

Happy Valley, Summerland. Acrylic painting by Su Rickett

A Comprehensive Analysis of BC Wine Industry 2020 Sales by Market Share, Region and Grape

with comparisons to 2019 and 2017

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Introduction

Purpose and Scope

This is a detailed analysis of the distribution of BC wine sales in 2020 by market share of volume and value, region and grape and with comparisons to imports.

You will find tables and charts describing how BC wine performed in 2020, with comparisons to 2019 and especially 2017, when I originally set out to describe BC wine's market share. The results of the market segmentation are consistent with those used for 2017. In 2018 I gave a series of presentations to over thirty BC wineries that the published market share information understated the true depth and breadth of success the industry has achieved in the sectors in which it competes. 2017 data was also used to build a forecast model of the grape acreage required by 2030. This analysis refines, updates, and expands all these numbers including future grape acreage projections.

Market share is the mirror through which the wine industry sees reflection of its progress. It also enables comparisons to other wine regions. High-level market share information is useful for industry to government discussions but its importance declines with size of a winery (or group). For most small wineries in BC it is not that useful in and of itself. However, breaking down the market share into categories by price, wine style, format, region, grape and internal and external competition provides useful benchmarking data that can be used effectively to measure one's own business, no matter how small or large the winery is. This is the goal of this report.

If I may make an analogy: Any wine industry has the turning radius of a supertanker and an individual winery that of a cruise ship when compared to brewers and distillers who are speedboats in their ability to match product to changing consumer markets. Not that those segments don't have their own unique issues too. Wineries depend on the fruits of their own or growers' labour; they cannot make more wine than grape supply permits. A winery's turning radius (i.e., where they want to be and with what product some years into the future) is determined by grape supply (long radius) and winemaking (shorter radius) in order to plant the grapes to make the wine that they believe the consumer will want to buy at that future point. There's a chance on any given decision about what and how much to plant that it will end up not being what is needed at that future point, either too much or too little or not the right type, let alone normal risks associated with any farming enterprise. It can be a tough business². I appreciate that while at Industry level, sales may have shone in 2020, it does not necessarily mean that every winery had a great year, even those who gained in revenue may not have seen proportional increases to their bottom line as costs also went up to deal with COVID19.

This report takes a very close look at what happened yesterday (i.e., 2020) and concludes by taking a stab at what we might need down the road at the macro industry level of grape supply.

Unabashedly this report has three foci:

1. BC Market Share by price segment, region and variety, because much of this information is first-time analysis.
2. 750mL format, because it is the most important format for BC wine.
3. Independent BC Wineries, because they don't have business analysts on staff.

How to read and use this Report

The report is structured into sections that progressively drill down details about the industry. The many charts and tables with detailed information can be daunting, so start reading with:

- Who Should Read This Report – A guide to which sections are recommended depending on the reader's perspective whether from Government to industry or regional-level to individual winery.
- Then read the Headlines section and go straight to the relevant sections of most interest. It is not necessary to read sequentially from beginning to end.

Some of the data may initially appear contradictory; for instance:

- Market share has expanded, yet price has increased.
- Tourism in BC decreased, yet sales and value increased.
- Lower price wine declined in volume, yet BC market share increased.
- The BC wine segment with largest market share grew like Topsy, yet lost market share.

I point out in relevant sections why some things appear like this. No doubt some readers will have other good reasons or conclusions. There are additional comments and sources in Appendix 5.

Bear in mind that Price, upon which this report is based, is the output of many decisions and factors including reputation, quality, input costs, marketing, competition etc. which have often been made long beforehand. Regardless of any areas that this Report shows as a gap or having latitude for price adjustment, these other factors should be considered first. **At individual winery level the data should be applied carefully and specifically in the context of the winery's positioning, capabilities and goals** so there are no sweeping recommendations in this report that can be applied across the board to the diverse ecosystem of wineries here in BC.

Ultimately, BC wine success in any metric is dependent on its grape supply. That is the controlling factor on what BC produces and to which products and market segments it is allocated.

Acknowledgements

Christine Coletta and Sandra Oldfield who, independently of each other, started me down this road in 2017
David Rickett for computer technical support
Jack Mulholland for a key software suggestion
Su Rickett for the cover art

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Who Should Read This Report

This report is about data and there is lots of it. Not everything will be relevant to every reader. As a guide the following sections/charts/tables may be of most interest depending on your organisation.

- **Government**
 - The Big Picture - Section 1
 - BC Volume and Value share data – Sections 2 & 3, especially Figures 11, 17, 19 & 27
 - Variety Analysis – Section 8.2
 - Is there a “Grape Gap?” – Section 9
- **Industry at Provincial and Regional (sub-GI/other) Level**
 - BC Market Share - Sections 2 & 3
 - Competitive Position - Section 5
 - Your Region compared to peer Regions
 - Region & Variety - Section 8
 - Is there a “Grape Gap?” - Section 9
- **Independent Wineries**
 - All wineries - Use the data to provide context for annual benchmarking and even more so for multi-year strategic planning.
 - Independents vs Big 3 (“How do I position myself? Are there gaps?”) – Section 4.1
 - Competitive Position (“Because I need to know this.”) - Section 5
 - Is there a “Grape Gap” – Section 9
 - Growth focused
 - Band Market Share (“How much market is available?”) - Section 3,
 - Grape Market Share (“Which ones have most potential?”) - Section 8.2.1 & 8.2.2
 - Is there a “Grape Gap?” (“What do I have to plant to meet future need?”) – Section 9
 - Profit focused
 - Competitive Position – Section 5
 - Variety average prices (“Am I selling too cheap/too expensive?”) – Section 8.2.2 & 8.3
 - Regional average prices (“Are my prices in line with regional reputation?”) – Section 8.3.1
 - Wineries < 5,000 cases and new wineries
 - Market impact of a new winery (“Is the market too crowded now to enter or grow?”) - Section 3.3
 - Grape Market Share (“Which ones have most potential?”) - Section 8.2.1, 8.2.2, 8.3
 - Wineries > 5,000 cases
 - All Sections
- **Consultants, Marketing Agencies, Lawyers and others**
 - Sections appropriate to client need



Read This First

- **Primary BC data source is LDB. BC SKU level data has been uniquely extended by VARketing! to facilitate analysis. We have also commissioned other custom reports from LDB to create the comparatives to non-BC wine.³**
- **Dollars are calculated at nominal wholesale value. A winery's actual net revenue will vary depending on channel mix.**
- **BC wine in this report is defined as SKUs with VQA indicator and any wine made by an estate winery that is not registered in the VQA system e.g. non-VQA approved formats, private labels, etc.**
- **Imports are everything else INCLUDING ICB wines made by commercial wineries in BC, wines from other Provinces, etc. unless explicitly noted.**
- **In most sections there is a sub-section labelled "Observations". Thoughts here and generally in the document are entirely my own interpretations of the data; the reader may differ.**

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The Headlines

Highlights from each section

Section 1 – The Big Picture

- **Despite the meteoric rise in the cooler-type product, wine still has the same 17% market share of total alcoholic litres sold in BC as it did in 2017.**
- Wine annual litre volume growth averaged c. 2% between 2017 and 2020.
- In 2020, 61% of all wine sales in BC were sold in 750mL format but accounted for 73% of wholesale value.

Section 2 – BC Wine

- **BC's overall market share is 22% of total wine volume sold in BC and 33% of wholesale value.**
- In 2020, 95% of all BC wine sales were sold in 750mL format.

Section 3 – 750mL BC Wine in Detail

- **In 750mL, BC has a 34% market share by volume and 41% by wholesale value.**
- Rosé has highest category market share at 43% of litres and 53% of wholesale value. It also has the highest single segment market share at 77% by litres sold.
- Average wholesale price of a 750mL bottle of BC wine is \$16.18, up from \$14.83 in 2017.

Section 4 -Winery Demographics

- **Of total BC wine sales, Independent Wineries⁴ have a 53% volume and 60% value share.**
- Average wholesale value of a 750mL for Independent wineries is \$18.19.
- Median size of Independent Wineries is 1,250 cases sold in BC.

Section 5 – BC Wine – How Competitive is it versus Imports?

- **BC wine generates average wholesale \$16.18 per 750mL versus average import wholesale \$12.08.**
- In the market segments that account for most litres sold, BC wine has an overall premium over imports between 9-12%.
- France is the only country where BC wines are generally at a comparative discount. BC carries a premium over all other countries.

Section 6 – Other Formats

- **39% of total wine sold in BC is sold in non-750mL format.**
- BC has 2.9% volume share and 6% wholesale value share in this category.
- Other formats are 27% of total wholesale value in 2020.

Section 7 – Premiumisation Progress

- **BC wine has increased its average realised per 750mL bottle by 9.1% since 2017 versus a 6% change in BC's inflation index.**
- The three high end price segments combined have grown by 88% in volume and 92% in value over 2017.

Section 8 – Region and Variety

- Region
 - **Similkameen Valley DVA is the top premium region at wholesale value for 750mL and for total all-format litres.**
 - The Top 3 DVAs by volume are Okanagan Valley, Fraser Valley and Vancouver Island.
 - Despite having over twice the acreage planted, wineries in the wineries in the Similkameen DVA deliver less wine than Vancouver Island.
- Grape Variety.
 - **Red Blends are the single-largest component in total red wine 750l, Pinot Gris in White.**
 - For Independent wineries, Cabernet Sauvignon, Pinot Noir and Syrah are equally the most valuable red grapes in average wholesale value, Chardonnay in white grapes.

Section 9 – Is there a “Grape Gap”?

- **Demand for BC wine is tightly balanced to grape supply**
- A planting rate of 250 acres p.a. will barely maintain 2020 market share by end FY2026 if average actual yield is 3.75t/acre.
- It is unlikely that WGABC can achieve its Strategic Goal of 25% VQA market share by 2025.

Appendix 2 - COVID19 Impacts

- **BC’s overall volume growth over 2019 for 750mL format 4.5% vs 1.5% for imports, despite the challenges faced.**
- 61% of established Independent wineries saw a sales increase – larger wineries tended to do better than smaller wineries.
- Long-tail impacts include switch to wholesale pricing for Licensees. Overall industry revenue impact estimated at -2%. Impact on individual wineries will vary by channel mix.

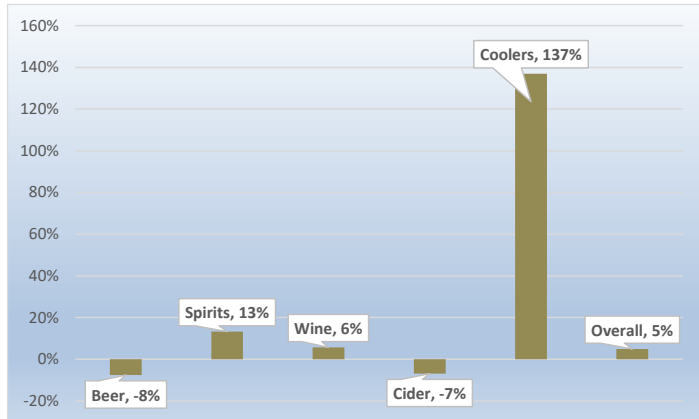
Appendix 3 – USA Red 750mL Sales Analysis

- **BC 750mL red wine outsells USA red by an overall ratio of 1.75:1**

1. The Big Picture – Alcohol Beverage Sales in BC

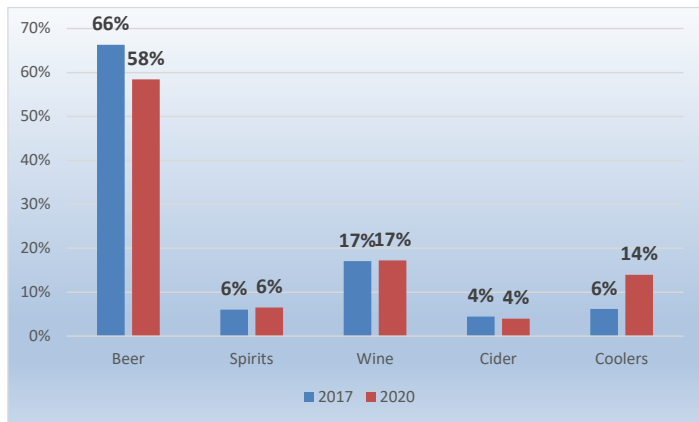
This section provides a broad overview of the total BC market as context to the detailed analysis in following sections.

Figure 1 - Change BC Litre Sales of Alcoholic Beverages 2017-2020



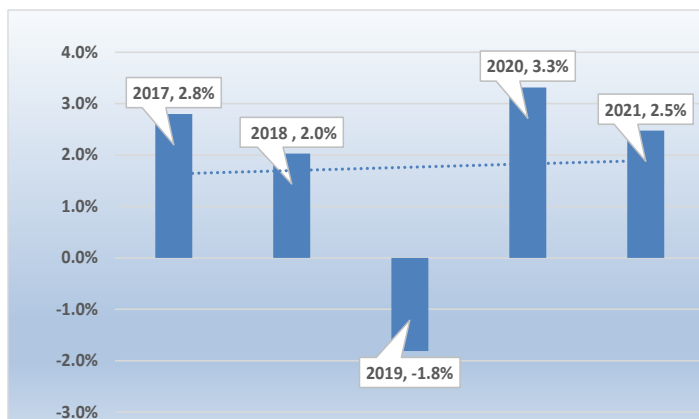
In the three calendar years since 2017 total litre sales in BC of all alcoholic products have increased by 5%. Wine has increased by 6%.⁵ The Canadian Institute for Substance Research at University of Victoria reports that up until the Pandemic start, overall per capita alcohol consumption was up by about 1%. the average BC wine drinker consumed the equivalent of two 750mL bottles of wine each week.⁶

Figure 2 - Litre Market Share of Category 2017 vs 2020



Wine has remained constant at 17% of total litres consumed. In other words, wine has not lost market share, despite the dramatic rise in the cooler category which seems to have been entirely at the expense of the beer category.

Figure 3 - Change in Total Wine Sales in BC - 2016-21

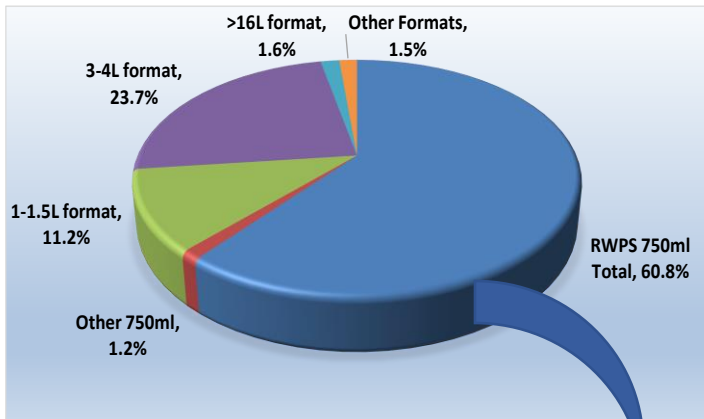


Over past five fiscal years sales in litres of all wine in BC have grown at an average rate of just under 2% p.a. All comparisons in this document from here on are calendar year (CY) comparisons unless noted. The dotted trendline shows the overall consistent growth rate. This is used in Section 9 for forward projections. This c.2% p.a. increase is stable compared to years prior to 2017 when it was growing at a faster pace. What is not often noted is that increases in litre alcoholic beverage consumption in BC are underpinned by the steady accretion rate to population. Since BC expects to add population at 1%+⁷ every year for the foreseeable future, absent any seismic socio-economic shifts it is not unreasonable

to see continued average growth.

A Comprehensive Analysis of BC Wine Industry 2020 Sales

Figure 4- 2020 Wine Sales by Format Share - Litres



Overall, a 1% wine Market Share equals 810,000 Litres or 90,000 9L equivalent cases across all formats.

Figure 4⁸ breaks down the total wine sales in BC by format. “RWPS” (Red, White, Rosé and Sparkling 750mL) **account for 61% of total wine sales** in the Province. This is a decrease from 2017 when it was 64%, possibly caused by a shift to larger formats as a result of COVID19 in 2020 and may snap back in coming years. See section “6. Other Formats”.

Figure 5 - Total RWPS by Wine Category

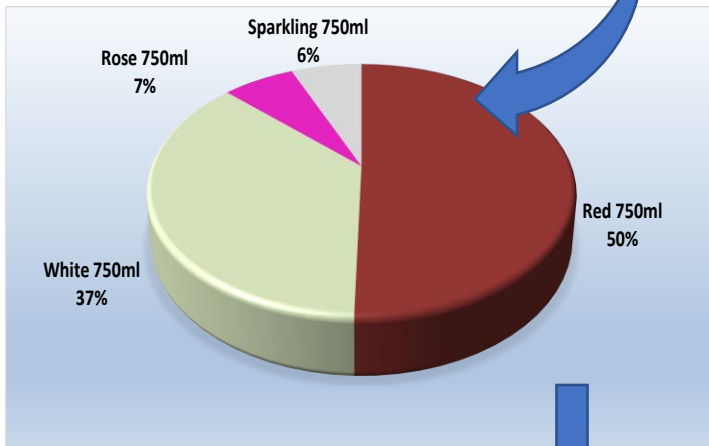
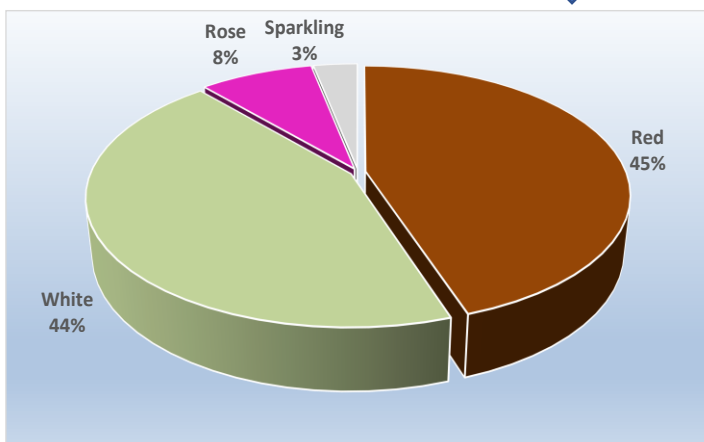


Figure 5 breaks down the 61% into mix by RWPS category. Red is the dominant category at 50% of total 750mL sales. Contrast BC’s sales mix in Figure 6 which shows its percentage of total litres sold by same category.

Figure 6 - BC Wine's Product Mix by Litres Sold



BC wine’s product mix does not quite reflect that of the overall market but is certainly within very reasonable bounds. The emphasis on white wine production flows through into market shares shown in Figure 11

2. BC Wine

Market share is just one metric of progress, not the be-all-and-end-all of measures. Market share, in particular, impacts considerations and stimulates discussion at government, industry and regional layers rather than individual wineries. The results in this report are outputs from the hundreds of individual decisions wineries have made about where to locate, grapes to plant (or buy), costs, etc. and business objectives.

Figure 7 - 100% BC Wine Sales 2016-2020 – 9L cases

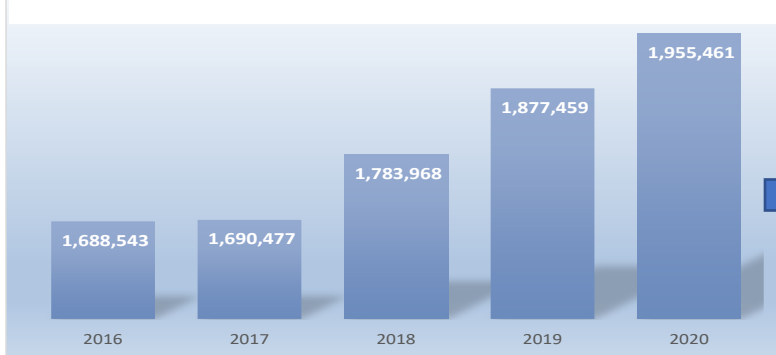
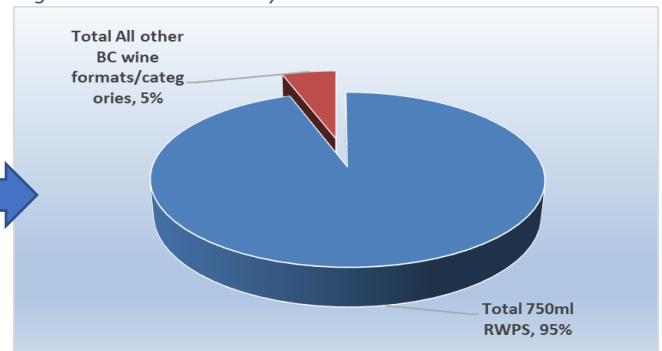


Figure 8 - BC Wine 2020 by Format



What should not be lost in considering market share is the 16% litre sales growth since 2016 as the chart above shows⁹, and especially growth since 2017, that indicates from a sales perspective in BC the industry is going in the right direction regardless of market share.

