unique allows the consumer to remember (you) and allows you to promote yourself."*

Social Media

Both Flying Goat Cellars and Tin Barn Vineyards were established before social media's current success. Both companies have embraced social media for its ability to sell the brand message. Both companies use Facebook and Twitter, primarily.

Advantages and Disadvantages

There are however, some disadvantages including not having a sense of place or a difficulty fitting into a traditional definition of what a winery "is." Yost comments: *"Because you're not a real winery—you don't have a building. I think you're kind of in this void of –where do you fit in."*

Another disadvantage or risk for initial start-ups includes the potential loss of a grape contract that could put a vintage in jeopardy. Lancaster comments: *"You don't have to own the vineyards. The down side is you could lose a contract." "That happened to us, a Sauvignon Blanc grower decided that they needed to hold the grapes* *back for themselves for a brand they were developing." "That gave me two years to find a new source. We ended up missing a vintage because it took a little longer and now we have a new source we really like."*

A custom crush facility can have disadvantages when it comes to equipment and winemaking challenges in the cooperative relationships. Yost comments: *"You can't use the equipment because it is a liability for the host winery—but it does go on. Occasionally I used the forklift—but technically if something happened to one of their clients using their equipment—it could be a legal nightmare to the host winery. You can do winemaking—but you can't operate the equipment. You can watch every step of the way. Some are not as stringent, don't do anything stupid, be careful and clean up."*

According to Norm Yost and Michael Lancaster, the benefits to establishing a virtual winery are lower capital investment and flexibility in winemaking and marketing. And, in the case of the Lompoc Wine Ghetto, a new clustering of several virtual wineries which have created a tourist destination that benefits all of them. Yost comments: *"Originally it started with one and now we're up to 13 in 5 years. It's truly a boutique. Almost all of them are virtual except for about 2 or 3 of them that have vineyards."*

Industry Impact

According to Michael Lancaster, in California, virtual wineries are seen as an essential part of the industry based on the history of wine producers in the state. Lancaster comments: *"Here there is no need to defend virtual wineries. I mean we're allowed to do it. It's a key part of the industry. The whole concept of buying bulk wine that's been made by somebody else and bringing it into someplace and manipulating it and putting it into a bottle with a label that has a long history here in California and it's very established."*

Norman Yost believes the model is a true sign of change in the way they make wine in the state. Yost comments: *"The old model is not as popular as it used to be—where you named it after your children or you gave it your first name—in the new world model you're not going to see that as much anymore." "It's been fun to watch people take virtual wineries and become real wineries. I think there is a lot of enthusiasm because I think there's been a lot of success out there. It will always be a big sector of the marketplace."*

Appendix Four - Ontario

As part of our primary research, we interviewed six different virtual winery owners from Ontario:

UNION WINE

Union Wines is the result of a partnership between Vincor veterans Allan Jackson and Andrew von Teichman. Launched in 2010, this company has an art in blending multiple grape varieties to create consistent and consumer friendly wines. Jackson talked about why this model was so attractive: *"In my previous life at Vincor we owned Kim Crawford in New Zealand which was New Zealand's top most virtual winery. So I always liked that model because it is sensible for the person starting out cause you're not spending all kinds of a capital on buildings and lawyers and architects and stuff like that."* This unique virtual winery model is based around having its own manufacturing license to sell exclusively to the LCBO. In essence, Union uses a winery's crush facilities but does not need to classify its wines under a partner winery's license. Jackson comments: "*Having our own manufacturing license is really significant because most virtual wineries are tied into the wine license of their host winery and held captive." "The Ontario Government could look at changing categories for small virtual wineries. It is arduous to get an LCBO license. It is complex legislation. We needed a lawyer to help get along the pathway. The financing thing—cash flow management—high end wines, require aging, need bank financing."* Within its first year Union has become a top selling VQA wine at the LCBO. It is a great example of the prosperous growth a virtual business model can attain when their products are tailored to LCBO demand.