Market share is a good measure on relative progress of an industry, WGABC publish their version every quarter and industry. Typically, the domestic market share of an established wine producing country is in 60-80% range¹⁰. In BC local gross market share is considerably less but that is due to the structure of the industry as BC does not produce sufficient wine to serve all market segments and price ranges as other countries do. So comparing gross market share to other countries diminishes the perception of progress. As the following sections show, in areas where BC wine can be effective it has market share reaching towards global domestic standards. There is still room to grow to match those comparisons and that is the good news.

WGABC, understandably, only report “VQA” data as a % of total wine litres sold in BC. They do not count wine made by BC wineries that comes from a) wineries not in VQA program or b) wine made by an otherwise VQA winery not registered for VQA. Nor do they include non-VQA formats (such as 3L boxes etc.) in their data.¹¹

Figure 9 - Reconciliation of Actual Market Share to WGABC Published

	2020 Litre Market Share	2020 Wholesale \$ Market Share	2017 Litre Market Share
WGABC Published (VQA only)	18%	27%	17%
Add: 100% but non-VQA 750mL	3%	5%	3%
Add: 100% Non-VQA all other formats	1%	1%	
TOTAL BC Market Share	22%	33%	20%

95% of total BC wine litres sold are in 750mL format (and not all as VQA either) but as shown in Figure 4 above, only 61% of total litres are sold in this format (2017 64%). In other words, market share in the 750mL category must be much higher than published data when viewed in this context. As you will see overleaf and in Section 3, these market share numbers change dramatically as we decompose the data by price range and category.

Two points stand out in Figure 9:

1. When BC wine not sold with the VQA label is added into total volume market share increases to 22% over WGABC’s published number. This is the true BC wine market share for 2020 – Total BC wine litres sold/Total Litre Wine Sales in BC. WGABC numbers are based on a specific subset of sales. While 22% may not be a great comparison with global domestic wine shares it is growing steadily, no small feat for a young (in wine region terms) industry.
2. Wholesale dollar market share however is 33% - that is a very good number relative to litre share as it means BC is commanding a proportionately higher prices per litre sold.

Format by size of offering is the essential key to this analysis. Only 61% of the total market is sold in 750ml. In effect, BC wine is not competing in over a third of the total market. In the USA and other countries, the domestic market share is high because the home industry caters for all formats and price ranges, BC does not do this effectively in either case. Therefore, the true measure of market success should be what share of the market it has versus what is available to it. By looking through this lens, we will end up with some truly large market shares by segment that shed a very different light on just how successful BC wine has become – and what challenges may be in store.

Figure 10 shows the segmentation of all wine sales in BC in 750mL format by wine style. This represents 61% of total litres sold. Applying BC’s 750mL volumes in these categories shows market share by volume in the RWPS categories:

Figure 10 - 2020 Total 750mL Wine by Category Share sold in BC including BC, Imports and ICB

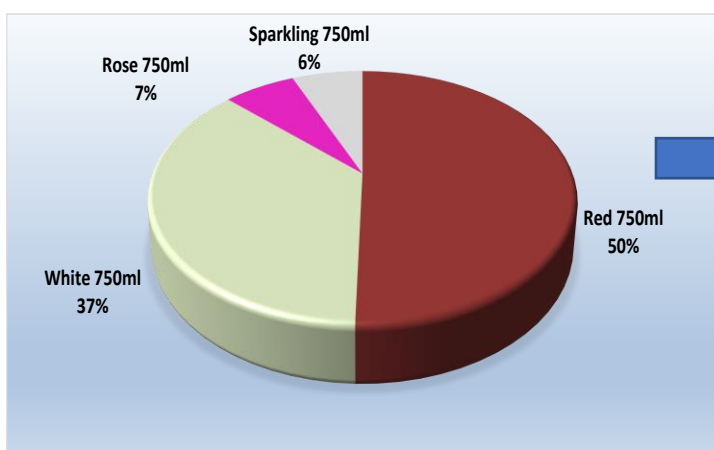
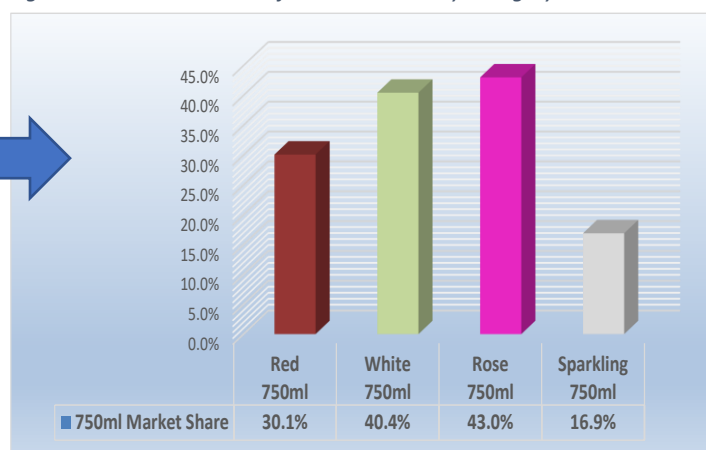


Figure 11 - BC Wine Share of 750mL Market by Category



Wine Category	2017 BC Market Share of Category	2020 BC Market Share of Category
Red	25.5%	30.1%
White	36.6%	40.4%
Rosé	36.9%	43.0%
Sparkling	11.9%	16.9%
Overall	29.6%	33.9%

Now the 22% overall market share morphs into the significantly higher number of 34%. BC’s RWPS market share has increased by 4% to 34% since 2017. Remember these four categories represent 95% of all BC litres sold in the province.

3. 750mL BC Wine in Detail

We now need to look at BC wine 750mL market share in closer detail. Core to this are the price bands. I recommend reading Note 11 in Appendix 5 before proceeding.



The bands were set in 2017 based on WHOLESALE pricing that reflected consumer price points when sold on by any retail channel. With that base year in mind, we can compare change of market make up by band and how BC's RWPS 750mL wines fare in each band, this creates 32 detailed market segments (4 wine categories x 8 Price bands)¹².

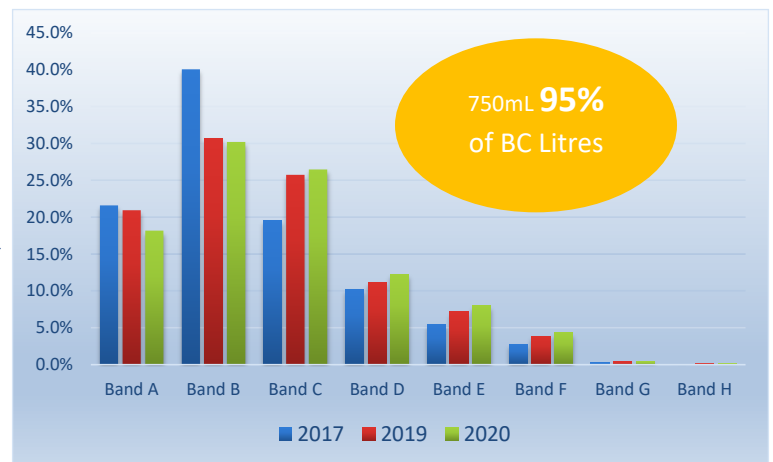
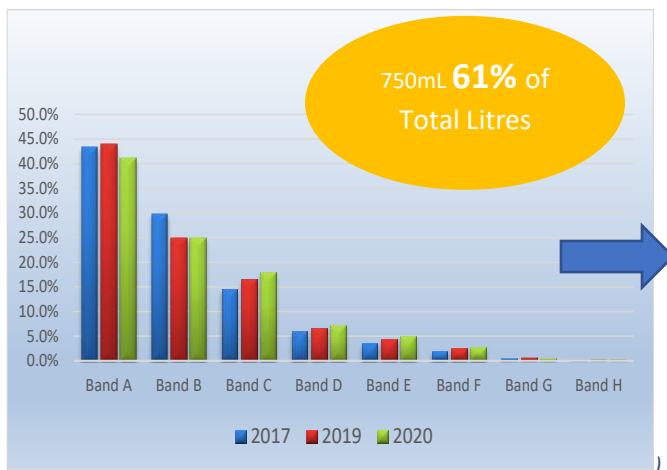
Figure 12 at right is reproduced at head of each subsequent section and in other places for quick reference.

Figure 12 - Wholesale Price Bands

	Wholesale \$/750mL
Band A	<\$11
Band B	\$11- \$14.60
Band C	\$14.61 - \$18.50
Band D	\$18.51-\$21.90
Band E	\$21.91 - \$29.20
Band F	\$29.21 - \$51
Band G	\$51-\$75
Band H	>\$75

Figure 13 - All BC and Import 750mL Wines by Band Mix (Litres)

Figure 14 - BC 750mL by Band Mix (Litres)



As might be expected volume drops as price moves higher and BC wine broadly echoes the general market. The comparisons show the differences between the base year of 2017, the last 'pre-COVID' year of 2019 and the COVID year 2020.

While Figures 13 and 14 show the similarities the next two show the differences as the market has changed over time

Figure 15 - 750mL RWPS Total Market Change 2017-2020

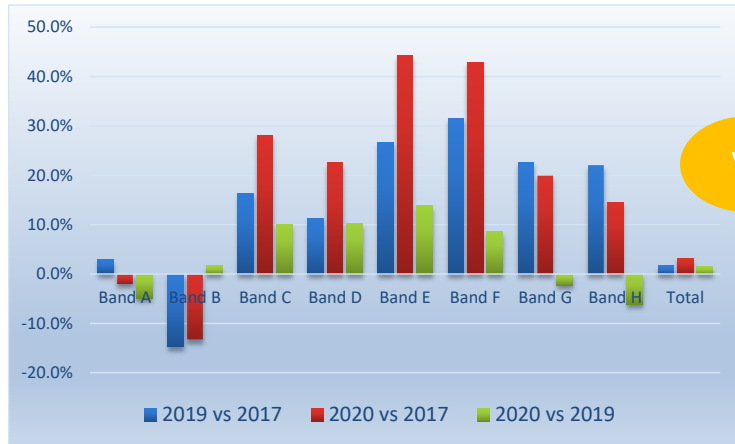
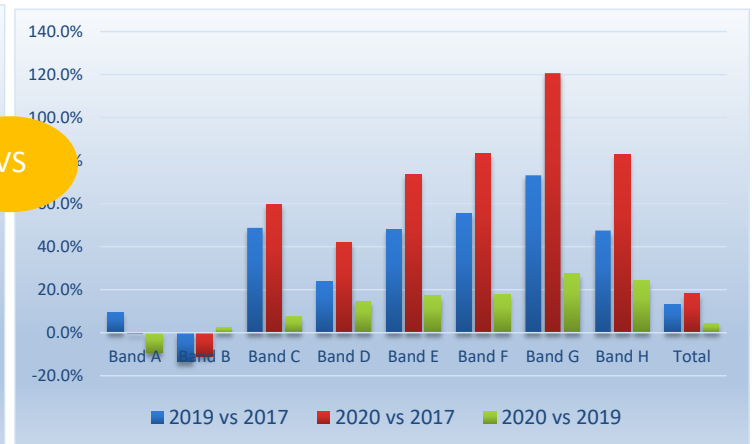


Figure 16 - BC 750mL RWPS Change 2017-2020



VS

In the bottom bands BC follows the general trends of the overall market band change except in Bands G & H. Overall the negative changes in Bands A and B are, in part, caused by price inflation (say, a wine increases in price over time and moves up a Band but that does not cause a change in total volume) and between 2020 and 2019 likely by COVID19 as consumers shifted to boxed wines, especially in the March-May 2020 timeframe. Between 2017 and 2020 BC % increases are much higher than the total market. Note that the big downward move in Band B occurred by 2019 so is unrelated to COVID19.

Figure 17 - BC share of Band by Litres (9L cases)

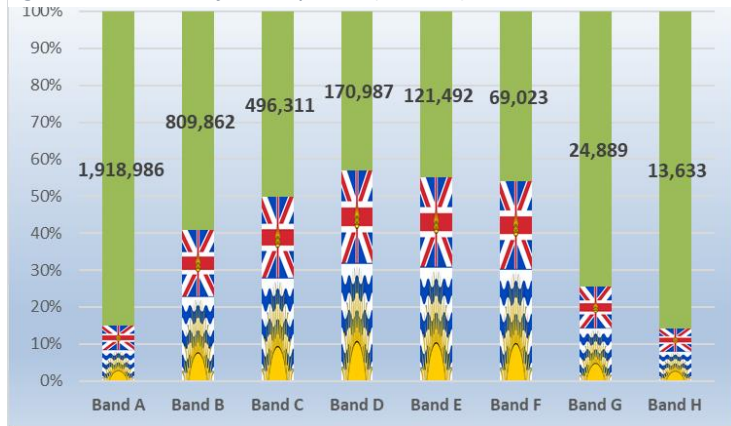


Figure 17 left shows the percent share of 750mL BC wine vs Imports and ICB in each band. Figure 18 below shows the make up in percentage terms of the share of each segment's total cases.

Figure 18 - BC vs Imports Band Volume Profile

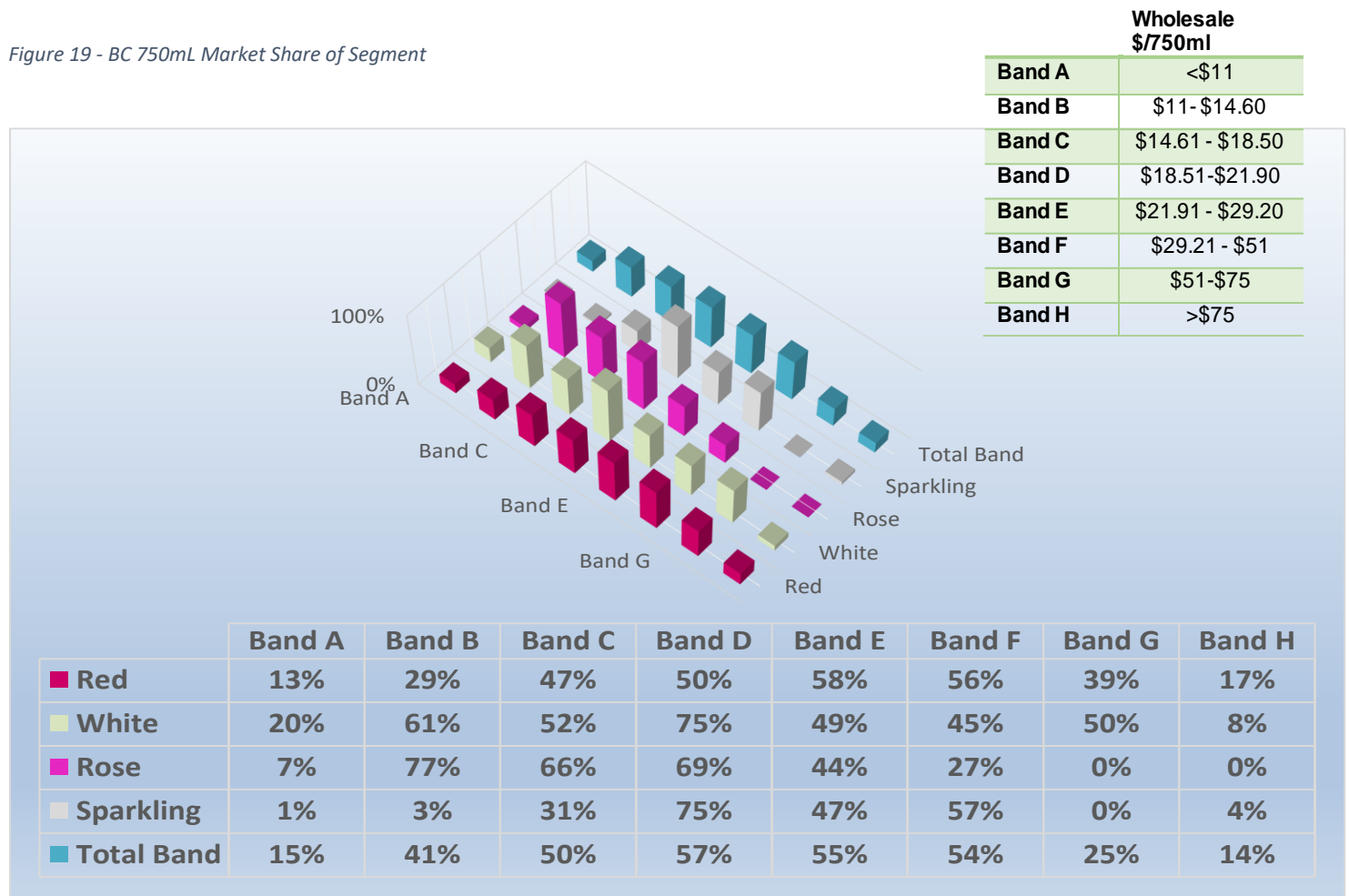
Price Band	Total Market	BC	Imports/ICB
Band A	41.2%	18.2%	52.9%
Band B	25.0%	30.2%	22.3%
Band C	18.0%	26.5%	13.7%
Band D	7.3%	12.2%	4.7%
Band E	4.9%	8.0%	3.4%
Band F	2.7%	4.4%	1.9%
Band G	0.6%	0.5%	0.7%
Band H	0.3%	0.1%	0.4%
	100%	100%	100%
Total 9L cases	5,481,442	1,856,257	3,625,184
	100%	33.9%	66.1%

BC's market profile is considerably different, and better in value terms, than Imports. If one compares Figure 17 above and Figure 19, BC wine in Bands D, E, F all have more than 50% market share of the Band. Those Bands generate only 12%, 8% and 4% of BC total litre sales respectively.

From here we can break down BC wine by Red, White, Rosé and Sparkling (RWPS) to give individual segment market shares as follow on the next page.

750mL market shares now transform into a much wider range. There are 32 market segments - these cover 95% of all BC wines sales. 85% of all 750mL BC sales are in red or white wines.

Figure 19 - BC 750mL Market Share of Segment



	Wholesale \$/750ml
Band A	<\$11
Band B	\$11-\$14.60
Band C	\$14.61-\$18.50
Band D	\$18.51-\$21.90
Band E	\$21.91-\$29.20
Band F	\$29.21-\$51
Band G	\$51-\$75
Band H	>\$75

It is generally accepted that BC wine cannot economically and significantly compete in the Band A market due to scale and costs. The same may be said of Band B Sparkling which removes five low penetration market segments from the 32 above. Bands G and H (especially) are small volume luxury segments requiring an approach that is very long term or is a niche component of an otherwise regular winery. That basically reduces the core accessible volume segments to nineteen. Of these, six are over 60% share (approaching global domestic share standards), five at over 50% share and only eight at under 50%, most of which are in the 40%+ range. In 2017 there were only seven segments in total over 50%, in 2020 this has increased to eleven. This might give the impression there's not a lot of opportunity out there and it should certainly be taken as a cautionary flag by wineries with high growth ambitions. All that said, there is a lot of good news in these numbers:

- Wine market in BC has maintained its overall share of total litres consumed in BC (Figure 2) and that is expected to continue. An expanding market opens new opportunities for BC wineries.
- Except for a few segments, BC wine largely tracks at less than global domestic consumption measures.
- The band that shows the most immediate cautionary flag is Band D. Wines in this band account for 12% of BC's total wine sales by volume. Even here there is likely no issue for red wines.
- BC wine is generally competitive with Imports in its 'sweet spot' price ranges, especially against peer world regions – see Section 5.