MIKE WEIR WINE

Mike Weir Wine showcases the true essence of a virtual winery in Ontario. With an entrepreneurial spirit and a celebrity to market the brand, Barry Katzman, company president, made this virtual brand an instant success, he comments: *"I saw the opportunity to open up new channels that are limited through Bricks and mortar. A need for a business approach rather than a winemaking approach. A way to efficiently use up the oversupply of grapes in the region."* Katzman contracts grapes and production through an existing winery and has a separate manufacturing license to sell exclusively to the LCBO. Katzman comments: *We have complete control since the beginning and it's important to us to retain our own identity and to make the wine even though we use the facilities at (Chateau des) Charmes it is still us that dictates the blends, the grape varieties and all those kinds of things* However, in this distribution structure, Katzman buys back his product from the LCBO and distributes it to licensee and direct to consumer. He comments on future plans to expand: *"We've got a temporary manufacturer's license in order to eventually get a facility."* Katzman credits his marketing mix to build a strong brand following for Mike Weir Wine. He relies on exposure at large events like their sponsorship of Toronto International Film Festival and the Vancouver Olympics, exposing the brand to consumers who would rather go to these events than visiting a tasting room. He also concentrates on making his wine accessible across Canada. Katzman comments: "*Weir is a national brand found in every retail outlet; also through promotions with licensees and events."*

ZIRALDO ICEWINE

Donald Ziraldo, icon of the Ontario wine industry, established Ziraldo Icewine in 2006. In a manner that reflects the historic négociant model in France, Ziraldo came across an incredible Icewine sample and was so impressed that he bought the entire lot. After finishing the product and creating a label, the limited release was completely sold within five weeks.

2027 CELLARS

2027 Cellars is a vintner-directed virtual winery in operation since 2007. With a strong winemaking background and a desire to create his own brand, Kevin Panagapka has received large spread recognition for his single vineyard wines. His success stems from a partnership with an established winery that has allowed him to put his resources into viticulture and winemaking rather than the high capital expense of building a winery. Panagapka comments: *"The general idea for wineries around here is to take six years to break-even and eight years to turn a profit if you're good at it. So never mind having the money to build stuff, think about the cost for six years of buildings and land and viticulture. I mean you plant a vineyard and its around $40,000 an acre here, $17,000 to plant, etc. You still need to spray them every year and you get nothing for four years. So there's a lot of risk factors there. For me, I can source older vineyards and buy them in blocks. So, I can beat time in sourcing 30-year-old vineyards instead of 4-year-old vineyards. There is a surplus of grapes in Niagara. So, you take the risk out and increase the quality without having the capital expense."* Panagapka believes an advantage of the virtual model is flexibility in what wines to produce. He comments: *"Whats good about being a virtual winery, you can manage your inventory differently from a bricks and mortar especially if there's a surplus of fruit that you can't sell. You don't have to always make the same varietals."*

Panagapka has leveraged Social Media to obtain a large following without paying the high cost of traditional advertising, he comments: *"Social media gets to a lot of people. It creates a lot of buzz. I haven't done one ad in any magazine [because of it]."* Despite this success, Panagapka believes virtual wineries must have a distinctive regulatory identity to be accountable and to open up other distribution channels. He comments: *"Give virtual wineries the ability to have a floating manufacturing license. You would then be inventoried like a normal winery- the LCBO checks every 6 months and you pay all the taxes and levees. The wine would legally be yours. If you could have retail space. Or if you could have a co-op somewhere where you have 10 different virtual wineries in one space where you can have retail storefront. As is, you can get 2 manufacturing licenses on the same property but you can only have 1 retail outlet. In the current VW structure I'm in, it's a bit risky because my partner winery owns my wine. They account for the sales of it and pay all the taxes."*

NYARAI CELLARS

Nyarai Cellars is a vintner-directed virtual winery under winemaker Steve Byfield and marketing executive Sharon Marks. As a self-contained winery within a host winery, the company has access to production facilities and a few rows of vines. Byfield comments: *"We don't have our own retail store. We have our own tanks, our own barrels, our own marketing, our own sales, our own accountant. We are a self contained winery within another winery because we don't own our own land. We can't have our own license. So we rent part of their license, we give them a fee to utilize their license."* By working closely with winegrowers, grapes are sourced in a manner that reflects the terroir. As a first place Cuvee award winner along with Panagapka, this virtual winery is a great example of the success that small-scale wine merchants have seen in Ontario.

100 MARKS WINES

100 Marks Wines is a vintner-directed virtual winery operated by Jeff Hundertmark, head winemaker at Marynissen Estates Winery along with his wife Kimberley who has a long history in wine management and marketing and is the Executive Director of the Niagara Wine Festival . With a desire to venture into a new initiative by opening his own winery and work with popular grape varieties not found at Marynissen, Jeff has been able to use the virtual winery model to create a wine portfolio that compliments the established winery he works for. Jeff comments: *In everybody's case, we are really just a brand of our host winery... it's a benefit because of the set-up time, licensing, the parent brand development...is already there. Marinissen is already there."* The Hundertmarks commented on their impression of how virtual wineries operate in other regions and what is needed in Ontario to help support virtual wineries in this region. Jeff explains:*"I think the difference between Ontario and everywhere else. Everywhere else you can start a virtual winery in your garage. That is the one thing we would love to have. We would love to be able to get a warehouse space and buy a couple of tanks and have a little lab and set-up our own small winery, buying our grapes and away we go." "Hopefully someday the rules down the road will lax, not lax but the rules will change. So, it does enable a small business to succeed without the overhead costs."* At the time of our interview 100 Marks did not have an agreement to provide wine tastings at their host winery.

The Hundertmarks' marketing mix is a strategic blend of on-line, events, exclusive tastings and print media with the possibility of a release through Vintages at the LCBO. They also use Social Media to prop up brand awareness until their website is up and running. 100 Marks is the newest start-up in our study they spoke about their greatest challenge, the current competitive marketplace. Kimberly comments: "*We've been really, really lucky..we're almost right at the tail end of where it is, just before it's sort of exploding. People are now going 'virtual winery-what is a virtual winery?' before it wasn't even a blip on the map, so now I believe we are in a competitive marketplace."*

The Hundertmarks reflected on the future of virtual wineries in Ontario pointing out they (virtual winery owners) don't want any breaks but would like a level paying field. Jeff comments: *"I think if the government itself would recognize virtual wineries is a viable small business, smaller than small wineries. As long as they are regulated and the final product is a healthy product and it is regulated the same way as everybody else is. The production of wine should be allowed to be anywhere. I don't' agree that you have to have a retail shop and a manufacturing place on the site of the vineyard. I think that you should be able to, like the rest of the world, lease a warehouse space, make it safe, make it secure and be able to produce and distribute in whatever way you want. As long as you pay for your licensing, you obey the same rules that every other winery does."*

Appendix Five - British Columbia

As part of our primary research, we interviewed three virtual winery owners from British Columbia.

Haywire Winery is owned Christine Coletta and Steve Lornie. Haywire is a virtual brand located in Summerland, BC. Haywire has been a virtual winery for 2-years. Coletta and Lornie have their own winery license but it's under the name of the Okanagan Crush Pad. It's a custom crush facility located at their vineyard. It will be accepting new virtual brands this year. Haywire is one of its brands.

Black Cloud Wines is owned Bradley Cooper and Audralee Daum. Black Cloud has been a virtual winery for more than two years and is located in Penticton, BC. Cooper produces his wine at Township 7 Winery where he is also the winemaker.