A Comprehensive Analysis of BC Wine Industry 2020 Sales

Figure 20 below reprises the market share by segment data but adds how BC wine’s market share has changed in the segment since 2017. Most segments show an individual increase, but you can see that the overall market share dynamic was already in place three years ago. Given cautionary flag on Band D above, notice how white wine market share has accelerated significantly in Band D and above. Rosé is the stand-out exception and this is discussed in “3.1 Rosé – BC’s Queen of Market Share”

Figure 20 - BC Wine 750mL Litre Market Share by Price Band and Category Segment 2020 vs 2017

	Red CY20	Chg %	White CY20	Chg %	Rosé CY20	Chg %	Spklg CY20	Chg %
Band A	13%	1%	20%	0%	7%	3%	1%	1%
Band B	29%	0%	61%	3%	77%	15%	3%	1%
Band C	47%	10%	52%	9%	66%	-2%	31%	2%
Band D	50%	4%	75%	18%	69%	-4%	75%	10%
Band E	58%	7%	49%	18%	44%	31%	47%	7%
Band F	56%	10%	45%	18%	27%	12%	57%	28%
Band G	39%	13%	50%	36%	0%	0%	0%	0%
Band H	17%	5%	8%	8%	0%	0%	4%	4%
Total BC Litre share of Category	30.1%	+4.6%	40.4%	+3.8%	43%	+6.8%	16.9%	+5.0%
Total BC Share of Wholesale \$	38%		48%		53%		20%	

**BC share of total
wholesale RWPS value
in 750mL is 41%**

Figure 21 - Average BC Wholesale \$ per 750mL¹³

	Red	White	Rosé	Sparkling	Mid-point of Band
Band A	\$ 8.17	\$8.97	\$ 8.70	\$ 9.73	\$8.50
Band B	\$12.54	\$13.01	\$13.18	\$13.51	\$12.80
Band C	\$16.16	\$16.25	\$15.98	\$16.45	\$16.55
Band D	\$20.20	\$19.74	\$19.81	\$20.11	\$20.20
Band E	\$24.73	\$24.04	\$24.32	\$24.53	\$25.55
Band F	\$36.36	\$35.93	\$30.30	\$34.08	\$39.60
Band G	\$57.19	\$61.86	NA	\$67.84	\$63.00
Band H	\$149.93	NA	NA	\$89.35	NA
Overall	\$18.19	\$14.11	\$14.85	\$19.75	

Average Wholesale \$ generated per 750mL	
BC Red	\$18.19
Imports including ICB	\$12.78
Imports Only	\$13.71

Average Wholesale \$ generated per 750mL	
BC White	\$14.11
Imports/ICB	\$10.36
Imports Only	\$11.34

See Section 5 for more comparison to imports.

Notes on Red and White 750mL wines

- Since 2017 the total volume in Bands A & B have declined by 2% and 13% respectively. Combined they still represent 66% of all 750mL sales (see Figure 18) compared with 48% of BC wine’s sales. Compared to 2017, BC’s Band A volume increased by 2019 then dropped back to 2017 levels in 2020. In Band B, BC’s sales are less than 2017.
- Red BC wine shows a 2% increase in litre sales in Band A but a reduction of volume in Band B of 12%. The Band A market share increase in Figure 20 is more a case of steady volume in a smaller category rather than a reduction in volume. Appendix 5, Note 11c shows how the band proportions have shifted since 2017.
- White BC wines showed a disproportionate drop in both Bands A and B of -6.6% (13,000 cases) and -16.6% (60,000 cases) respectively. The market share gain in Band B is the result of import sales in this segment dropping faster than BC sales. Figure 33 in Section 5 indicates that these reductions might be related to BC’s price premium in these segments.
- Both Reds and Whites gained in all other Bands. The gain in Band C for both Reds and Whites over 2017 is more than the total net loss in Bands A & B. There are three possibilities:
 - a. Price changes have shifted BC wine from Band B (especially) into Band C.
 - b. Consumers are buying up the price tier compared to 2017, or
 - c. A combination of both.
- Overall, compared to 2017, BC wine has achieved net sales increases of 129,000 cases for reds and 58,000 cases for whites. White wines have a significantly higher market share in most segments than reds. This suggests that there may be more market opportunity for BC red wines than white wines.

3.1 Rosé – BC’s Queen of Market Share

Rosé isn’t just the best performing BC wine category in market share, it virtually is the category in Bands B-D and has been for some time. Taking a look under the hood, so to speak, at more detail in this category:

Average Wholesale \$ generated per 750mL	
BC Rosé	\$14.85
Imports/ICB	\$9.87
Imports Only	\$10.48

Figure 22 - Rosé 9L case sales - BC vs Imports, by Band

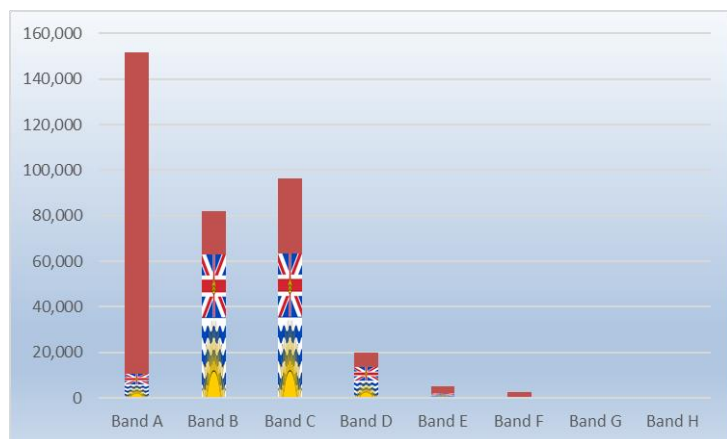
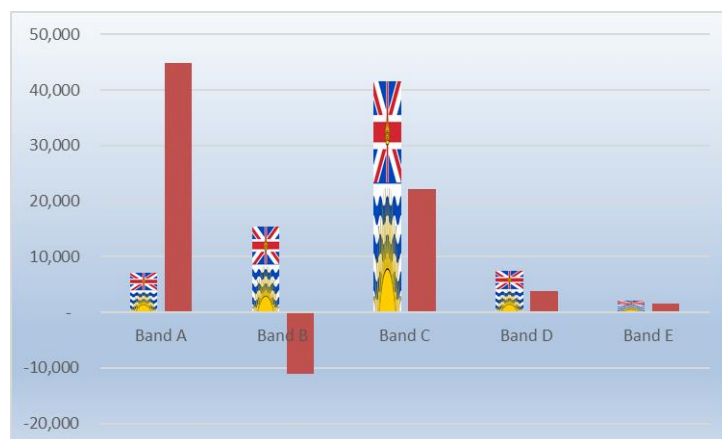


Figure 23 - Rosé 9L case sale Change since 2017 Bands A-E only



A Comprehensive Analysis of BC Wine Industry 2020 Sales

- Total Import Sales Growth in Litres 2020 versus 2017 = 45%.
- Total BC Sales Growth in Litres 2020 versus 2017 = 93%.
- BC Sales Litres as ratio to Import Litres 3:4, i.e., for every seven litres sold in 750mL format three of them are from BC.
 - a. Can only speculate on the Import drop in Band B sales. Possible that changes in wholesale price moved some of the volume downwards into Band A and upwards into Band C. The net change for Imports over the three bands is positive.
- The BC reduction in market share in Bands B & C over 2017 is caused by Imports growing faster than BC in these two categories as opposed to a loss of volume by BC. BC's success in developing the consumer's appetite for Rosé sales may be stimulating demand to try Rosés from other markets or, more likely, not having enough supply available – the impact of the latter is to force consumers to try imports. Given that the whole market grew, I would posit that the small reduction in very high market share should not be interpreted as something going radically wrong. If BC supply is constrained, then it's likely that coming years will see further market share shrinkage. In this specific case, I feel that the shrinkage from an ultra-high market share to be a healthy positive rather than a negative.
- Bands E & F are small volume segments compared to A-D but both have experienced very high growth rates (234% and 1700% respectively) since 2017 indicating a small market for premium and potentially super-premium Rosé is developing. Bands G & H are immaterial volume but is all imports.

3.2 Sparkling Wine

BC's smallest category of 750mL is no shrinking violet either. It is the smallest of the major categories but carries the highest average wholesale price at \$19.75/750mL. As a proportion of BC's total production it aligns closely with the category's proportion of sales in BC from all countries. Sparkling has the smallest premium over imports of any of the RWPS categories.

Average Wholesale \$ generated per 750mL	
BC	\$19.75
Imports/ICB	\$16.04
Imports Only	\$16.63

Figure 24 - BC Sparkling by Share of Litres in Band

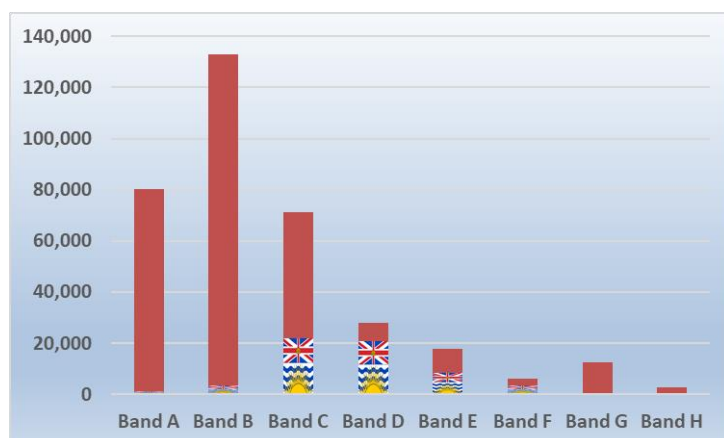
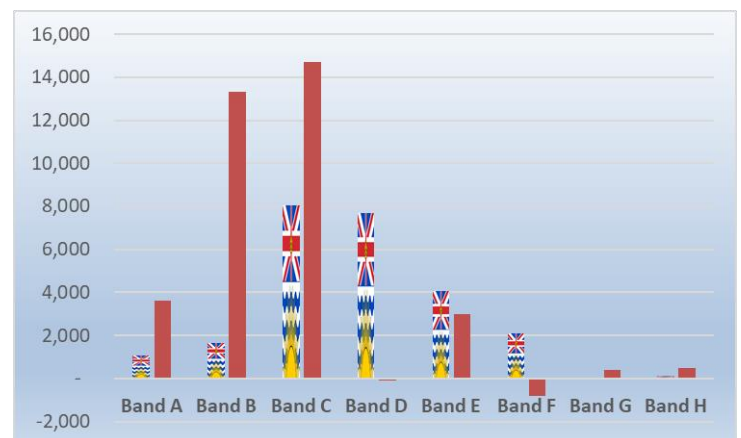


Figure 25 - BC Sparkling by Volume Change since 2017



- Total Import Sales Growth since 2017 = 13%, but from much higher base of sales.
- Total BC Sales Growth since 2017 = 71%.
- BC grew most in Bands C, D & E but was eclipsed by Import growth in Bands A-C overall.
- BC has, effectively, no presence in Bands G & H.
- In the three years from 2017 to 2020, BC 750mL litre sales grew in a 3:2 ratio to imports.

French Champagne is the world’s benchmark for “Methode Traditonnelle” sparkling, a method widely used in BC sparkling community. Champagne sales in BC in 2020 generated an average wholesale price of a 750mL bottle of \$72.15. By volume its sales likely comprise 95% of all import sales in Bands F-H. Champagne accounts for 50% of all sales by volume in BC of all sparkling wine from France.

In consumer popularity, Italian Prosecco has become a major category over the past decade. Average wholesale 750mL price is \$13.89. By volume, Prosecco’s sales would account for 90% of Band B imports, but more likely its share is around 60% of total Band B & C sales combined. Prosecco accounts for 72% of all sparkling wine from Italy sold in BC.

3.3 Impact of High Market Share on Future Opportunity

Given rising market share, the question becomes can the market absorb more new wineries or grow existing ones for the BC market? Firstly, for 750mL RWPS 1% of total market share is 55,000 cases which breaks down as follows in Figure 26.

Figure 26- 1% of Total 750mL Market by 9L Case Volume

	Total 9L 2020	1%	Red	White	Rosé	Sparkling
Band A	2,256,411	22,564	11,057	9,188	1,516	804
Band B	1,370,277	13,703	6,659	4,897	819	1,328
Band C	987,577	9,876	3,646	4,555	962	713
Band D	398,118	3,981	2,782	724	197	278
Band E	269,957	2,700	1,958	513	50	179
Band F	149,828	1,498	1,248	164	25	62
Band G	33,377	334	184	25	0	125
Band H	15,897	159	122	10	0	28

Case 1: A new 5,000 case winery produces 750mL wines all priced in Band C. Using the overall BC ratio, it would sell 2,250 cases of red, 2,200 white, 400 Rosé and 150 sparkling. Assuming this all sold was as incremental sales to total BC wine then this hypothetical winery would contribute the increments on right to BC market share. In other words, given that most start-up Independents are much smaller than this and will have pricing spread over a wider spectrum, an individual winery start-up should not be overly inhibited by the overall market share numbers.

Overall	0.1%
Band C	0.5%
Red	0.6%
White	0.5%
Rosé	0.4%
Sparkling	0.2%

Case 2: An existing 10,000 winery decided to, say, doubled its sales of Pinot Gris already priced in Band B, from 2,000 cases to 4,000. At current market size that is only an increase of 0.4% in segment market share.

Case 3: Lastly, if by some magical process of grape supply, a 55,000 case winery was put down overnight in BC and sold all its wines within the year, it is still only an overall market share increment of 1%.

In Bands F-H the current market share number may be more of an obstacle if dependent on BC consumers or direct visitors to the tasting room. Relative to lower Bands these are tiny markets. To add 1% market share to BC’s existing all it takes in Band H is an additional 159 cases sold! Premium wines in Bands F-H should be BC’s flagships for developing markets outside of BC, especially internationally. There is no reliable external data to assess this progress.

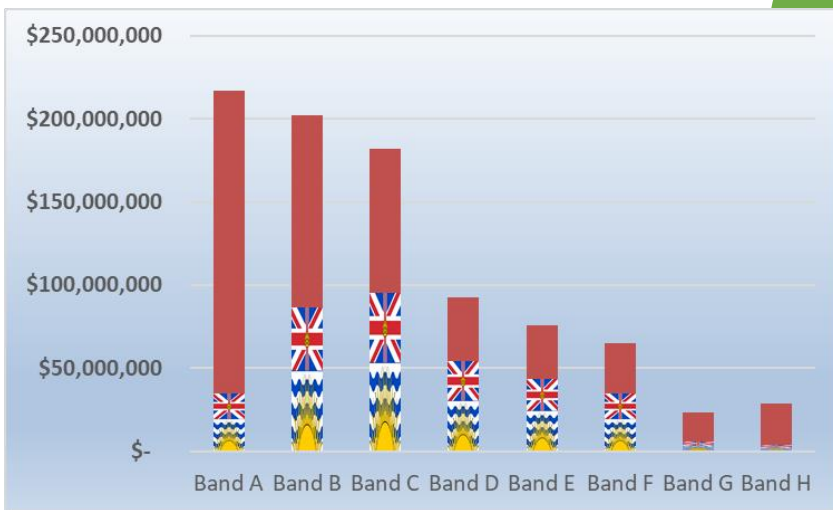
All in all, the high market shares, in and of themselves, should not discourage new entrants and existing winery expansion but the numbers show the market is crowded and there needs to be more than a little forethought about the sales and marketing process to ensure it leaves the cellar in good time. And remember that overall BC market share still tracks below that of global wine regions.

3.4 Increasing Volume Share Flows through into Value Share

BC has high market shares in most 750mL segments AND has a premium price in all 750mL segments – to have both is a great place to be in any market. Consequently BC's share of total wholesale revenue is higher than market share.

At standard wholesale value, 750mL BC wine in 2020:

Figure 27 - Wholesale \$ - BC vs Imports/ICB share of Band



- **\$360million**
- **41% value share**
- **34% volume share**

In 2017 BC wine's volume share of 750mL was 29% so there has been good growth of market share in past three years. Given the preponderance of 750mL production and without significant expansion of other formats, growth of BC's 22% overall volume share of the BC market may stall if this format's share of total wine consumption continues to decrease.

3.5 Observations

High market shares are in one respect very good news for the BC wine sector. They show that the consumer has confidence in its products and, given increasing share, that it is receiving loyalty from those consumers despite any obstacles such as local price premium (see Section 5). On the other hand. The BC wine industry is extremely dependent on this province for the great majority of its sales. Therefore, any change in consumer confidence caused by industry issues or, more reasonably, by external socio-economic impacts unique to BC could have a serious downside impact.

Some considerations:

1. In a crowded market, Brand, Marketing and smart Channel Management (that includes DtC) are key.
2. Markets can be zero-sum at any level of share. You do a better job and take market away from someone who doesn't means that individual winery growth can happen even when overall growth does not.
3. For most small Independents the market share is a non-issue – a new 1,200 case winery is a rounding error in the middle bands. The market has the space to absorb more new wineries.
4. For those focusing products in Bands F-H – commercial success is largely going to found with customers outside of BC (either as visitors/DtC/Export). The overall litre volumes in the BC market, even with visitors, might be challenging.
5. Assuming grape supply and BC is finely balanced (see Section 9), market share numbers would automatically adjust downwards over time in any of the following scenarios that divert material quantities of products from the BC home market:
 - a. DtC outside of province – Probably the most important issue that requires government leadership at both federal and provincial levels. Easier access to rest of Canada reduces the vulnerability to hiccoughs in the BC market.
 - b. Significant increase in export of wine outside of Canada.
6. If BC wine production stays static at current levels the market share will also auto-adjust downwards over time as the overall market expands and imports fill the supply gap.
7. The small Band A market share increment was more a result of a decline in imports in this category. Given conditions in 2020 (Appendix 2) this likely represents a shift from 750mL to boxed wines. There would have been some impact on Band B as well from this.
8. It is curious that in Figure 21 average red wine prices are lower than white in Bands A-C. I would have expected the reverse. Figure 33 shows that BC's premium over imports on red wines is significantly lower than whites in these bands which suggests that there may be some upward pricing latitude for reds. Conversely, the market shares in Figure 19 indicate that these lower premiums have not generated increased market penetration as these bands show some of the weakest share indicators for reds. One reason could be that there is insufficient supply from BC into the market in these bands.