JoieFarm Winery is owned by Michael Dinn and Heidi Noble and located in the Naramata Bench region of the Okanagan. . Joie was a virtual winery for three years, producing wines at different host wineries. For the past four years, Dinn and Noble have been producing wine at their own facility. Dinn still consider Joie a virtual winery because they don't have a retail tasting room.

Start-up and Skill Sets

All three wineries owners we interviewed in British Columbia made the decision to start a virtual winery business because of the prohibitive cost of land and the cost of building a fermentation facility. Haywire went into a virtual business after starting a vineyard and realizing that any gains in profits beyond the break even point would be unattainable. Christine Coletta explains: *"After the capital cost of putting the vineyard in and operating it for two years we realized that every year that we would just break even"* For Joie farms, financially it was the most feasible means to enter the wine industry. Michael Dinn explains: *"First year we were using credit cards and lines of credit. Today, we've done very well with this. We've just purchase an additional 12-acres of land here. We'll make our retirement by the time my wife is 40 and I reach 50."*

Skill sets of these three owners include wine marketing and public relations, wine agent and distributor, sommelier and restaurateur and winemaking in the case of Bradley Cooper. However, as Coletta and Dinn point out, it's the marketing and business experience that has helped their companies successfully introduce a brand that has limited exposure to target consumers. Coletta explains: *"I came from the restaurant business and I ran the BC Wine Institute for 9 years through the formation years of the VQA" "Marketing, public relations and entrepreneurial endeavor. My connections, my history with people, I'm also on the Grape Growers Board. I know everyone in the Okanagan it makes life a lot easier."* Dinn comments: *" I was a buyer for restaurant in Vancouver. I worked in restaurants for 13 years. I was a buyer for probably 5 years and then I went into the wine trade and worked as a sales agent for a company for about 4-years." "We didn't have any viticulture and winemaking experience, but we had everything else. We knew from the sensory evaluation point (of view) we knew a lot about wine."*

Grapes and Production

Sourcing grapes from reputable and established growers in regions important to their marketing and business strategies is a consistent practice among these virtual wineries. Any fluctuation in raw materials is due to seasonal inconsistencies, mainly short-crop years. However, inconsistent capital investment to maintain production volumes from year to year is also a concern for at least one of these virtual winery owners.

All three wineries produce their wine at contracted facilities and at least one of them will be moving into a custom crush facility this year. Initially, all three had challenges finding a host winery with enough capacity to produce their product. Cooper comments: *"I'm limited in production to 1000 cases and my agreement is 5-years which is up for review in 2013." "For virtuals, everything must be negotiated on a case by case basis with their host winery."* For Haywire the initial challenge was in finding the capacity in the Okanagan Valley to keep up with their quick growth. Coletta comments: *"Everyone here is sort of at capacity - even though there was a short crop this year. There was not enough space for us in any one winery. So, our choice was to have wine in three or four different places or to buy tanks and to put them into an existing winery that had the actual physical space."*

Another dilemma experienced by at least one virtual was who would actually make their wine. For JoieFarm, it took them three years to learn how to make it themselves. Dinn explains: *"The winemaker we hired lost interest. The wines needed to be fixed by someone else after the first year. And, then that person we had a three-year contract with them and decided they didn't like the arrangement (and) decided to try to end it after six weeks which was very difficult. And, so the next winery we moved on to we had to be out after our second year." "By year three we were doing it without guidance. By, year four we were into our own facility without any consultants."*

Marketing and Sales

Sales are generated through licensee, direct-to-consumers through on-line sales and distributors. They also have the advantage of provincial and private retail sales. However, because they are virtual operations at host wineries they cannot sell their products direct to consumers through a retail tasting room, a challenge that limits consumer exposure to the brand. Cooper explains: *"I'm limited to under-the-counter sales, I have no shelf space. In the Township 7 tasting rooms the staff cannot promote the wine unless the customer asks in the first place, and it's sold under the counter."*

For JoieFarm, brand loyalty was built on their credibility as winemakers and experts in the food and wine industry. Dinn explains: "*We don't have a tasting room at all at the winery we sell exclusively to restaurants, shops and anything else that is bought through the site. We build brand loyalty…we used to have a cooking school and a guest house here as well and Heidi has written a book about that and there was a lot of credibility as far as a public image in food and wine quality."*

Michael Dinn continues to be his own agent and has the advantage of running his own distribution company. This strategy allows him to distribute face to face with his clients. For information on retail pricing for all three wineries please refer to tables 1.3.