4. Winery Demographics

The BC wine industry is shaped by two dynamic segments; one segment consists of wineries and brands of the large combine groups (Arterra, Mark Anthony and Peller – the “Big 3”) and the other of a very diverse set of Independent wineries¹⁴ ranging in size from just a few cases to a few wineries that might be considered, at the very top end, as “medium-size” wineries in the US market. This report highlights where Independent wineries are positioned versus Big 3. While the Big 3 can be perceived as predominant in 100% BC wine this is not actually the case by the numbers when ICB wines are excluded. BC’s independent wineries collectively sell more litres (in BC) and have an even higher share of wholesale dollars as the following charts show:

Figure 28 - Independent vs Big 3 Litre Market Share

Figure 29 - Independent vs Big 3 Wholesale \$ Market Share

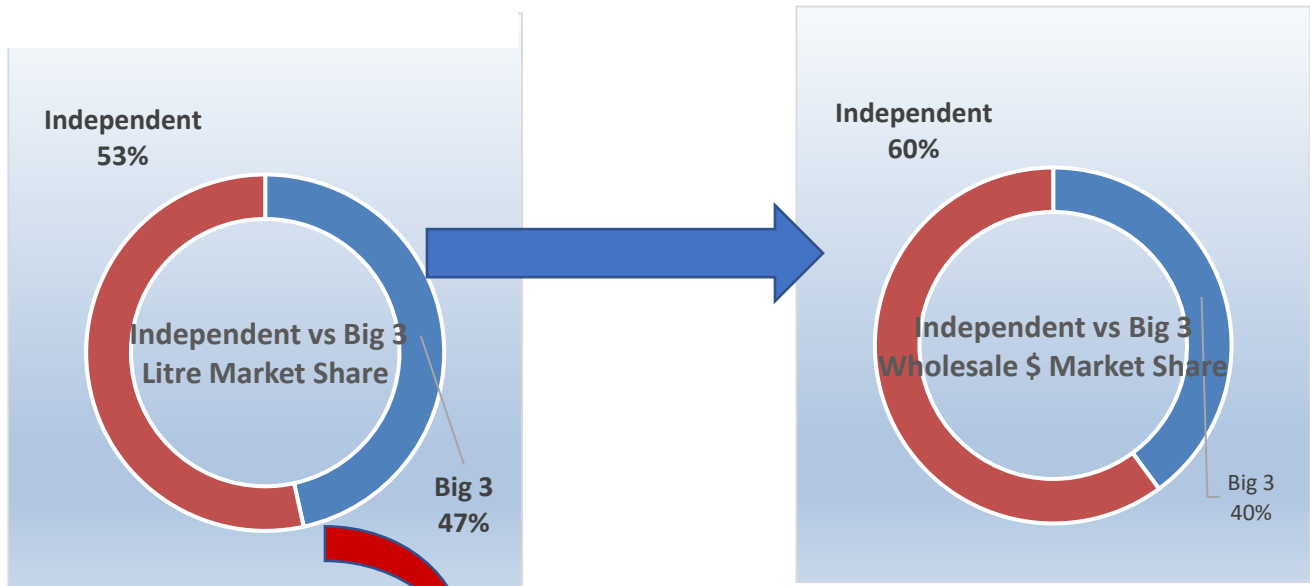
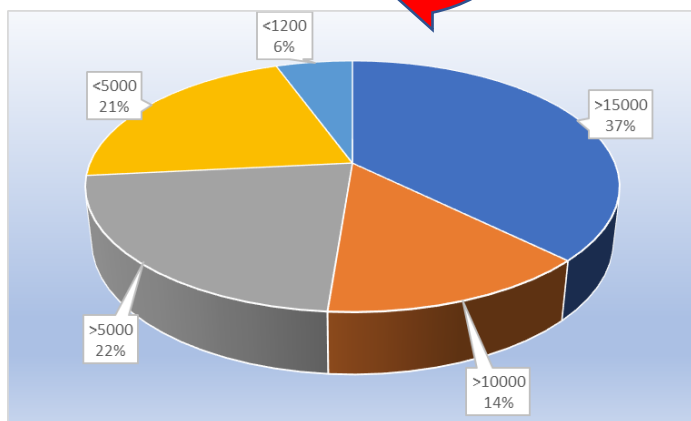


Figure 30 - Independent Winery Demographics by Size and % of Volume Sold



Segment (Cases sold in BC)	# Wineries
>15,000	13
>10,000	13
5-10,000	35
1200-5,000	86
<1200	128

There were 274 Independent wineries with some activity in 2020. The median size of an independent BC winery is c.1,250 cases but the range is 0-50,000+. The chart above shows the percent of sales from wineries at certain case sizes. Table next to chart shows number of wineries in each segment. Between

2019 and 2020, eighteen ‘startup’ wineries went from under 500 cases shipped to over 1250.

4.1 Independent Wineries vs the Big 3

Independent wineries not only compete against imports but also against the large combines. In the context of the overall industry the presence of both large combines and a wide range of independents is a good feature. The large combines' brands and wineries include some of the oldest in the industry. The combines also are innovative in wine style for the broad market, freeing Independents to focus on what best fits their terroir. Certainly their overall size and scale gives them significant influence. It could be said that the combines provide 'aircover' to the Independent sector, especially in its early years. Essentially both segments exist in a state of 'coopetition' with each other. Figure 31 below clearly shows where the two segments differentiate themselves in the spectrum.

	BC Overall	Big 3	Independent
Average Wholesale per 750mL Bottle RWPS	\$16.18	\$13.82	\$18.19

Independents have a higher average wholesale dollar than Big 3, so not unsurprisingly this flows through to the value share in Figure 29 above.

Figure 31 - Independent Share of Band and Channel by 750mL litres

2020 Litres	Channel Share	Price Band							
		A	B	C	D	E	F	G	H
1. Total BC Share vs Imports & ICB		15%	41%	50%	57%	55%	54%	25%	14%
2. BC Independent Share of Band ¹⁵		11%	44%	74%	69%	83%	70%	42%	38%
<i>BC Independent Share of Channel¹⁶</i>									
3. GLS ¹⁷	20%	0%	23%	49%	23%	69%	70%	15%	6%
4. Licensee	10%	9%	51%	81%	83%	91%	80%	36%	38%
5. Private Retail	38%	9%	41%	73%	56%	76%	55%	7%	2%
6. Direct	32%	74%	80%	88%	86%	85%	72%	46%	82%

The table above contrasts Independent versus Big 3 market shares. Yellow highlighting are those segments where Independents have a >50% share of the segment.

- Line 1 – Total BC share of segment – all wineries. Blue shading highlights where BC wine in total has >50% of band
- Line 2 – Independents share of Line 1
- Lines 3-6 – Independents' share of band sold through each major channel. The Channel Share % column is total share of total BC sales held by channel for all wineries

The shading pattern indicates a donut effect whereby the Independents hold a convincing strength in the central categories while the Big 3 serve the lower Bands of the market and, to a lesser extent, the higher Bands – albeit volumes here are very small. One of the advantages held by the Big 3 is their sales force and scale of production which makes them more effective partners for large scale retailers and to reach into lower-end accounts in Licensees and private retailers.

4.1.1 A Perspective on ICB

The presence of ICB wines often draws ire¹⁸ from the Independent sector for being positioned on retail shelves in a way that may make customers believe they are buying BC wine, especially where the core brand name has the same as a genuine BC wine from the same winery. The following points provide perspectives on the position of ICB wines in the market and their relationship to 100% BC wine.

- ICB fulfills a need in the market that BC-grown grape supply cannot meet. Given there is economic value generated to BC by this source, albeit very modest compared to estate production, it is generally better to have it than not at all.
- All the Top 20 overall volume BC SKUs (i.e., ICB or BC) are ICB 3-4L boxed wines.
- Of the Top 20 SKUs ranked by wholesale value generated, 5 are 750mL. 4 out of these 5 SKUs are owned by Big 3.
- Of the 28 750mL ICB/BC SKUs selling over 10,000 cases, only 11 are ICB.
 - The Top 3 are all VQA owned by Big 3, two of which are brands rather than wineries.
 - Three Independents have 750mL over 10,000 cases.
- 100% BC wine from all wineries in 750mL format sells 4x the litres of 750mL ICB.
 - Independents collectively sell 2x the litres of 750mL ICB.
- ICB in 3-4L boxes sells 40x the litres than that of BC wine in 3-4L boxes.
 - ICB have 82% market share of total 3-4L sales.
- Most ICB 750mL is sold in Band A at a lower price than average for imports in the band.
- ICB 750mL account for c.21% of total Band A litres – which puts BC suppliers at a total market share of 36% in that Band.

ICB is not competition for BC's 750mL market, it is competition for Imports and serves market segments (price and format) that would otherwise be filled by imports.

4.2 Observations

1. The potential strategic downside of the large ICB presence is to dis-incent BC wine from venturing into this space in price and/or format.
2. Gaps:
 - a. Band A¹⁹ is obviously a market gap for Independents but not an easy one to fill. Perhaps it requires a different type of winery or grower set up, planting on less expensive land (not necessarily in the Okanagan) and harvesting at higher tonnages than is the BC normal. Production from this type of source might also be fed into Other Formats where BC share is low. See Section 6.
 - b. Another gap is the low penetration of sales in Bands B-D for Independents in the GLS system. There have been many complaints about this from industry and recommendations how to solve it²⁰.
3. Risks
 - c. Licensees: On the other side of the coin, there is a dependence in Bands C-F on Licensees. The very top slice of that market in terms of reputation is an important partner in proselytizing BC wine in general and especially higher end wines. Wineries were incented to work closely with them not only for that evangelisation but also because the Licensees paid a higher price than retail. This additional winery revenue source was removed in 2020. As Licensees recover from COVID19, hopefully they will take advantage of wholesale pricing and go further in adding BC wines to their wine lists.
 - d. Direct: This is not really a risk *per se*, but as COVID19 has demonstrated there are threats to direct business. The good news is that wineries have been forced to adjust for COVID19 and should emerge stronger in their ability to maintain or increase these levels of direct sales.

5. BC Wine – How Competitive is it versus Imports?

Overall **average wholesale selling price** for BC wines in the 750mL RWPS categories is **\$16.18** versus **\$12.08** for imports and ICB and \$13.04 for Imports only. However, it is extremely important to read further into this section as a combination of category volume mix in each Band and ICB, in particular, can distort the impact when compared to BC versus Imports alone by RWPS category. Figures 32 & 33 compare total BC to Imports and the 4 tables in Figure 34 break down the comparison for Independent wineries. Figure 35 compares BC to only imports and excludes ICB.

Wholesale \$/750mL	
Band A	<\$11
Band B	\$11- \$14.60
Band C	\$14.61 - \$18.50
Band D	\$18.51-\$21.90
Band E	\$21.91 - \$29.20
Band F	\$29.21 - \$51
Band G	\$51-\$75
Band H	>\$75

Figure 32 - BC 750mL Premium vs Imports by Band

	BC Avg \$/750mL	Import/ICB Avg \$/750mL	BC 2020 Premium or Discount	BC 2017 Premium or Discount
Band A	\$8.64	\$ 7.91	9%	8%
Band B	\$12.87	\$11.86	9%	2%
Band C	\$16.19	\$14.49	12%	3%
Band D	\$20.05	\$18.38	9%	-2%
Band E	\$24.60	\$22.14	11%	1%
Band F	\$36.17	\$36.12	0%	-5%
Band G	\$57.88	\$58.04	0%	1%
Band H	\$ 144.03	\$150.24	-4%	-30%
Overall	\$16.18	\$12.08		

No one expects a BC made wine to be able to be made and sold less expensively than wine from regions around the world with much lower costs. In today's market shopping local and supporting BC made products is important to the consumer and they are willing, largely, to pay a premium in any retail sector. The average premium in Bands A-E shows a considerable improvement over the average premium in 2017. This has been achieved with increased market share in most Bands. Optically, these levels of premium appear to be within a reasonable range. But this is too simple a view and needs a further breakdown that tells

a more detailed story.



Figure 33 - BC Premium over Imports by Segment

	Red	White	Rosé	Sparkling
Band A	2.7%	15.6%	13.9%	6.3%
Band B	6.0%	14.0%	22.9%	5.7%
Band C	7.3%	16.0%	6.6%	16.9%
Band D	9.6%	10.0%	8.4%	7.3%
Band E	16.8%	-2.1%	3.8%	3.8%
Band F	0.2%	3.0%	0.9%	-16.2%
Band G	-3.4%	8.0%	NA	18.8%
Band H	1.4%	-54.1%	NA	-45.8%

Table shows the average BC wholesale premium per 750mL bottle in each band by category. Comparing this table to Figure 32 and excluding Band A as it is not the preserve of the Independents generally, it appears there might be some upward pricing room in the green highlighted segments where BC premium is less than the overall band premium. Conversely, where the premium in this table is greater than the overall band the elements are highlighted in orange.

The volumes in Bands F-H are very small and have very different consumer dynamics as luxury goods. For these Bands, I would not put too much emphasis on the premium/discount above.

Bands B-E account for 90% of all 750ml litre sales by Independent wineries.

The following four tables show premiums for Bands B-E, which are the key volume segments for Independent Wineries²¹.

- The Band Mid-point (MP) is literally that, halfway between the bottom and top end of Band.
- Independent Average is the overall Band average for Independent wineries.
- % Vol and %Val Below MP are the amount and value of 750mL wines sold from bottom of Band to its MP. The balance is sold above the MP. These two values generally mirror each other, typically within 3%. Not unexpectedly most volume occurs below the MP but there are exceptions in white, Rose and Sparkling.
- Premium/Discount columns show the percentage premium or discount compared to the overall average of Imports (including ICB) for those wines whose wholesale is below the mid point and those sold above. A minus sign indicates that there is a discount against average imports in the band.
- USA Reds is an additional column for the first table only (See Appendix 3) and compares the overall average for USA red in the Band against the Independent Band average. It is likely that if this column was done for say, Argentina, then the premiums would all be much higher.

Figure 34 - Independent Wineries Premium/Discount to Imports (4 tables)

Independent Red					Premium/Discount to Import		Band Average BC Red to USA Reds
Band	Band Mid-Point	Independent Band Average	% Vol Below MP	% Val Below MP	Below MP	Above MP	Overall Band Premium
Band B	\$12.80	\$12.97	51%	48%	4%	16%	8%
Band C	\$16.55	\$16.35	55%	52%	3%	16%	3%
Band D	\$20.20	\$19.97	69%	67%	6%	14%	4%
Band E	\$25.55	\$24.72	65%	62%	11%	28%	4%

84% of Independent Red 750mL litre sales

Independent White					Premium/Discount to Import	
Band	Band Mid-Point	Independent Band Average	% Vol Below MP	% Val Below MP	Below MP	Above MP
Band B	\$12.80	\$13.14	38%	35%	6%	21%
Band C	\$16.55	\$16.28	64%	61%	11%	26%
Band D	\$20.20	\$19.72	77%	76%	8%	17%
Band E	\$25.55	\$23.68	92%	91%	-5%	9%

94% of Independent White 750mL litre sales

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Independent Rosé					Premium/Discount to Import	
Band	Band Mid-Point	Independent Band Average	% Vol Below MP	% Val Below MP	Below MP	Above MP
Band B	\$12.80	\$13.47	27%	25%	15%	30%
Band C	\$16.55	\$15.78	67%	65%	2%	13%
Band D	\$20.20	\$19.67	74%	73%	6%	13%
Band E	\$25.55	\$23.46	100%	100%	0%	19%

96% of Independent Rosé 750mL litre sales

Independent Sparkling					Premium/Discount to Import	
Band	Band Mid-Point	Independent Band Average	% Vol Below MP	% Val Below MP	Below MP	Above MP
Band B	\$12.80	\$13.62	14%	13%	-3%	8%
Band C	\$16.55	\$16.24	61%	58%	9%	25%
Band D	\$20.20	\$20.17	61%	59%	3%	15%
Band E	\$25.55	\$25.07	58%	55%	0%	14%

91% of Independent Sparkling 750mL litre sales

If we say that a 10% to 15% premium for 'local'²² is fair guide for a made-in-BC premium, then green shading indicates where BC is very competitive against imports and orange where its premium is skewed upwards. Premiums between 10-15% are unshaded. In the table for Reds, for instance it shows BC is consistently competitively priced, maybe even under priced at times, against the major US competition. As an individual winery you can compare your wholesale price to where you fall in the Band MP and look up what sort of premium or discount you have against imports overall.

The orange shading does not mean that the premium is too much as any band structure is a continuum across bands²³ so if one takes the top half of one band and the bottom of the next then the net effect is to average out the margin between the two percentages, for instance in the White table the simple average between Band C above MP and Band D below MP is 17% on a non-volume weighted average basis.

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Using a separate dataset commissioned from LDB on Imports only (i.e., excluding ICB) we can more accurately compare overall averages (with no Band segmentation) of RWPS 750mL wines achieved by BC against selected major countries²⁴ sold in BC.

Figure 35- Average Wholesale \$ per 750mL BC vs Imports (excl. ICB)

750mL RWPS BC vs Imports	Red	BC Premium	White	BC Premium	Rosé	BC Premium	Sparkling	BC Premium	Total	BC Premium
BC Overall Average (all Bands) per 750mL/sold	\$18.19		\$14.11		\$14.85		\$19.75		\$16.18	
Import Overall Average per 750mL/sold	\$13.71		\$11.34		\$10.48		\$16.63		\$13.04	
Selected Countries										
Argentina Wine	\$11.38	60%	\$8.26	71%	\$8.35	78%	\$12.13	63%		
Australia Wine	\$11.43	59%	\$8.65	63%	\$9.46	57%	\$10.13	95%		
Chile Wine	\$9.11	100%	\$7.84	80%	\$6.86	117%	\$12.58	57%		
France Wine	\$20.54	-11%	\$18.39	-23%	\$13.80	8%	\$42.32	-53%		
Germany Wine	\$13.38	36%	\$11.15	27%	\$14.92	0%	\$10.68	85%		
Italy Wine	\$17.22	6%	\$11.25	25%	\$13.58	9%	\$13.82	43%		
New Zealand Wine	\$16.54	10%	\$13.40	5%	\$13.26	12%	\$15.53	27%		
Portugal Wine	\$10.00	82%	\$9.20	53%	\$7.85	89%	\$18.60	6%		
South Africa Wine	\$9.37	94%	\$8.28	70%	\$10.36	43%	\$13.66	45%		
Spain Wine	\$8.90	104%	\$6.73	110%	\$5.96	149%	\$12.01	64%		
USA Wine	\$16.29	12%	\$12.42	14%	\$8.58	73%	\$13.81	43%		

Cells highlighted in Green are those categories where BC is at an overall discount to that Import category and Orange where BC's premium is at or within 15% of the average for that category. The Import Overall Average is for all imports, not all countries are shown in rest of table under Selected Countries. France Sparkling includes Champagne.

BC sells at an overall average premium over all countries EXCEPT France. Depending on what one views as a reasonable “buy local” premium then BC is competitive against Italy, New Zealand and USA in several segments shown in the orange shading.

Appendix 3 has a breakdown of USA Reds for comparison against BC RWPS, Grape and Region data.

5.1 Observations

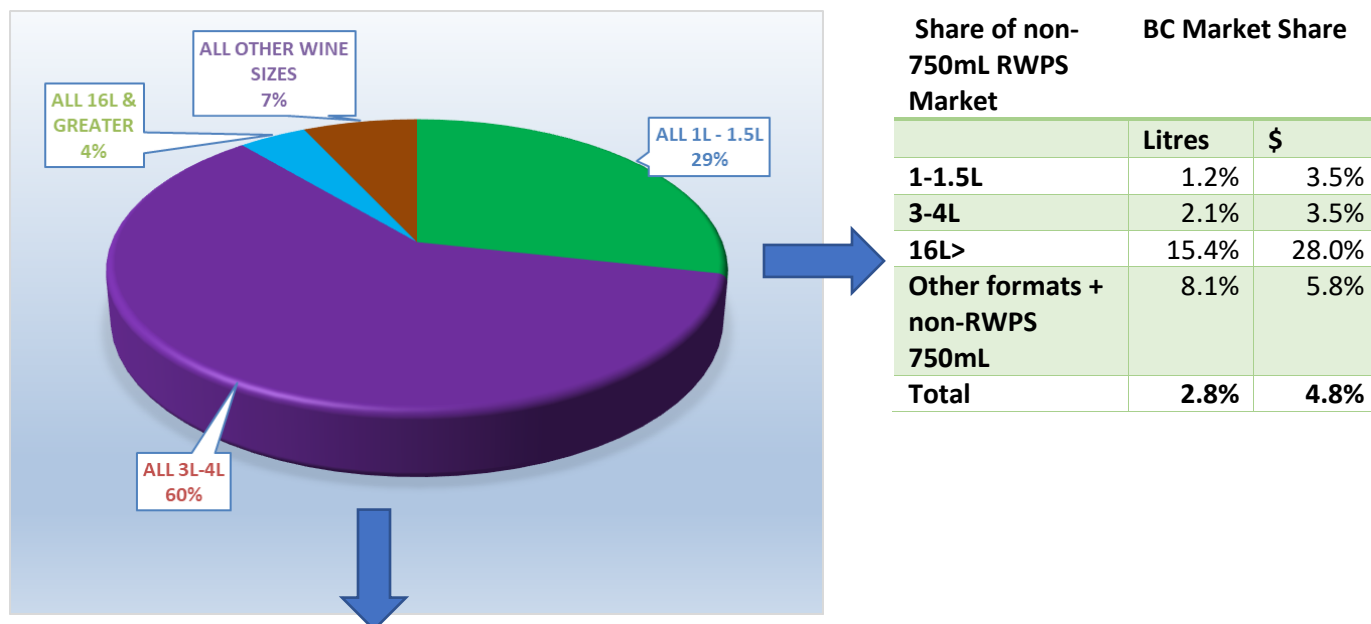
- The increase in Band C+ pricing overall (Fig. 32) for both imports and BC could have been an indirect COVID19 impact as people were stuck at home and switched their spending to higher priced wine. This might possibly reverse in 2021 or 2022 if consumer habits prior to COVID19 re-exert themselves.
- This section presents data from different perspectives which may appear to contradict each other. It is very important to understand that:
 - Figures 32 and 33 are for all imports and ICB and BC wines from ALL wineries, both Big 3 and Independent.
 - Figure 34 is for Independent wineries versus ALL imports for Bands B-E only.
 - Figure 35 is for ALL BC wineries including Big 3 against ALL non-ICB imports and ALL Bands.
- Perception of pricing by a consumer is rarely based on fact. Rhys Pender wrote an excellent article²⁵ on BC wine's value in April this year and prior to that in one post referenced value against French wines. I think the numbers in this section fully support his views.

- a. Given his prior comments on value on French wines - note that BC has an overall DISCOUNT to France in Fig 35, and
 - b. The overall small premium levels against USA reds in first table of Fig 34 and Appendix 3.
 - c. Perhaps and given the data in Appendix 3, one approach that could be taken in a winery's positioning and marketing is to make the consumer more aware of specific type/styles/regions or even brands, that it feels it is positioned against, more evident than the more general BC versus USA. Every consumer knows there is inexpensive wine from USA on every shelf but Meiomi is one of the biggest selling California Pinot Noirs and it is priced similarly to many well-regarded BC Pinot Noir products.
4. In 2020, BC 750mL actually outgrew import/ICB increase in 750mL by 3:1 ratio. See Appendix 2.
 5. See also the last note in Section 3.5 on premiums versus market share for red wines (Page 22).
 6. One cloud on the horizon is the imposition of excise duty on Canadian wine in 2022. The Federal Government has committed to funding programs that are expected to offset the duty imposition. Depending how these two offset in direct value to a winery and how wineries treat the offsets, the BC wine premium over imports could widen.

6. Other Formats

Total wine sold in formats other than 750mL RWPS account for 39% of the litres and 22% of wholesale value in 2020. Only 5% of BC wine production goes into this category which results in a market share of 3% by volume and 5% by value. In other words, BC's participation in all these other formats amounts to a total contribution of 1% towards BC's overall market share in both volume and value.

Figure 36 - Non-750mL Market by sub-Format



Average WS\$/ Litre	Import	BC
1 - 1.5L	\$8.25	\$23.88
3-4L	\$7.02	\$11.74
16L	\$7.67	\$13.98
Other + non-750mL RWPS	\$19.74	\$25.38

The largest segment is 3-4L format. This is largely wine sold in boxes. "Other Formats" include 250mL cans, 375mL & 750mL bottles of wine, ice and dessert wine, sherry and port. Reflecting BC's premium nature due to cost input versus bulk wine producing regions there is a substantial premium for any BC wine over imports and ICB.

2020 saw a dramatic rise in total boxed 3-4l wine sales of 31%, the highest by far of any other format including 750mL, likely driven by COVID19. ICB boxed wines increased by 28% in volume. Overall ICB boxes sold 40x the total volume of litres sold by BC Independent wineries. Combined ICB and BC accounted for 84% of all boxed wine sales in 2020.

BC wine's sales of other formats increased by 47% in litre volume over 2019. **Independent wineries produce nearly 100% of BC sales in this segment.** Two independent wineries account for 87% of BC's boxed wine sales. Retail and Licensee sales in 2020 accounted for 80% (versus 85% in 2019) of total volume. Direct sales increased by 33% over 2019

In the 1-1.5l segment, the market is dominated by import (incl. ICB) table wine generally selling at price points equivalent to the top end of Band A and up to Band B mid-point. However, as this is an approved VQA format there are some differentiating factors from the 3-4l segment:

- Overall, of the total BC wine share of this segment, Independents account for only 24% versus Big 3.

- Magnums of BC premium wines (i.e., selling in price equivalents to Bands F-H) are 18% of the BC's total sales in this segment. Independents account for 74% of this.

6.1 Observations

1. As industry is effectively selling all the 750mL it can produce there is not a lot of incentive to redirect production to something apparently less expensive. Effective competition for market share may only be driven by a grape supply surplus – not something to be expected in the immediate future.
2. That said, for Independents with larger supply, there might be a business case (i.e., through lower costs rather than higher revenue) for converting some 750mL production on higher volume sellers into 1L+ formats which are popular import sizes.
3. Both the Independent wineries who have the lion's share of the BC boxed wine sales have been marketing this format for many years whereas other wineries introduced them as a COVID19 response.

7. Premiumisation Progress

The trend towards higher priced wines was already underway at winery level prior to the WGABC Strategic Plan. It was enshrined as Strategic Recommendation #2 “Increase Demand for 100% BC wines at higher prices”. No specific goals or plans were set or, to my knowledge, have been issued subsequently on what measures of success to evaluate how to achieve it or progress against the goal; rather it has been left to individual wineries to move forward as they see fit. Here is my take on measures:

There are basically three ways to accomplish “higher premium prices”:

1. Increase general pricing beyond inflation/input costs based on winery/industry reputation.
2. Introduce new premium brands/wines at existing wineries – generally requiring higher quality or differentiated wine such as, say, single vineyard or Block branding. Limited Release (i.e., scarcity) can be an important marketing differentiator.
3. Build new premium wineries/brands – typically targeted at higher end tourism and, ultimately, sales outside of BC.

In BC, from the end of 2017 to end of 2020 the inflation index shows a general price increase of 6% in. Tracing comparative change in same SKU or same SKU name between 2017 and 2020 indicates an average increase of 6-15% but this is from a very small sample as SKU numbers nearly always change from vintage to vintage on the same wine type and new SKUs are introduced each vintage. It is difficult to make a general statement that BC winery prices have kept up with inflation. The general change in average pricing below indicates it may not have but nor have imports.

Figure 37 - BC Band Average Wholesale Price then and now

	2017	2020	Change %	Mid Point of Band
Band A	\$8.78	\$8.64	-2.6%	\$8.50
Band B	\$12.82	\$12.87	+0.4%	\$12.80
Band C	\$16.22	\$16.19	-0.2%	\$16.55
Band D	\$19.83	\$20.05	+1.1%	\$20.20
Band E	\$24.68	\$24.60	-0.3%	\$25.55
Band F	\$36.13	\$36.17	+0.1%	\$39.60
Band G	\$59.45	\$57.88	-2.6%	\$63.00
Band H	\$112.04	\$144.03	+28.6%	NA
Overall Average	\$14.83	\$16.18	9.1%	

Although the average in each Band has not changed significantly, the overall average generated per 750mL has by 9.1%.

The main contributor to this seeming dichotomy is Volume – simply put, BC wine is selling a lot more volume in Bands C upwards than in 2017. This impacts overall rather than Band average as not only the total value of wholesale dollars goes up but so does its divisor – volume. Hence the relatively level average price.²⁶

7.1 Super Premium and Ultra-Premium SKUS

I use Price Band F-H as my definition for these. Band F wholesale starts at \$29.21 which roughly translates into a retail price from approximately \$37 upwards, depending on channel it is sold by. In 2020 these three Bands together have:

- 5% of total BC litre sales and 12% of total wholesale value
- 45% market share against imports
- Independent wineries hold an overall 55% share of the three bands (see Figure 31 for share by Band)

	Wholesale \$/750mL
Band A	<\$11
Band B	\$11- \$14.60
Band C	\$14.61 - \$18.50
Band D	\$18.51-\$21.90
Band E	\$21.91 - \$29.20
Band F	\$29.21 - \$51
Band G	\$51-\$75
Band H	>\$75

Comparing 2020 to 2017 for wines selling more than 25 cases

- Litre volume is up by 88% and wholesale value by 92%.
- The overall average wholesale price is \$40.47, up by about 2% over 2017.
- SKU count has risen to 504, up from 262 in 2017 – in part this is accounted for by wineries having different SKU# for the same wine style but in a different vintage, but there have been a lot of new wines launched in these segments.
- The increase is driven from the following categories, in order of impact:
 - Addition of premium wines by wineries already in these segments in 2017 – some of this expansion may have resulted from price increases out of Band E.
 - Increased volume in wines that were offered in 2017.
 - Wines offered by wineries who had no SKUs in this Band in 2017.
 - New winery entrants – they may have been making wine but it wasn't ready for sale in 2017. In most cases, these wineries are only just ramping up and volumes are still low.

7.2 Observations

1. From direct experience, I have found BC wineries tend to adjust prices too infrequently. The result is that a loyal customer gets sticker shock at the new price and that can cause them re-evaluate their commitment to brand or SKU, especially as there are generally good substitutes available from peer wineries. There is no perfect answer to this as any decision has consequences but raising prices more frequently but by less could be considered. The old saying about “how to boil a lobster” rings true here.
2. Price is an output from wine quality and marketing in Bands F-H. Production costs tend to flatten out compared to lower Bands. Continued progress will depend on at least maintaining quality, reputation and superior market positioning, especially at the winery customer experience level.
3. DtC has to lead the way in selling higher priced wines. The Licensee channel, specifically Restaurants are an important ally and “fast follower”. Retail is a slow follower.

All in all, a very good story for BC wine. The conclusion is that, as an industry, it is meeting the three criteria at the beginning of section 7:

The BC wine industry is making good progress on its Premiumisation goal.

8. Region and Variety

The following sections provide an analysis of 2020 sales by region and major grape variety. This is intended more as a Benchmark starting point to measure from now into the future. Please read the notes below before venturing into this section:

Regions²⁷ are main DVAs, larger official Sub-GIs and aggregations of other areas in the Okanagan Valley. I have omitted specific analysis of some Sub-GIs as it would disclose too much information on the dominant winery and because the volume from the region is very small. The Regions used in this section account for >95% of all BC wine sold. I understand that the artificial East and West Kelowna groupings I use are in the process of applying for Sub-GIs. “OKV (unallocated)” contains the major Big 3 brands and wineries prior to all the acquisitions from 2017²⁸ plus a few small Independents. Acquisitions in 2017 and after are included in their respective Regions.

Regional data is based on **winery location** NOT source of grapes. Regional premiums are based largely on historic public perception of the region and winery (often the winery being more important than the region) rather than on the more recent drawing of lines on a map. No doubt there will be changes in this perception over coming years as Sub-GIs start to work in a more coordinated fashion on product focus and marketing. The presence of one or more larger, established wineries in a region can, and often does, distort the picture presented. This is especially true in the Golden Mile Bench and Lake Country, albeit there are somewhat different situations in both.

Individual Grape varieties analysed are those listed in the Grape Acreage Report as the most planted PLUS blends for red and white grapes. Blends can contain any grape grown in BC, not just those from the Top 6.

This Report analyses by Price. I emphasise that Price is a result of many input factors not covered but in context of this section, winery reputation and historic positioning are very important inputs.

8.1 Regional Analysis



Analysis by region is based on winery location NOT fruit source.²⁹

Wholesale \$/750mL	
Band A	<\$11
Band B	\$11- \$14.60
Band C	\$14.61 - \$18.50
Band D	\$18.51-\$21.90
Band E	\$21.91 - \$29.20
Band F	\$29.21 - \$51
Band G	\$51-\$75
Band H	>\$75

	Overall	Band B - H
Average 750mL all wine	\$ 16.18	\$ 17.85
Average 750mL Red wine	\$ 18.19	\$ 20.21
Average 750mL White Wine	\$ 14.11	\$ 15.63

Figure 38 - BC Region Sales Premium or Discount as a variance from BC overall Average

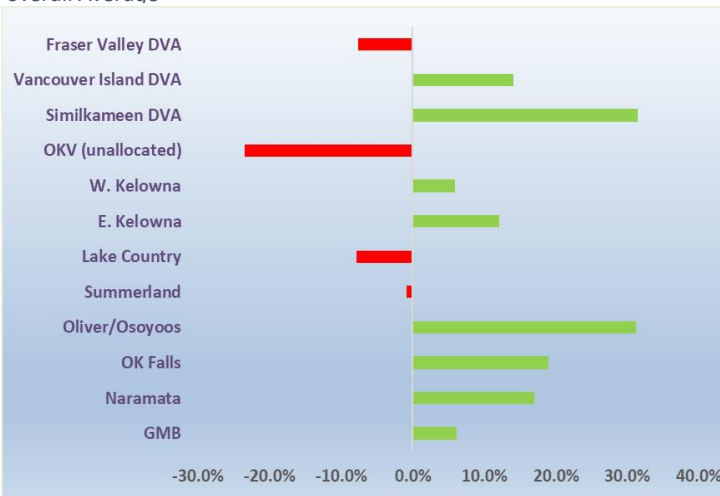
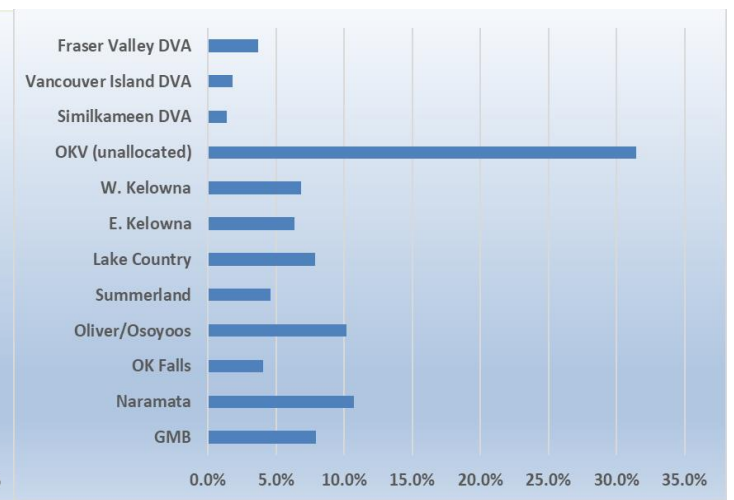


Figure 39 - BC Region Sales Volume as % of Total BC Litre Sales



The left-hand chart above compares the average selling price of all 750mL wines from wineries in the region versus the overall average for BC of \$16.18/bottle. The right-hand chart shows the percentage litres of all BC 750mL sold by the region.

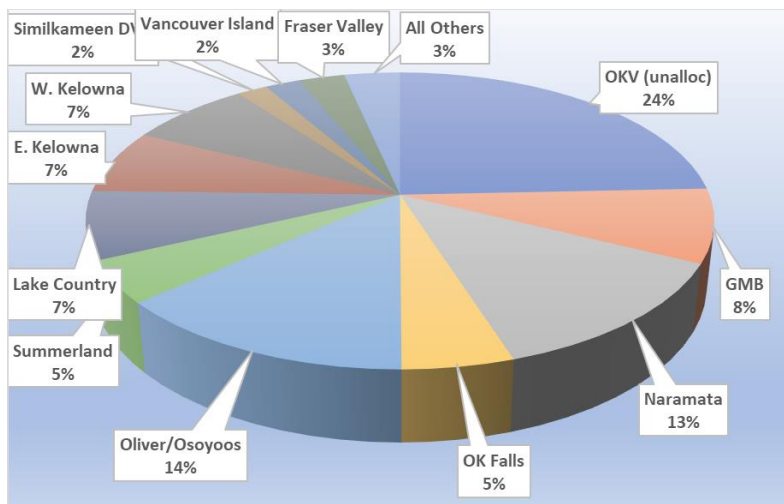


Figure 40 - Market Share by Region, Wholesale \$ for ALL FORMATS

Figure 40 shows the percentage share of wholesale value generated by each region for ALL FORMATS. In 750mL only there are very small variances, most are the same percentage, none vary by more than 1%. See Figure 43 also.

A Comprehensive Analysis of BC Wine Industry 2020 Sales

Figures 41-43 below break down each region by:

- Percentage of 750mL litres sold in each price band in Region.
- Total share of regional sales by Big 3 and Independents.
- Figure 43 shows the share attributed to the Region of 750mL litres sold and “All formats” i.e., total litres including non-750mL formats. The third row shows average selling price of a 750mL from the region (Overall BC is \$16.18). Lastly the average of all litres sold by region in any format i.e., all 750ml and other formats combined.
- Green highlighting shows Top rankings for rows, excluding OKV (unalloc).

Figure 41 - 750mL Region Share of Band (Litres)

Litres/Price Band	OKV (unalloc)	GMB	Naramata	OK Falls	Oliver/Osoyoos	Summerland	Lake Country	E. Kelowna	W. Kelowna	Similkameen DVA	Vancouver Island DVA	Fraser Valley DVA	All Others
Band A	80.9%	2.0%	2.5%	0.4%	1.2%	1.9%	6.4%	1.3%	1.5%	0.0%	0.0%	1.5%	0.4%
Band B	41.0%	8.9%	3.5%	3.1%	5.2%	7.0%	14.1%	3.3%	5.5%	0.5%	0.4%	4.8%	2.8%
Band C	7.3%	7.9%	19.0%	5.7%	13.5%	4.3%	6.6%	11.9%	12.3%	1.5%	3.6%	1.4%	5.0%
Band D	20.5%	7.6%	17.7%	6.1%	12.1%	5.1%	3.6%	8.0%	7.6%	3.4%	3.8%	1.8%	2.8%
Band E	4.9%	6.8%	19.7%	6.5%	27.3%	4.6%	5.5%	6.7%	7.0%	3.3%	2.2%	1.3%	4.1%
Band F	4.2%	8.4%	16.7%	9.4%	28.6%	1.5%	4.2%	7.3%	7.0%	4.6%	1.7%	1.3%	5.0%
Band G	23.8%	24.2%	3.7%	0.6%	27.3%	0.5%	1.8%	8.1%	9.0%	0.0%	0.1%	0.6%	0.2%
Band H	67.0%	4.7%	4.5%	1.5%	8.9%	0.6%	4.7%	6.2%	0.0%	0.8%	0.0%	1.0%	0.1%
Region Share of Total BC 750mL	32.3%	7.1%	11.0%	4.2%	10.4%	4.7%	8.2%	6.3%	7.1%	1.4%	1.8%	2.5%	3.1%

Figure 42 - Share of Region's 750mL Sales by Independent Wineries

Share in Region	Big 3	Independent
Big 3	99%	1%
Independent	46%	54%
	17%	83%
	7%	93%
	7%	93%
	0%	100%
	59%	41%
	59%	41%
	0%	100%
	0%	100%
	0%	100%
	0%	100%
	0%	100%

Figure 43 - Region Share of 750mL Wholesale Value

750mL	24.7%	7.5%	12.9%	5.0%	13.6%	4.6%	7.6%	7.0%	7.5%	1.9%	2.0%	2.3%	3.4%
All formats	24.3%	8.0%	12.7%	4.9%	13.5%	4.6%	7.4%	7.0%	7.4%	1.8%	2.1%	2.8%	3.4%
Avg \$/750mL	12.37	17.16	18.93	19.24	21.22	16.03	14.90	18.12	17.13	21.26	18.45	14.94	16.41
Avg \$/L	16.39	21.36	25.21	25.65	28.11	21.31	19.90	23.37	23.00	28.12	24.56	16.09	21.44

The Similkameen scores highest in average value of 750mL and all formats by pennies over Oliver/Osoyoos.

8.1.1 Observations

1. The green highlighted cells in Figure 43 show the top volume and value Regions.
2. Vancouver Island is the third largest DVA by litre sales after Okanagan and Fraser Valley. Similkameen ranked the smallest of the DVAs shown separately in the Figures (it is larger than any included in “All Others”) despite having two times the acreage of vines planted over Vancouver Island – This gives an idea of the scale of fruit ‘exported” to wineries located in other regions.
3. Lake Country has one dominant Big 3 winery acquired in late 2017. This tends to lower average prices and premiums for the region.

8.2 Variety Analysis

Every BC SKU was manually coded against grape varieties either as a single variety wine or a blend, collectively these are classed as “SV”. This section focuses on the top six grapes in red and white categories by acreage planted, as SVs, a total of 7 categories including blends.