Target consumers for Haywire Winery, JoieFarm and Black Cloud Wines are very similar. The three rely on licensees as a primary market for sales. The clientele who frequents restaurants in Vancouver are the primary consumers of their wines and word-of-mouth is crucial to repeat sales. They describe these consumers as, knowledgeable, highly engaged in wine, a traveler who mixes wine and wine country, wine aware, highly educated and affluent, aged 25 to 55+.

Social Media

Social Media is a crucial marketing tool for virtual wineries in British Columbia. The cost of print media has forced some of these virtual brands to look for free media exposure. All three use Twitter and Facebook to some extent.

Twitter is viewed as more productive and easier to deliver wine and event information on a frequent basis. Bradley Cooper explains: *"(Twitter) is the best in delivering sales, yes. When I send a call to action I get a pretty good response. I haven't had time to constructing an e-mail list. We're constructing our webpage. I'm getting fairly favorable response with Twitter. You would send it out multiple times rather than just one e-mail blast. I'm measuring anywhere from 2 to 5-percent response which I think is pretty good."* Coletta comments: *"We try to engage them electronically through our website. We have an e-mail blast. We're creating a Facebook and a Twitter account called "Wine Culture Canada" and that's a place where we talk about what's going on in food and wine in general across Canada, but we also use that as a vehicle to promote our wine in a big way."* For Michael Dinn, It's an option that doesn't appeal to him personally, but it is a part of his media mix. Dinn comments: *"I hate Facebook. I can't do it. I'm 43. It is something that I missed… I use twitter as a means of getting information out very quickly that doesn't require me to sit down and write a press release."*

Advantages & Disadvantages

The inability to engage consumers through a cellar door experience is generally regarded as the biggest disadvantage for these virtual brands in British Columbia. All three had similar comments regarding the need to find other means to create brand awareness about their wines. Cooper explains: *"Sales is hard, if you're not already a sales person. Sales is tough. Cold calls just developing the rapport with people creating relationships. Finding out the right person to talk to in the reseller or retail division and stuff like that or in a restaurant. I was in the restaurant and I thought I knew a lot of people but, they all died or moved away. So, going back in there I may as well have just been dropped into a city I didn't know."* Christine Coletta comments: *"The on-site experience isn't there. How do you engage them and how do you create an emotional connection to people. I think we do this through social media, website. We'll make them familiar with us."*

Michael Dinn comments: *"In a competitive marketplace where you don't have an actually physical place. Customer's limited exposure to the product and competitive marketplace. I think the hardest part of the wine business in general is establishing a brand image and then continuing to manage and grow that image I think that's done poorly more often than anything else"*

One of the biggest advantages described by all three virtual wineries interviewed was the low capitol cost for start up. Christine Coletta of Haywire, a public speaker on how to start a winery, believes many new start-ups underestimate the amount of money it takes to buy land and build a winery with a retail tasting room. She comments: *"I think people underestimate the cost of the consumer-retail space. Creating that is a million dollars. And, then operating it, staffing it, having 500 [sic] washrooms for handicapped and regular people, and the family washroom. The requirements we have are unbelievable. There is a huge cost to all of that and staffing it, pouring free wine for people, the licensing that goes along with it, etc."*