Wholesale \$/750mL	
Band A	<\$11
Band B	\$11- \$14.60
Band C	\$14.61 - \$18.50
Band D	\$18.51-\$21.90
Band E	\$21.91 - \$29.20
Band F	\$29.21 - \$51
Band G	\$51-\$75
Band H	>\$75

	Overall	Band B-H
Average 750mL all wines	\$ 16.18	\$ 17.85
Average 750mL Red wines	\$ 18.19	\$ 20.21
Average 750mL White Wines	\$ 14.11	\$ 15.63

Figure 44 - Red Wine Grapes/Blends sold as SV – Share of Litre Sales in 750mL format

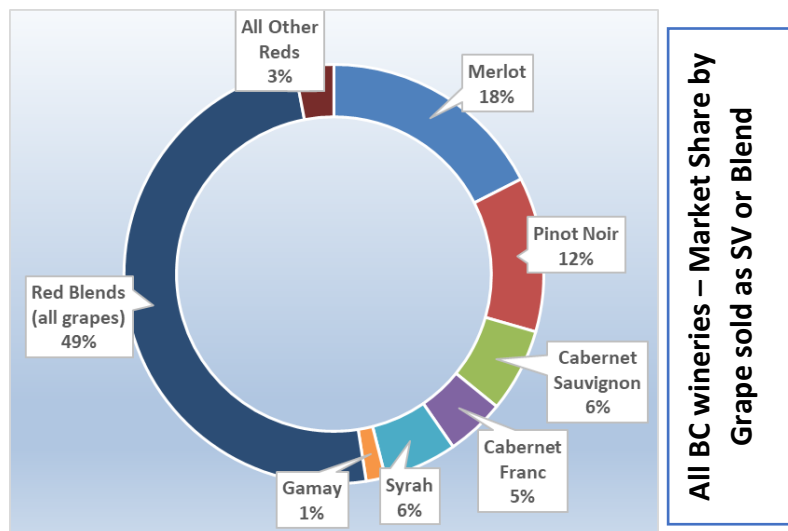
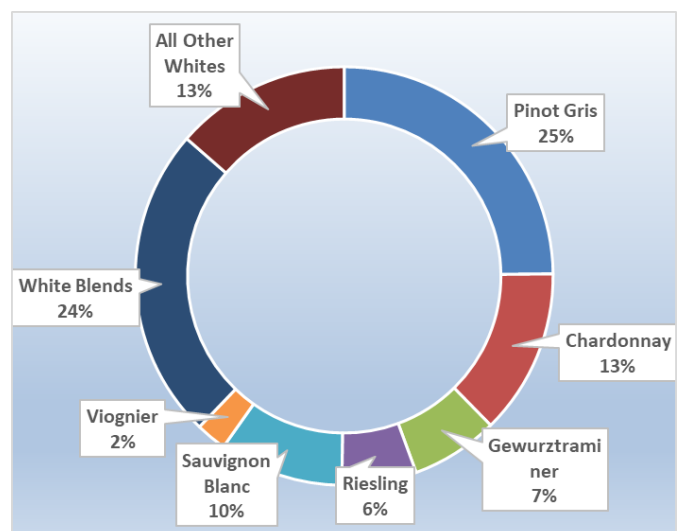


Figure 45 - White Grapes/Blends sold as SV -Share of Litre Sales in 750mL format



Blends can use any BC grown grape, not just the top six. Blends are the largest category of SV for Red wines and Pinot Gris for White wines.

Red wine accounts for 45% of all BC 750mL sales and White wine for 44%.

8.2.1 Independent Winery Price and Premium

The following is based Bands B-H pricing only as Independents have a very small market share of Band A.

Figure 46 shows the average wholesale price that Independent wineries achieve for their SVs in Red and White 750mL. For Independents, of their total litre volume sold in 2020 their reds are 45% and whites 53%. While the proportion of the red SVs is totally in line with BC's overall RWPS mix, Independents sell proportionately more white than overall industry.

Figure 46 - Independent Wineries Average Wholesale per 750mL

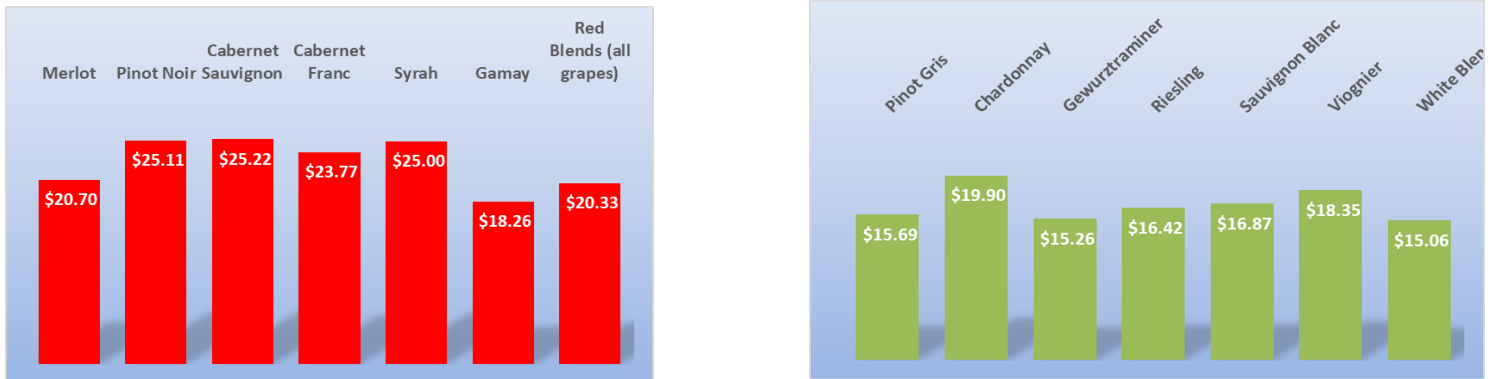
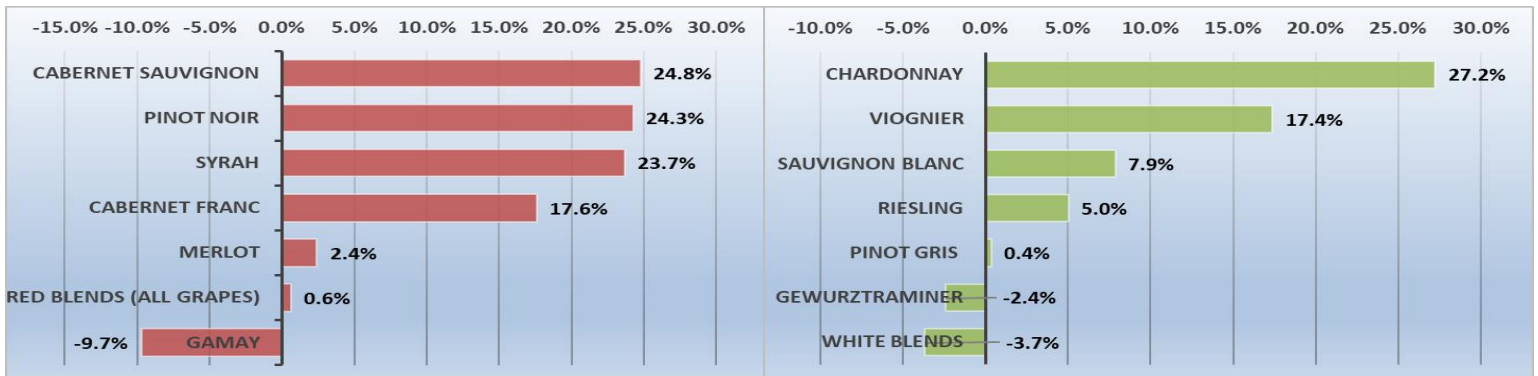


Figure 47 shows the premium (or discount) Independents achieve over average price for SV. Given the very small average premium difference between Cabernet Sauvignon and Pinot Noir and Syrah³⁰, I would consider them equally valuable.

Figure 47 - Independent Wineries Average Premium per SV over Red and White overall average wholesale 750mL

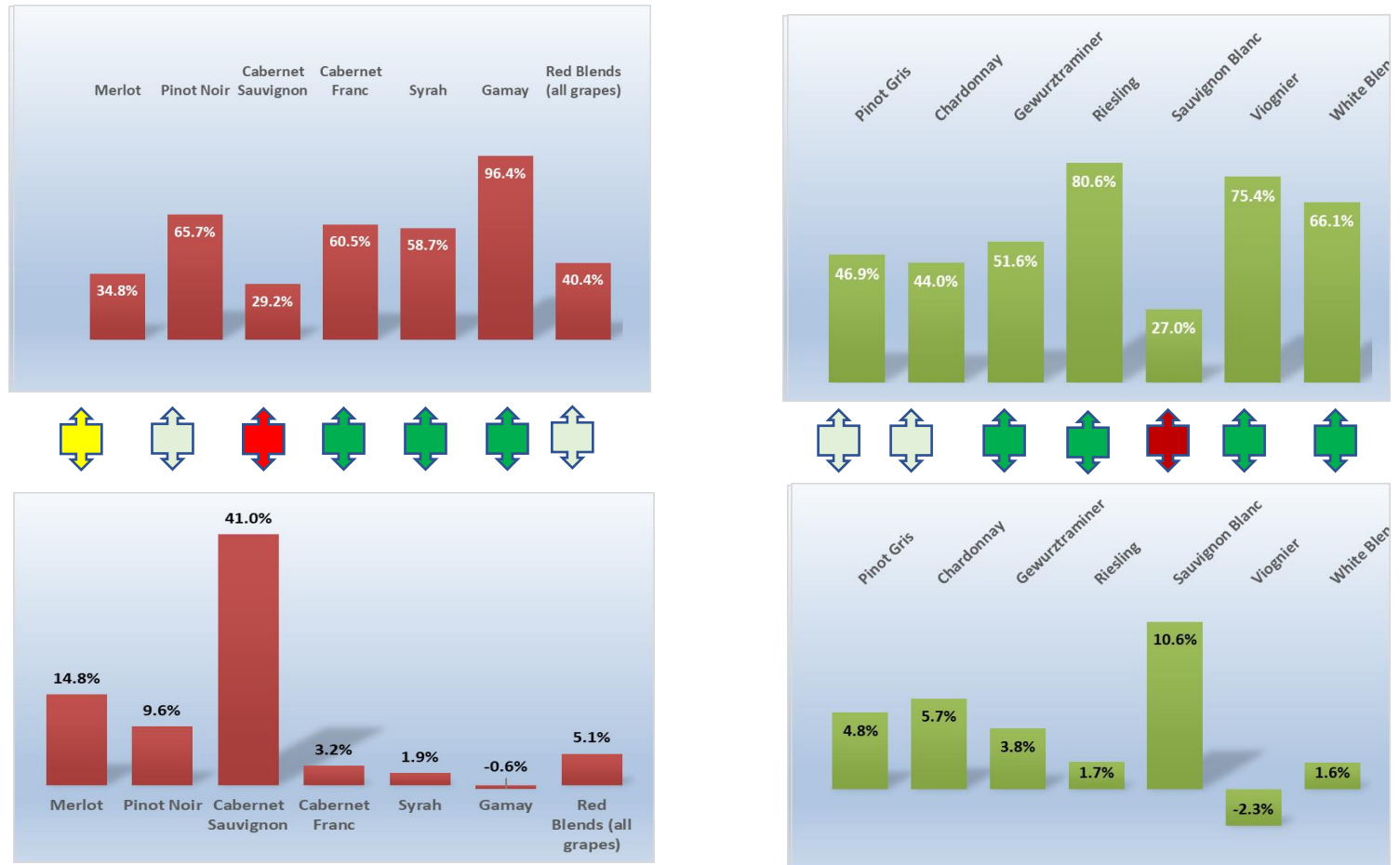


The average price per SV in Bands B-H for all wineries is shown in Figure 49. Overall, Independent winery average in Figure 46 above shows a premium over this average in nearly all cases but note that some regions may have discounts to average.

8.2.2 Grape/Price Equilibrium

The tables below compare Independent wineries’ market share against total BC sales including Big 3 over Bands B-H. For instance, 96% of all Gamay SVs and only 27% of pure Sauvignon Blanc (Sav-Sem wines were classed as White Blends) are sold by Independents. The Equilibrium markers are coded to show possible impacts if overall average price changed. This section is speculative but where price premium is low and market share high there could be more room to price higher than those where the gap is narrower.

Figure 48 - Independent Wineries Market Share of Grape vs Price Premium – 4 Charts. Top pair, % of Grape SV volume by Independents in Bands B-H; Bottom Pair Independent wineries’ premium for SV over BC average for SV in Bands B-H only



	Market share relative to price premium is out of balance - The price premium exceeds market share. This shows a possible market “gap” not filled by independent wineries. See the “8.2.3. The Curious Case of Cabernet Sauvignon”.
	Market share relative to price premium is neutral – Market share is <3x price premium. It is possible that higher prices might reduce market share without necessarily a corresponding gain in revenue
	Market share relative to price premium is neutral – Market share is 4-9x price premium, changes in price in either direction could impact volume
	Market share relative to price premium is optimised for volume produced - Market Share is >10x price premium. Raising prices might yield a better return even at expense of market share.

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These indicators are ‘stand-alone’ and don’t take into account competing SVs from imports (excl. ICB) which may impact either volume or price.

8.2.3 The Curious Case of Cabernet Sauvignon

Of all the grapes in the above charts Cabernet Sauvignon stands out. When sold as a single variety wine, it has a 6.4% market share of all BC red wine sales which jumps to 29% in Bands B-H. However, the overall average selling price in Bands B-H is \$17.89. This is the lowest of any red grape – which, given the ‘reputation’ this grape has for producing good wine, I was curious why it carries this discount, especially when Independents’ average \$25.22/bottle.

It is not possible to reach definitive conclusions but the following scenarios may be in play:

1. Grape supply is limited: Independents prioritise use to blends and super-premium wines in SV format.
2. The Big 3 have better command of supply and price and so use it in their volume brands – restricting supply to Independents. This impact is clearly shown in the table below where Big 3 brands sell Cabernet at a 22% discount to the BC average for the grape.

Either way it looks like there is a potential market gap that could be exploited if Independents could get grape supply that would allow them to create offerings in Bands C and D especially.

8.3 Relative Grape Price Premiums

Figure 49 - Relative Wholesale SV Selling Price Premiums by Region and Grape

		Top Premium on Row		Bottom Premium or highest Discount on Row		Immaterial Volume, excluded from Top/Bottom Rating		No Production in Region						
Sub GI	% of Total BC sales	Band B-H Average	OKV (unalloc)	GMB	Naramata	OK Falls	Oliver/Osoyoos	Summerland	Lake Country	E. Kelowna	W. Kelowna	Sim DVA	VI DVA	FYDVA
Reds														
Merlot	99%	\$ 18.03	-17%	13%	4%	13%	25%	14%	-8%	-7%	7%	12%	24%	16%
Pinot Noir	96%	\$ 22.92	-3%	-24%	7%	16%	-13%	-11%	-8%	22%	-5%	-11%	3%	-15%
Cab. Sauvignon	98%	\$ 17.89	-22%	82%	34%	95%	56%	20%	25%	60%	21%	48%	88%	16%
Cabernet Franc	89%	\$ 23.04	3%	-5%	12%	0%	3%	8%	22%	-18%	-1%	14%	46%	0%
Syrah	98%	\$ 24.53	-10%	15%	-4%	-16%	14%	-8%	144%	-22%	3%	4%	-23%	0%
Gamay	92%	\$ 18.38		-16%	4%	21%	10%	-5%		-17%	-13%	2%	16%	-7%
Red Blends	97%	\$ 19.34	-17%	-5%	13%	20%	21%	-13%	9%	4%	-5%	34%	-2%	-10%
Whites														
Pinot Gris	97%	\$ 14.97	-10%	-5%	6%	18%	13%	-2%	-6%	0%	-1%	18%	13%	-6%
Chardonnay	97%	\$ 18.82	-24%	51%	10%	14%	8%	-1%	-19%	-7%	10%	-3%	-4%	-9%
Gewurztraminer	97%	\$ 14.69	-6%	-1%	6%	4%	18%	-6%	-4%	4%	-1%	-7%	20%	2%
Resling	92%	\$ 16.15	-12%	-23%	6%	-4%	12%	6%	-9%	27%	0%	11%	9%	-8%
Sauvignon Blanc	100%	\$ 15.26	-12%	3%	13%	16%	18%	0%		1%	-10%	4%	32%	-8%
Viognier	100%	\$ 18.78	3%	4%	-4%	-5%	3%	-15%	0%	29%	1%	14%		2%
White Blends	95%	\$ 14.81	-12%	-6%	16%	6%	4%	-6%	0%	-3%	0%	9%	11%	-16%
Rose	96%	\$ 15.31	-12%	0%	9%	17%	6%	-4%	2%	5%	-2%	5%	16%	1%
Sparkling	96%	\$ 19.94	-6%	32%	6%	22%	-2%	0%	-2%	5%	-14%	-11%	-4%	-4%

The chart above analyses the premium or discount a region has on its SV wine production. Reading across each row you will find Region’s premium compared to BC average price. This is colour coded to Top Premium, Bottom Premium (minus sign means discount), or greyed-out because there are no sales of this grape by the regional wineries. The purple shading indicates that the grape in this region is less than 1% of total litres and are excluded from the High/Low premiums rank coding as being immaterial and possibly too distortive. As noted previously the OKV (unallocated) is largely Big 3 brands and

is excluded from the High/Low shadings, but Big 3 wineries are included in GMB, OK Falls and Lake Country. The premiums on Cabernet Sauvignon show artificially high because of the OKV (unallocated) column.

While very low volume grapes are excluded from the rankings, not all grapes are that important within the Region. So a high premium could still be based on volume that is not material to the region or even the industry. It is notable that the high premiums are not necessarily in Regions where the grape is thought of as synonymous and important to the Region e.g. Gamay in Okanagan Falls. Section 8.3.1 below integrates a weight by volume sold by the region into the premium calculation i.e., becomes an index. This seems to provide a much clearer match to how the consumer perceives a Region, e.g. in Table 49 above, Pinot Noir in Okanagan Falls has a 16% premium but is only the second ranking premium in reds. In Figure 50 below the importance of the grape to the region clearly shows.

Between the two charts there are some interesting contrasts that the wineries in the region could consider.

8.3.1 Regional Comparative Strength Index

Sub-GIs and regional associations are today not “managed” as groupings. There is marketing done on tiny budgets by some. As Sub-GIs mature, however, I would expect to see a much higher level of collective action up to and including more prescriptive rules around wines and standards. This will be, no doubt, be years in the future.

Table 50 is an index of the variance above/below average price of the grape that the region achieves (Fig. 49) multiplied by the volume as a percentage of the Region’s volume sales of the SV grapes in 2020 (note, there is no table shown for this). Important variances are coded thus:

Grape is higher than one standard deviation from index average – good news
Grape is within 10% of being above one standard deviation – is this something to build on?
Grape is within 10% of being below one standard deviation – warning, price or volume flag
Grape is below one standard deviation of index average – not so good news – should be looked at

The dispersion measure is different for red and white sections. The higher the number the better or worse depending on Green or Red highlighting. Minus numbers mean that the average wholesale price per 750mL bottle from the region is below BC average for the SV as shown In Figure 49. There is equal weighting between premium and volume in calculating the score.

To make this table more relevant to Independent wineries, the main Big 3 brands and wineries owned before 2017 are excluded - they are in “OKV (unallocated)” in other tables. However, Big 3 owned wineries purchased in 2017 onwards are included in their respective regions as they are a) generally an important contributor to the region and b) still function as an independent winery – at least from the perspective of the consumer – this does result in some distortion, especially noticeable in Lake Country where one Big 3 owned winery holds a dominant market share of the region’s sales. Band A sales are excluded as most Independents do not have offerings in this Band and their total share of Band is very low, principally from a few longstanding wineries.

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Figure 50 - Price-Importance Index by Region, by Grape – 750mL Bands B-H only

	GMB	Naramata	OK Falls	Oliver/Osoyoos	Summerland	Lake Country	E. Kelowna	W. Kelowna	Similkameen DVA	Vancouver Island	Fraser Valley
Merlot	3.02	0.79	0.96	3.81	0.94	-2.62	-2.68	1.17	1.68	0.73	2.11
Pinot Noir	-1.22	0.98	6.13	-0.94	-2.20	-3.17	4.85	-1.14	-1.08	1.05	-1.14
Cabernet Sauvignon	1.79	0.81	1.79	3.53	1.02	0.26	0.24	1.32	2.97	0.26	1.75
Cabernet Franc	-0.55	0.56	0.02	0.28	0.17	0.50	-0.74	-0.03	0.65	0.38	0.00
Syrah	0.33	-0.36	-0.95	1.59	-0.83	0.67	-1.90	0.25	0.43	-0.25	0.00
Gamay	-0.38	0.06	1.15	0.25	-0.23	0.00	-0.17	-0.45	0.13	0.84	-0.21
Red Blends	-2.75	5.89	7.32	9.94	-6.84	2.09	0.90	-1.86	16.80	-1.08	-4.58
Pinot Gris	-1.40	2.22	4.13	1.65	-0.65	-7.08	-0.10	-0.12	0.81	6.81	-1.73
Chardonnay	4.47	1.16	4.01	0.52	-0.11	-4.02	-1.11	2.50	-0.24	-0.14	-1.32
Gewurztraminer	-0.10	0.38	0.67	0.42	-1.15	-1.08	0.19	-0.16	-0.21	1.02	0.18
Riesling	-2.28	0.44	-0.73	0.18	0.78	-1.85	3.02	0.05	1.23	0.05	-0.18
Sauvignon Blanc	0.04	0.95	1.41	1.13	-0.01	0.00	0.05	-0.43	0.24	1.37	-0.47
Viognier	0.03	-0.33	-0.16	0.12	-1.25	0.00	0.69	0.03	0.35	0.00	0.15
White Blends	-0.94	3.06	4.13	0.50	-2.10	0.00	-0.25	-0.29	1.02	4.91	-7.85

What does this all show? Let's look at Okanagan Falls. It has a reputation for Pinot Noir and Chardonnay. Both of these clearly stand out as important to the region. But then note that there are three other categories that are important volume contributors sold at a premium to BC average. Should the region be increasing production or adding more focus on these grapes to its marketing? Conversely, the red numbers can indicate that the grape is garnering a discounted value on average BC selling price but that also the volume produced is more critical to the region's overall production.

Important note: This table is not meant to diminish the importance of a grape to an individual winery in a region. If the grape is more significant to the winery's sales but not to the Region then, in this case, use Figure 49 and compare premium/discount to other regions and Figure 46 to compare average pricing among peer wineries.

9. Is there a “Grape Gap”?



This section is speculative. Feedback and comments welcome.

In 2018 I presented to over 50 BC wineries a model for forecasting future acreage requirements based on market share data³¹. In March 2021, WGABC presented its Acreage Report for 2019. In summary this report states:

- 11,000 acres planted.
- 43,000 short tons production potential.
- 23.3M potential litre production @4t/acre.

The overall supply of grapes to meet winemaking demand seems to be tightly balanced at present with no obvious surpluses looking for a home. Checking the Bulk Wine market at the beginning of July showed a total quantity amounting to <0.2% of the likely total produced in current vintage. There are many reports of wineries hunting for grapes of any quality. If current plantings have delivered broadly enough to fill current winery demand, then there are only two major factors that come into play in assessing whether BC can meet future demand - Yield per Acre and new planting.

WGABC have set a goal for the industry to reach 25% VQA market share in BC by 2025. I have assumed they mean sometime in FY2026 to give some leeway in the projections below. To a limited extent some of this may come from conversion of existing non-VQA wines to VQA – this has been a source of some of the higher market share they published since 2017. Conversion just switches existing market share into a different category and does not expand overall share shown in Figure 9 on Page 12.

Figure 51 below is a projection comparison between 2020 and FY2026 (that encompasses vintage 2025) and FY31 (Vintage 2030).

Figure 51 - BC Acreage Required to Meet Sales Projection with Variable Yields

	CY2020	FY2026		FY2031	
		Actual	Maintain Current Market Share	WGABC Goal 25% VQA	Maintain Current Market Share
The Grape Gap					
Total Litres	17,599,148				
Add: TR/Samples/Wastage	5.00%	879,957			
Add Export	1.73%	372,539			
Add: Sales to Rest of Canada	15%	2,639,872			
Total Litres Sold in fiscal year	21,491,517	23,995,498	27,267,612	26,492,969	30,105,647
		Acres Required by Vintage 2023		Acres Required by Vintage 2028	
2019 Planted Acres	11,055				
Litres produced Short tons/acre	3.00	18,240,750	14,543	16,526	16,056
	3.50	21,280,875	12,465	14,165	13,763
	3.75	22,800,938	11,634	13,221	12,845
	4.00	24,321,000	10,907	12,394	12,042
Projected planted acres @250 p.a. IN PRODUCTION 2 years Prior			12,055	12,055	13,305

The following on next page explains the various elements of the table.

• **Columns:**

- CY2020 is estimate of total litres sold by BC wine. Rows are explained below.
- FY2026 shows
 - a) volume required to maintain current market share of total 100% BC wine which includes VQA and non-VQA formats etc. assuming the total wine market grows at 2% p.a. Individual years within the period from now until then may vary of course but this is the historical rate and is underpinned by BC’s expected population growth at 1%+ p.a.
 - b) the impact of meeting WGABC goal plus all other factors staying relative (see row explanation below)
- FY2031 extends same logic by another five years

• **Rows:**

- Total Litres – this is actual BC sales in 2020. VQA litres amounted to 83% of this. Total litres include non-VQA formats and non-VQA wines made by Estate wineries.
- TR/Samples/Wastage – an estimate of total wine litres not sold but used. For instance, wines used in the tasting room, given away as samples or incentives and simply broken or destroyed for any number of reasons. This percentage may be low.
- Export – Statistics Canada³².
- Sales to Rest of Canada – purely an estimate based on anecdotal estimates from wineries of wholesale sales to other liquor jurisdictions both legally and via DtC where not. This is a large data gap that needs to be closed somehow – This percentage could vary significantly³³.
- Planted Acres – current WGABC grape acreage data.
- Litres produced assuming 550 litres/ton at varying yields translated into acres required in the ground in enough time to contribute to the volume required by FY2026 or FY2031.
- Projected acreage based on 2018 and 2019 planting rates continuing.

There are a lot of moving parts in this simplified model and some further assumptions have been made:

- Non-VQA formats maintain their proportionate relationship current 750mL sales over time as does Wastage, Exports and other sales within Canada.³⁴
- Grape tonnage yields can vary from vintage to vintage.

The very simplified model above factors in a broad allowance for vintage lag (time between vintage and sell-through). The detailed model I developed takes these into account.

Yield is one of the key moving parts as it can vary from Vintage to Vintage³⁵. The WGABC Acreage Report uses 4t/acre as potential average yield. Referencing the table at right for Vintage 2017, by 2020, most red wine made that vintage will have sold through. Given lag on whites/rosés as

Vintage Year 2017		Yield per acre	
Planted			10,500
Litres produced		3.000	17,325,000
		3.500	20,212,500
		3.750	21,656,250
		4.000	23,100,000

as a one year sell through (e.g. harvested in FY19, sold mainly in FY20) the acreage in the ground in 2017 represents most of the productive capability for what is sold in 2020. Taking the broad litre assumption that 21.5M litres were used in 2020 and comparing against the acreage *times* varying yields the closest yield match is 3.75t/acre.

Assuming 2% p.a. market growth, WGABC’s goal would effectively require an increase of 44% in 750mL litre sales in BC over five years. Between 2016 and 2020 (effectively FY21) BC wine grew volume by 16% (see Section 2, Figure 18) so this alone makes it seem unlikely to be achieved. It is theoretically not impossible if the market could absorb the volume and all sales outside Province could be redirected to filling this domestic demand. However, I think it is an unachievable goal given

where we are today considering existing plantings and assuming all others like non-VQA, Wastage, Exports etc. remain proportionately constant.

A more possible alternate scenario is that 100% BC wine (i.e., including non-750mL formats and non-VQA registered 750mL formats) can reach 25% by volume overall, that is a 3% market gain in 5 years. Assuming same market growth an increased market share from 22% to 25% requires a planting rate of 500 acres p.a. at an average annual yield of 3.75t/acre.

Appendix 1 - Abbreviations Used in this Report

- AGLC – Alberta Gaming and Liquor Control.
- Big 3 – BC’s combines; Arterra, Mark Anthony and Peller. Only Mark Anthony is headquartered in BC. All own previously Independent wineries (primarily acquired from late 2017 in addition to their own licensed estate and commercial winery operations).
- GLS – BC Government Liquor Stores – the major retail chain for alcoholic beverage products in BC.
- GMB – Golden Mile Bench sub-GI in Okanagan Valley.
- ICB – International & Domestic Wine Cellared and Bottled in Canada. Virtually all imported in bulk by BC’s Big 3 and bottled here. See Section 4.1.1.
- LCBO – Liquor Control Board of Ontario.
- LDB – BC’s Liquor Distribution Board.
- LMR – Liquor Market Review.
- LRS – Private Liquor Stores in general.
- RLRS – Rural Licensee Retail Stores, effectively LRS in grocery stores in small communities across BC. Previously known as Rural Agency Stores (RAS).
- RWPS – Red, White, Rosé (pink), Sparkling – short form for the major categories analysed.
- SKU – an individual product with a unique cspc#. The same wine from a winery may have different cspc# registered for different customers. Most wineries register a new cspc# for each vintage release of a wine. While this makes eminent sense, it would really be useful for tracking price change over time if they used the same cspc#. Some do this and just change the barcode for the vintage.
- SV – a 750mL wine sold as a Single Varietal or is a blend. The coding of these was done on the basis of wine title on the label. If in doubt it was coded as a blend. Although I did go and check many wines on the winery’s website to get a clear picture of what was in the bottle (some descriptions are not clear) there is definitely more potential for data error in this categorisation.
- WGABC – Wine Growers Association of BC (formerly the British Columbia Wine Institute).

Appendix 2 - COVID19 Impacts

2020 threw a large curveball at the BC wine industry. The COVID19 crisis continued into 2021 and it is too soon to really evaluate the effects in the current year or the long-tail impact. However, total wine sales in litres dropped in Jan-Mar 2021 Quarter by 4% over same quarter 2020 – still much higher than same Quarter in 2019 though. Circumstances are different of course, as it was in March 2020 that the full effect of COVID19 started to be seen.

With lockdowns, capacity and travel restrictions impacting direct sales in the tasting rooms and essentially the restaurant industry being shut down as a channel, BC wine faced a huge challenge. The good news is that as an industry it didn't do at all badly and the net result was a 4% increase in total litre volume over 2019 as consumers moved to the internet to purchase direct and liquor stores remained open as an essential service.

Litre Changes	Total Market	BC
750mL RWPS	+1.5%	+4.5%
3-4L boxes	+31%	+47%
16+ L kegs	-40%	-50%

At the beginning of July 2020, I gave a Zoom presentation, sponsored by Vintality, on the immediate COVID19 impacts in March to May. This was the initial 'shock' stage with complete tasting room closure, restaurant lockdown, customers stocking up at retail etc. During that period BC wine litre volume contracted 1.1% over the same period in 2019 so to end the year up substantially is testament to the resilience of the wineries and their people.

1. Impact on Independent Wineries

Not every winery benefited from a sales increase in 2020. Of 143 Independent wineries with case sales of >1000³⁶ in 2019 and 2020, 87 had an increase in sales. This may not be solely due to COVID19 however. Of the 87, 5-10,000 case wineries tended to do better than those smaller and larger. There could be many reasons for larger winery's apparent weathering of the storm encompassing resource availability to stay open or develop new business, winery E-commerce capability, larger tasting areas better able to handle COVID restrictions, or perhaps simply that visitors sought out their own "tried and true".

Conversely, and unfortunately, it does mean that 39% of those 143 Independent wineries with ongoing operations saw a decrease in sales. Wineries >10,000 cases whose volume decreased over 2019 took, as a group, a steeper percentage drop than smaller wineries. Of the total 274 wineries, 42% had a drop in sales greater than 5% in 2020 compared to 2019. Again, not necessarily all due to COVID19.

Although out of scope here, wineries with attached restaurants will have been impacted to the same degree as any other restaurant.

It will be interesting to see if the wineries that increased business can maintain the momentum, and whether the wineries that suffered can catch back up.

Independent Wineries ONLY	Range	
% of Wineries with increased Litre sales vs 2019	61%	
Average Increase in Litre sales	17%	
>10,000 case wineries - Increase	23%	2-62%
5-10,000 case wineries - Increase	33%	4-74%
<5,000 case wineries - Increase	7%	1-119%

2. Impact on Channel

With closures and capacity restrictions on Licensees it is no surprise that as a Channel they suffered the most as the table below shows. Retail and DtC sales however, more than compensated in absolute litres sold. In 750mL format Direct picked up a 27% overall increase in volume and retail a 22%, combined they both handily offset the loss of Licensee volume.

The other direct impact on wineries, however, also relates to Licensees. In mid-2020 the BC Government finally authorised Licensees to purchase at wholesale cost. This, for many but not all, represents a loss of revenue per litre. I estimate that the loss of premium by BC wineries will have around a 2% negative impact on overall industry revenue.

Bear in mind that Licensee sales in a normal year are smaller than Retail and Direct so the percentage changes below are mitigated as being calculated on different bases.

All RWPS 750mL categories showed growth but the stand outs were Rosé and Sparkling. The exact same percentage increase and decrease in Sparkling between Licensee and Direct is coincidental. Direct sales of Sparkling rose more than the drop in Licensee sales in absolute litre volume.

3. Tourism

Obviously the tourism industry took a massive hit too. But, to pose the question;

“If tourism is so important a component of our sales why did they go up when tourism went down?”

Setting aside the very real economic impact on other sectors, there are a few possible reasons to underpin the increase:

1. People stayed in BC: BC residents did not go out of Province on holiday or day trips; no nipping across the border to pick up cheap wine in Bellingham etc, less snowbirding, etc. I observed this effect at retail in 2020 where snowbirds came back earlier and stayed later than in normal years. Perhaps, in normal years, the exodus from BC is merely compensated for by the influx of tourists
2. Shop Local Campaigns: There was a large and sustained campaign from many sectors throughout to support BC businesses and farmers. Hopefully, people experienced BC wines for the first time when they would not have done and will stay as future customers.
3. Tasting Experience: When tasting rooms were able to open with restrictions on capacity and implemented bookings I have heard from many that sales in this type of setting were better and of higher value (see Point 5 below) than the normal scrum of the tasting room.
4. E-Commerce & Wine Club membership grew: When the people can't come to you, you go to them on the Internet.
5. BC residents purchased higher price band wines: The snippet from Figures 13 and 14, the green columns show the juxtaposition of BC wine's increase in Bands G & H (right) versus total market (left) in 2020. It is understandable that with the lack of tourists, business visitors and events like weddings that total sales of highest end wines would decline. BC, however recorded a significant increase in percentage terms (absolute litre volume is very low in these bands).



Channel Market Share – all formats

	Total L 2020	Change from 2019
Retail³⁷	58%	15.5%
Licensee	11%	-48.5%
Direct	31%	27.0%

750mL RWPS Change by Channel 2020 vs 2019

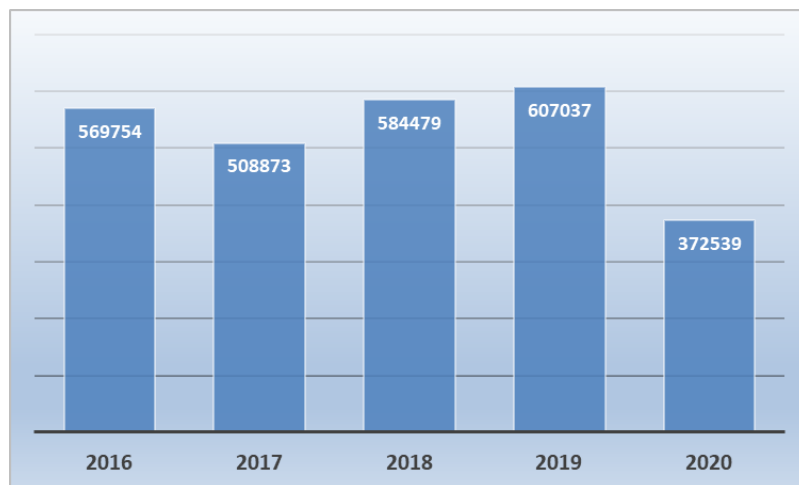
	Red	White	Rosé	Sparkling
Retail	13.3%	11.5%	28.4%	21.9%
Licensee	-49.0%	-48.6%	-40.5%	-41.7%
Direct	26.7%	24.3%	33.9%	41.7%
Total Growth (litres)	4.1%	1.5%	20.6%	14.6%

The \$64,000 question is now how to keep the momentum going as BC residents resume their normal itinerant practices and international tourists effectively won't arrive until 2022.

One negative impact of the lack of out-of-Province and International visitors is that a Season has been lost in gaining new evangelists who come to BC, try the wines and return home to become wine club members and recommend BC wines to their less fortunate compatriots who have not been here.

4. Exports

Figure 52 - BC Export Sales 2016-2020 in Litres



Another negative impact was on export sales, which dropped significantly. BC winery export efforts were stopped in their tracks in 2020. The data is from Statistics Canada and there is no way to break this down except by country to which it is exported. Average value per litre works out to be around \$12.51. Given exports are not subject to BC markup this equates to a value of around \$23.50/litre in domestic wholesale terms, or assuming it was all in 750mL format c. \$17.50/bottle which is right in the average price for Independent wineries Band B-H sales and nearly 10% higher than the average per litre value for BC 750mL overall.

5. The Long Tail

Regardless of how COVID19 impacted individual wineries, as an industry it had a positive impact overall. Some of the pivots taken at winery level, like booking and paying for tastings will continue to the winery's benefit. Sometimes it takes an external event to allow change – in that respect COVID19 has likely delivered future benefits to industry practices. On the downside, and this is permanent, the premium over wholesale to licensees has gone. This will reduce winery revenue but impact will vary by winery depending on their mix to this channel and how much was already sold via “By the Glass” price promotion etc.³⁸ Since the first half of 2021 was a continuation of 2020 circumstances it remains to be seen what other Long-tail impacts occur.

Appendix 3 – USA Red 750mL Sales Analysis

This section is based on an analysis of all USA 750mL red wines sold in BC in 2020³⁹. Shown is a relevant subset of data. Data supplied by LDB has known classification errors in detailed fields which I cannot feasibly correct so individual matrix numbers are guidelines only but probably not far off.

- 4.3M litres of red 750mL were sold from USA in BC in 2020
- California is 95% of all these litres, Washington 4% and Oregon 1%
- Overall average wholesale price per 750mL bottle for all US red imports is \$16.29 versus \$18.19 for BC
- BC wine sells 1.75 bottles of red 750mL bottles to every 1 imported and sold from USA
- US red wines from Napa are 6% of total California imports and average \$34.89/750mL bottle wholesale
- US red wines from Sonoma are 10% of total California imports and average \$18.34/750mL bottle wholesale

Average Wholesale Price per 750mL by Grape

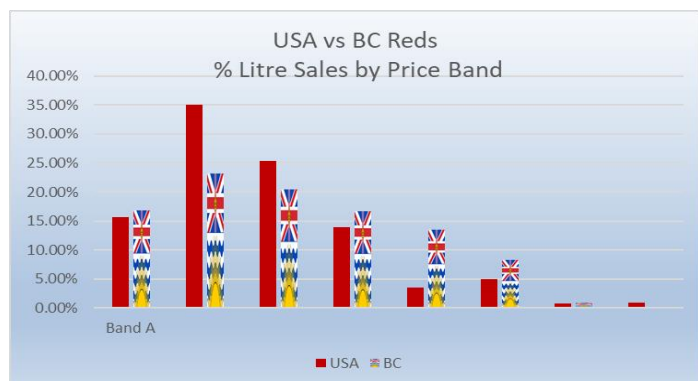
	Merlot	P. Noir	Cab Sav	Cab. Franc	Syrah	Gamay	Blends	Zinfandel
Average Price/750mL Btl								
BC Overall	\$16.78	\$22.69	\$ 17.75	\$22.61	\$22.92	\$18.42	\$16.31	\$23.79
BC Band B-H	\$18.03	\$22.92	\$17.89	\$23.04	\$24.53	\$18.38	\$19.34	\$23.79
CA	\$13.23	\$18.16	\$17.30	\$65.50	\$12.70	\$48.49	\$14.31	\$24.42
OR		\$31.41	\$61.95			\$27.09	\$36.90	
WA	\$ 14.09	\$26.35	\$16.34	\$38.51	\$15.59		\$15.64	

% of Region Litre Sales into BC by Grape type (rounded) – 750mL bottle

	Merlot	P. Noir	Cab Sav	Cab. Franc	Syrah	Gamay	Blends	Zinfandel
CA	4%	13%	51%	0%	1%	0%	17%	9%
OR		86%	0%			1%	8%	
WA	18%	1%	58%	0%	4%		19%	

Numbers will not add to 100% as I have deleted miscellaneous or unclassifiable products and rounded. If the table has 0% then quantity is very small. Greyed out cells indicate no quantity sold in BC by region.