In terms of their impact on the BC wine industry, Michael believes virtual wineries have the ability to raise the quality of the wine in the region and the winemakers that produce them. Dinn comments: *"I've seen this in other regions like California and Oregon more specifically, where I see young winemakers who are good winemakers who lack the capitol because British Columbia is so bloody expensive to actually get into the industry. And, they'll use those facilities to make their own wines and use that as a jumping off point. So, once those guys got some traction with their brand they have to go into their own place. (This) creates holes in the existing wineries and generally what will happen is the valley will hire from without. It will bring more young talent into the valley more educated talent which will bring a steady influx of new blood opposed to just the same old people being recycled around."*

Licensing and Legislative Concerns

Similar licensing arguments expressed in Ontario were heard in British Columbia regarding the lack inter-provincial sales and regulatory red tape. All three virtual wineries expressed frustration with the government in what they described as its inability to open up other revenue streams for wineries in general.

We found two of the wineries interviewed in British Columbia had similar concerns regarding the minimum wine volume and vineyard acreage rules that stops virtual businesses from being licensed wineries. Coletta comments: *"Ludicrous rules about owning 2 acres of grapes, having [sic} 4000.4 litres of wine produced on your property. Ludicrous. if you're making wine from 100% BC grown grapes. There should be no limitations. Our industry is not going to get rare, small, niche or special unless you get all those things out of the way."* Cooper comments: *"In other jurisdictions, they don't care if you're in a garage in the back of your house as long as you're licensed. You get to go and make the wine you want to make and sell it. In California, you can have a winery anywhere. They don't really care."*

Michael Dinn of JoieFarm had a different point of view. He believes virtual wineries can exist in their current structure. He believes it is only fair since they are new and haven't invested as much as into the region as the older, established wineries. Rather Dinn believes the B.C. government needs to address old regulatory laws in order to bring in new ways of selling their wines. Dinn comments: *"I would like to see land base companies open up one shop in (the city). I think there would be a district in Vancouver where you can walk down that street and be able to purchase. You would have all of these BC wineries and shops with actual tasting rooms."*

Appendix Six - Questionnaire

The information collected from this questionnaire and corresponding interview helped to define the current virtual wine industry in Canada. Questions were multiple choice. The questionnaire was condensed to reflect the premise of the question only.

1. How many years have you been in the virtual wine industry?

2. How and why did you get into the virtual wine industry?

3. Who did you partner with upon entering the business?

4. Were you a participant in the wine industry prior to entering into the virtual wine business? What was your occupation?

5. What personal experience helped you enter the virtual wine industry?

6. What is the benefit of operating as a virtual winery relative to traditional operations?

7. How do you acquire the raw material for your wine? Select all that apply.

8. How do you decide where to source grapes from?

9. To what degree can you influence the grapes being produced for your wine?

10. New world virtual wineries exist in many forms. What would best describe your operations?

11. Who is your winemaker?

12. Where do you produce your wine? * Does not apply for Ontario wineries*

13. Is your winemaking process limited by your partner winery?

14. Where do you store your wine inventory?

15. How many cases of wine did your winery produce in its first year of business?

16. What is your volume today?

17. What influences may cause your production volume to fluctuate?

18. How many varietals are in your virtual winery's portfolio? What are they?

19. Looking at your marketing strategy as a virtual winery, what was your target price category, in Canadian dollars, for a bottle of wine in your first release/vintage?

20. What is your target price category today?

21. If there has been a price change, please identify the reason.

22. Who was your targeted consumer when you first established your business?

23. Who is your targeted consumer today?

24. Since virtual wineries are mostly an e-commerce based industry, how do you deliver the brand message to your targeted consumer?

25. Brand loyalty is often created through unique experiences at traditional bricks and mortar wineries. As a virtual winery, how do you establish that same customer loyalty?

26. What marketing methods do you use to reach your target consumers?

27. What are your greatest challenges in the virtual wine industry?

28. How does your winery sell the wine it produces?

29. Is there anything at a legislative level that you think can be done to support the industry?

30. What specific challenges in terms of sales would you identify as being unique to the virtual wine industry? Please be specific.

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