The chart below compares 750mL red wine volume mix by Band as a % of total volume by each respective country. The table at right compares the multiple that BC red volumes ship over USA red by band.



All BC wineries	BC Red Volume vs USA Red by Band
Band A	1.9
Band B	1.1
Band C	1.4
Band D	2.1
Band E	6.7
Band F	2.9
Band G	2.0
Band H	0.5

Appendix 4 - About the Author – Paul Rickett, VARketing!

Paul Rickett qualified as an accountant in UK prior to moving to Canada in 1980. Taking a keen interest in the development of microcomputers he spent the next 25 years in technology sales and marketing as a distributor and consultant specialising in market research and channel management. In techspeak a “VAR” is a Value-Added Reseller. In 2007 he started a new career as a wine retailer and has become a champion of BC wines over this time.

Published Reports, Seminars and Studies related to wine industry.

- 2011 “It’s All about Trust” – a study on the influences on a customer when shopping in-store for wine.
- 2012 & 2013 Presented at Vancouver Wine Festival 2012.
- 2014-2015 Workshops for BC wineries on Channel Management in the Okanagan and Vancouver Island.
- 2018 Presentations on building a Strategic Plan for the industry including the development of a forecast model.
- 2018 Fortify – seminar on Channel Management.
- 2018 Publication: 1st Annual LRS Operational Metrics survey for ABLE BC – published in The Quarterly Pour. Related topics were presented at ABLE BC’s annual industry conference.
- 2019 Fortify – Hosted Panel on how to effectively use Agents.
- 2020 2nd Annual LRS Operational Metrics Survey for ABLE BC – digest published in The Quarterly Pour.
- 2020 Fortify – Lightning Talk.
- 2020 July, Webinar on immediate COVID19 impact on BC wine, sponsored by Vintality.
- 2021 A Comprehensive Analysis of the BC Wine Industry – Sales by Market Share, Region and Grape 2020.

Paul lives on Bowen Island in BC and is a frequent host on #BCwinechat with Sandra Oldfield every Wednesday night on Twitter. VARketing! provides consulting services specialising in turning data into effective business strategies.

Appendix 5 - Notes and Sources

¹ Release 1.9 Information: The underlying data has continued to be reviewed subsequent to release of the original Report (release 1.7). Some individual SKU level datapoints have been reallocated and/or corrected. There are no material impacts in Sections 1-7 or 9. However, at the relatively granular detail levels of Sections 8.2 and 8.3 there may be variations beyond 1% (but not by much). If you wish to check on specific numbers you are welcome to email VARKeting! which ones you need and I will send back any revisions. See note 3 below for general accuracy guidance.

² Statistics Canada report that only 56% of Canadian wineries are profitable [NAICS 31213 Canadian Wineries Financial Performance](#)

³ All detailed data is based on custom reports from LDB. Occasional differences arise between different sets of data from LDB and/or the database due to coding. Allow +/-1% for error.

⁴ Independent wineries comprise all wineries NOT owned by Mark Anthony, Peller or Arterra. There are groupings of Independent wineries with common ownership – for instance the recent acquisition of Wild Goose creates one of these. For the purposes of this report any winery in these mini-combines is treated as a separate entity.

⁵ Source for Fig. 2 & 3 is LDB Annual Reports, Fig. 4 LDB Quarterly Liquor Market Review (LMR); Fig 5. to end of report are all based on custom reports commissioned from LDB unless noted below.

⁶ CISUR data from

<https://www.uvic.ca/research/centres/cisur/stats/alcohol/index.php#:~:text=In%20the%20most%20recent%20year,Columbian%20drinker%20aged%2015%2B%20consuming>. There is a monthly trend on this page that shows a recurring seasonal uptrend over Summer months. This may not actually be by BC residents as these months coincide with peak tourist season in normal years. However, the same uptrend is seen in 2020 as Pandemic response measure took hold. In this case it must reflect consumption by BC residents as there was very limited inbound and outbound travel. This supports my point on tourism in Appendix 2. Another thing to note is that CISUR data is based on data within the province, in normal years it does not include wine consumed by residents outside of the province. Another view of Canadian wine consumption in the Pandemic can be found at Statistics Canada [here](#).

⁷ BC Population Estimates – People 2020 https://www2.gov.bc.ca/assets/gov/data/statistics/people-population-community/population/people_population_projections_highlights.pdf

⁸ Wholesale Price

This is normalised in that it does not represent any individual winery's selling price which will vary by distribution channel mix and short-term promotional pricing like LTOs/WPPs/ etc., or VQA rebates. A winery will receive more top line revenue when selling direct (but may have costs associated with shipping and administration) than from selling to retail, and from mid-2020, Licensees. However, wholesale price allows proper comparisons to imports for value-based data. I believe wholesale value should be more used as a standard BC industry metric. Dollar data for averages in this report are calculated either from total wholesale value/total litres sold or total litres sold*wholesale price ruling at 31 December of respective year as needed.

⁹ Total BC litres exclude BC made dessert, ice and port-style wines. These add c. 5000 cases p.a. to the totals. 2018 BC sales are interpolated as I don't have data for that year.

¹⁰ Sample Domestic Market Shares % of total production, balance goes to export.

- a. France 83% by litres: [France](#)
- b. USA 76% by value: [USA](#)
- c. Argentina 80%+

- d. Australia 82%: [Australia](#)
- e. New Zealand 55%: [New Zealand](#) (see Page 34 in link)

¹¹ Market Share reconciliation. The rounded % encompasses BC dessert and Ice wine sales, these are not completely included in Figure 11. BC Fruit wine sector would add 0.3% to the total. Since 2017 some wineries who were outside of the VQA program have converted to VQA. This accounts for some of the increase WGABC has reported in the intervening years but that is moving data between categories rather than an actual representation of a change in market or consumer sentiment.

¹² The Price Bands are key to this analysis.

- a. I set these in in 2017 based on consumer spending habits and then backed the consumer price points to a range of wholesale prices that allows for the differing selling prices in each retail channel (i.e., excluding Licensees) who have a very different markup structure. To illustrate these points consider the following examples:
 - i. A consumer who normally buys wine in Band A may often also buy wine in Band B for special dinners, guests etc. A +/- \$3 variation from their normal budget value would not be uncommon on any given purchase.
 - ii. A consumer who is looking for a \$50 bottle of wine as a guideline price easily may spend at least +/- \$10 depending on circumstances. In other words, the higher the price the more personal flexibility the consumer has in price point.
- b. Band ranges are not evenly distributed although B-D are all approximately the same size. The Band range expands in each Band above that.
- c. In 2017 these Bands showed a very loose 50% scaling as one moved down through them, this seemed to be a fair validation of their reasonableness. Obviously, if only just through inflation, one would expect bands to shrink and grow over time. The following table shows a comparison to total 750mL wine litres by Band in 2017, 2019 and 2020. They demonstrate a general level of consistency over the years. Using the same Band structure over time allows good comparisons to be made. In all years Bands A-C account for over 80% of total litres sold.

	Band Share of Total Litres		
	2020	2019	2017
Band A	41.2%	43.9%	43.4%
Band B	25.0%	24.9%	29.7%
Band C	18.0%	16.6%	14.5%
Band D	7.3%	6.7%	6.1%
Band E	4.9%	4.4%	3.5%
Band F	2.7%	2.6%	2.0%
Band G	0.6%	0.6%	0.5%
Band H	0.3%	0.3%	0.3%
	100%	100%	100%

I have structured the underlying data to allow Bands to be reset so comparisons can be made from past years' data to any new Banding. Custom Banding analysis is available.

- d. Any banding structure is artificial. Bandings are convenient buckets to categorise and compare and have much utility. Because the driver in this specific banding structure was wholesale price it was set up to reflect very broadly a range of consumer price points. The lower bands A-D generally tie in with consumer shopping price points in that they are set much narrower than Bands above. But, and very logically, volume decrease is broadly linear with price increase. No matter what band one measures there is practically no

consumer impact for a wine priced at wholesale just below the Band top and one priced just above it. Above Band A a 25c-50c increase in wholesale will make little difference to a consumer unless it ends up pushing the price into a new consumer price bracket. The table shows the impact on consumer pricing at retail based on these bands. Obviously retail price cannot be fixed by wineries, each type of retail sets its own prices based on their individual business drivers. The table uses a 43% markup (30% GPM) from wholesale to retail for illustration and this level of markup, give or take, is common in LRS but GLS work on a lower markup. LRS generate a gross profit average of 28% after discounts but there are variations of course. I have a complete study on LRS metrics available.

Markup	Private Retail Selling Price to Consumer		
1.43	Band Bottom	Band MP	Band Top
Band B	\$ 15.73	\$ 18.30	\$ 20.88
Band C	\$ 20.88	\$ 23.67	\$ 26.46
Band D	\$ 26.46	\$ 28.60	\$ 31.32
Max Wholesale Required to Keep In Consumer PP			
	Max CPP	Wsale	Band Wsale MP
Band B	\$ 19.99	\$ 13.98	\$ 12.80
Band C	\$ 24.99	\$ 17.48	\$ 16.55
Band D	\$ 29.99	\$ 20.97	\$ 20.20

The top section of the table gives a theoretical selling price at retail based on the Band bottom, mid-point and top. The bottom section of the table reverse engineers the ideal wholesale price from a Max CPP in each Band.

Once a wholesale price causes a break above the Consumer Price Point (CPP) as happens at the top of the Bands there is a level of price flexibility available. So if a wine is priced at the top of whichever band structure one uses there can be limited risk in pushing the price into the next wholesale band as long as it does not push the Max CPP into a new band. Band Mid-Point is shown in comparison to reverse engineered wholesale.

¹³ Average prices in this report may use different bases for calculation. Unless specified, an average is based on the whole market for that category.

¹⁴ Data on Independent winery demographics, e.g., for winery size, includes second labels and any production for independent virtual brands.

¹⁵ Independent Wineries: by % of volume and wholesale value generated by price band.

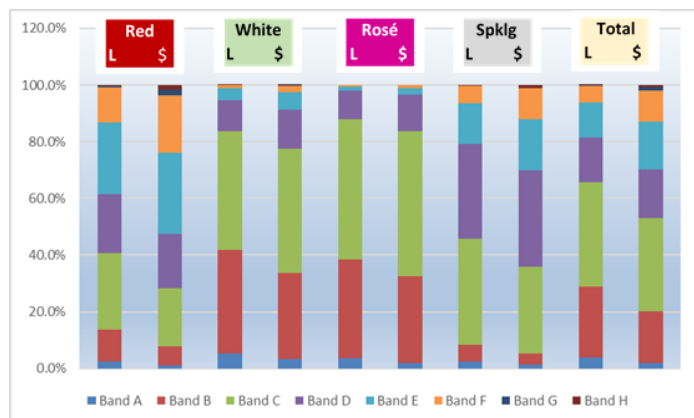


Chart shows where Independents generate their volume and value by band. Note how Red and White, in particular, have different distributions across the bands.

¹⁶ This is not the Report to deal with tactical channel matters but given the surge in DtC in 2020 (up 27% in volume) as wineries pivoted and focused on this segment, possibly the biggest tactical gap that any winery can close is the gap between tasting room and follow up. I am constantly surprised at the basic lack of follow up when contact details are collected at a winery tasting room. I've raised this issue at the sessions I've run on Channel Management in the past but here is a quote (July 2021) from a friend who went to wineries in the Okanagan last September "We visited all those wineries in Penticton last September and despite them having our contact details we've never heard a word from any of them. Yet ... where else are we supposed to go to vacation/try wine? We are a captive market stuck in the province and yet nobody is marketing to us".

¹⁷ Figure 31 is based on wholesale prices ruling at 31 December 2020. It does not reflect price breaks given to channels during the year e.g. LTOs, WPPs, etc. It is quite possible that some Band B products were wholesaled at Band A prices.

¹⁸ Apart from near-shelf positioning, the only ICB practice that I can identify that might cause some concern from BC wine's perspective is that some Big 3 Brands have wines where some SKUs are "VQA" and others ICB. That could possibly mislead customers into thinking they are buying a BC wine when they aren't really. Seems to be a practice that should be stopped to preserve the integrity of BC wine, but that certainly does not throw the concept of ICB out the window, given there is no BC grape supply to fill the market segments that ICB does.

¹⁹ Recognising that Band A is particularly difficult with the ever-increasing price of grapes, this should be read more as a general point that also relates to Band B. While the market has shown acceptance of buying BC wine at ever increasing prices as those prices increase the available market goes down and BC already has high shares in the upper Volume segments of Bands C-D so there is a risk about how much more those Bands can absorb. The only real solution at an industry level is increased grape production either through higher yields and/or more acreage.

²⁰ It can be challenging for any high-volume retailer to take on products with limited supply (and especially if no reorder quantity is available) as the effort to promote may cost more than the revenue. Although selling to the GLS may actually be more profitable than selling to other channels (even including DtC at times), smaller wineries should be cautious. A median size winery with production under 500 cases of a red could run the risk of selling out prematurely and disappointing DtC customers through the tasting room if it sold, say, 80 cases via a GLS one-off promotion.

²¹ Independent winery price average by band. Compare this to Figure 21 on page 17 which is overall average by band. Grey shading indicates no volume.

	Red	White	Rose	Sparkling
Band A	\$ 9.36	\$ 9.68	\$ 8.79	\$ 9.72
Band B	\$ 12.97	\$ 13.14	\$ 13.47	\$ 13.62
Band C	\$ 16.35	\$ 16.28	\$ 15.97	\$ 16.24
Band D	\$ 19.97	\$ 19.72	\$ 19.67	\$ 20.17
Band E	\$ 24.72	\$ 23.68	\$ 23.46	\$ 25.07
Band F	\$ 35.45	\$ 34.97	\$ 30.30	\$ 34.29
Band G	\$ 59.21	\$ 62.48		
Band H	\$ 135.00			\$ 89.55

²² It appears consumers’ appetites for paying a local premium has changed over the years. Not too far back in time a very small percentage would voluntarily pay a premium. However, this study ([Consumers Increasingly Value Local Food](#)) indicates a far higher willingness to pay not only a premium but a tolerance for more than 10%. Since BC wine does position itself in the local food chain, perhaps the percentage premium overall is very competitive and in wine premiums above the Band MP are not as significant as the data might indicate.

²³ I looked at the transitions between Bands (B-C, C-D, D-E) to measure how much wine was sold at the very top versus the very bottom of the next Band (-/+\$.75 in 25c increments). The only thing that stood out was that in the transition from D-E more wine is sold at Band E bottom + 25c than is sold in Band D top – 25c. The inference is that if one has a SKU priced between \$21.65 and \$21.90 one could consider increasing wholesale price by up to 50c without ill-effect. Again caution here as other factors come into play but such an increase would still leave a notional retail within the existing consumer price point band. Also see note 9d in this Appendix.

²⁴ For clarity, this compares 750ml BC against 750ml Imports ONLY.

²⁵ [Small is Good](#) – published by WGABC April 8 2021. It is convenient to accept the premise that BC wineries don’t produce high volume grapes, and there are many good reasons advanced as to why, but no one seems to ask the questions – why doesn’t it?/should it?/how could it be done? From a high-level industry strategy perspective why is this category left to ICB to fill?

²⁶ The astute reader who compares this table to the change in BC’s premium over imports in Figure 32 may ask “If BC’s average price in a band has not changed that much, how is it that the premium over imports has increased?”

The answer is that as BC picks up market share with its wines priced higher within the bands than imports the average calculation weighs in favour of BC wines. It does not necessarily mean that import prices have gone down, just less are sold relative to BC. Overall absolute volume of 750mL imports has shrunk by 3% since 2017. This has occurred entirely in Bands A and B. Imports in Bands C-H have increased. This table implies that the average selling price to the consumer who has shopped in the band has not changed very much, but that consumers, in general, in 2020 shopped in higher bands so increasing BC’s overall 750ml average.

²⁷ Making an analogy to the tech sector, Regions are like “Clusters”. In tech, clusters create synergies in resources (especially people, support services, ancillary services, etc.) etc. In wine, clusters create visitation. Naramata may be the best example of an effective cluster in this respect – many wineries, close together and varied wines make it a tourist magnet which in turn drives increased visitors into adjacent and nearby Regions and adds to the hub economy of Penticton. At the opposite end of the spectrum is say, Lillooet with one winery. That makes the visit a specific one-off trip. It will be interesting to see the impact on Fort Berens’ visitor numbers (and Tasting Room sales) as other wineries open in the DVA.

²⁸ I expect a significant amount of the grapes for this group come from the Oliver/Osoyoos area.

²⁹ Before there were official Sub-GIs the regional identities were fairly well established. Current pricing premiums and discounts are the result of factors in place before their formation. The expectation is that over years, possibly decades, the formation of Sub-GIs will have more influence over what is produced and price premiums or discounts.

³⁰ I coded wines labeled Syrah-Viognier as red blends. With hindsight, I think it would have been more appropriate to class as just Syrah.

³¹ The model is complex with over 40 variables like grape category, vintage lag, market share movement, yield and acreage. It also extends into forecasting industry revenue. The goal, at the time, was to build model was to facilitate industry-level strategic planning and allow various scenarios to be constructed that would facilitate industry to Government discussions on areas where Government could assist private industry to move forward in whatever scenario(s) it adopted and/or to help manage risk for that scenario. That is still my hope.

³² “SUMMARY: Canadian Exports of Wine to All Countries Source: Statistics Canada data retrieved from CATSNET Analytics, AAFC” – data courtesy of Janet Dorozynski, Trade Commissioner Canadian Wine Beer and Spirits, Global Affairs Canada

³³ There is no single source of data for this. Statistics Canada do not track it. It is possible that CRA’s B265 could be used but that would include ICB in any summary. A Freedom of Information request has been made to LCBO and I expect to receive some data from Alberta shortly. I will issue an update to purchasers of the report when this all comes together. Sales Out of Province is a large variable in any calculation of grape acreage required. A 1% variance in the number used in Section 10 equates to c.120 acres in whichever direction it goes. So, for instance, if sales are only 10% of BC wine production it would need 600 less acres to meet scenarios given. I rather suspect that the number used here is on the high side based on some data points I have gleaned.

³⁴ If DtC ever gets the greenlight across the country then there could be a significant diversion from BC sales resulting, even, in a decline in market share, until grape production increases. One of the weaknesses in only measuring success by BC market share is that, in this example, for many wineries this might be a very positive outcome and if overall litres shipped went up as result, a very successful one even if BC market share stayed static or declined. However, in the event it caused shortages in the BC market then consumer loyalty may be tested.

³⁵ Canada 2015 Economic Impact Report. Extract from BC Grape Production, Page 19

“a combined acreage of 10,260 grape-bearing acres (including wineries). Using a four-year average of grape production, approximately 27,745 tonnes of grapes were produced annually” – this is last published tonnage data I can find and converts to ~3t/acre, but may not include wastage, export or out of Province sales – which would then gross it up to around 3.5t/acre. BC production overall likely averages between 3.5 and 3.75t/acre.

[Canada 2015 Economic Impact Report](#)

³⁶ I picked 1,000 cases here as a compromise. The number is close to the median for all wineries and specifically the winery had to have at least this in both years to exclude new wineries just getting started and those winding down. Out of a total 274 wineries, only 35 had unchanged volume (+/-5% over 2019), 18 “graduated” from <500 cases in 2019 to being above median in 2020 and 8 moved up into the >5,000 case band.

³⁷ Retail covers GLS, LRS, RLRS and Grocery channels.

³⁸ For some wineries it will have less impact, but I estimate it will cause an overall revenue hit (i.e., top line, not wholesale) across the industry of around 2%.

³⁹ A comparison like this can be done for any country or segment on a custom basis. USA reds were picked because of their proximity to BC and popularity. LDB data in minor classifications like “grape” is not expected to be 100% accurate, they are planning to do more database work to update sub-regions and grape type over time.