Ontario Wine Industry Performance Study 2022

Ministry of Agriculture, Food and Rural Affairs

Ontario

Contents

About the Study

2022 Wine Industry Performance Report Background and Overview

The 2022 Ontario Wine Industry Performance Study has been conducted annually since 2016. This is the eighth annual benchmarking survey conducted as part of the Ontario government's Wine and Grape Strategy to support the Ontario wine sector. The report covers the period from April 1, 2021 to March 31, 2022.

The questionnaire and report were developed by the Ontario Ministry of Agriculture, Food and Rural Affairs and is intended to be used by industry as a bench-marking study toward continuous improvement and advancements around wineries in the same segment.

Questionnaire participation is mandatory if businesses receive or intend to receive funding under the Vinters Quality Alliance (VQA) Support Program administered by the Ontario Ministry of Agriculture, Food and Rural Affairs.

Purpose and Objectives

The purpose of the Wine Industry Performance Study is to provide a snapshot of the overall performance of Ontario's VQA wine sector to nurture the industry. The Wine Industry Performance Report allows Ontario wineries to reflect on their individual business level decisions and compare them with industry averages for similar sized operations. The report identifies opportunities for industry growth in Ontario. The report is divided into three sections.

Financial	Operational	Business
To provide a financial summary of wineries by segment.	To provide operational information around inventory and production, and employment.	To provide analysis on the business climate, including tourism activity and challenges facing sectors.

Limitations

- Financial data is self reported by each business and not based on audited financial statements.
- Caution should be applied when comparing data from previous years' reports because 2022 data does not include vineyards, as previous years do, therefore there are changes in participation. Questions may also vary slightly from previous years.
- Only Ontario data related to wine and grape production is within scope of the survey, and imported wines sold in Ontario should be excluded.

Methodology

The 2022 survey was developed and distributed by the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) and distributed to winery operations. The survey was comprised of questions pertaining to operational information, finances, exports, inventory, employment, and business challenges.

The scope of the survey was wineries who receive or intend to receive funding under the Vinters Alliance Wine Support Program administered by OMAFRA. The survey was completed by 100 wineries, and grape-growers were not required to complete the 2022 questionnaire. The information from this data was based on the last completed financial year-end.

Respondents were asked to complete the questionnaire based on their last completed year end, using only Ontario data. If businesses operated in different provinces or countries, or if imported wine is sold, that information was to be excluded for the purpose of this questionnaire.

Survey results are kept anonymous and were aggregated and segmented into reporting groups based on total winery sales.

Total Sales	Number of Respondents				
Wineries	**2018**	**2019**	**2020**	**2021**	**2022**
$0M-0.499M	25	35	31	45	37
$0.5M-$1.99M	46	39	49	54	35
$2M-$4.99M	19	19	19	17	14
$5M-$9.99M	8	9	9	5	6
$10M+	8	8	9	8	8
Total	**106**	**110**	**117**	**129**	**100***

*Note: two wineries reported no sales data, and were therefore included in the $0M—0.499M category.

The number of respondents is fewer in 2022 because previous questionnaires included grape growers, whereas 2022 data includes wineries only.

Key Facts

RESPONDENTS

100 producers responded to the questionnaire

TOURISM

84% of businesses ranked tourism business sales as very important

SALES

Winery retail is the top ranked sales channel across all segments

INVESTMENT

On average across all sectors, the largest investment was in winemaking, compared to grape production and tourism

CHALLENGES

Taxation received the most first place votes across segments as the top ranked business challenge in the industry

Financial Information

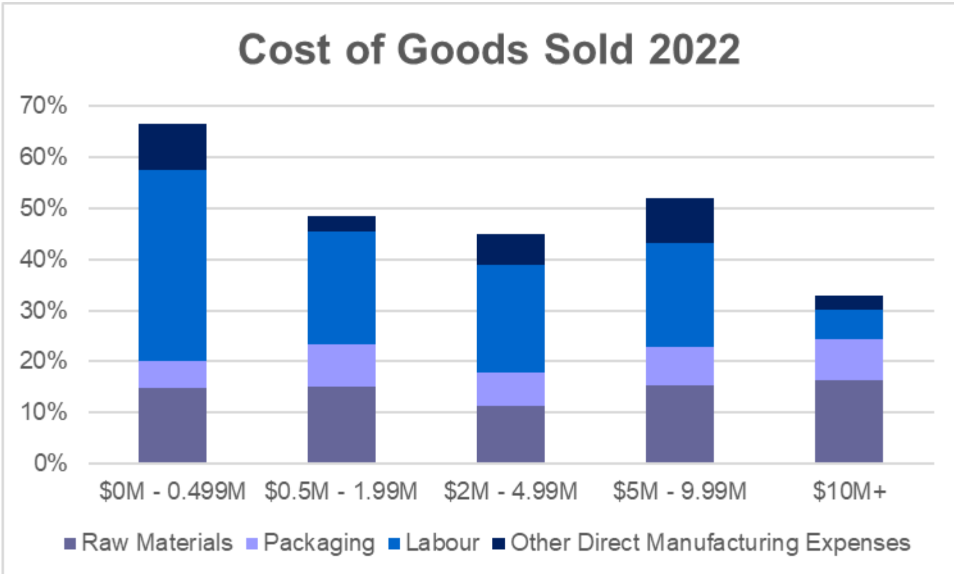
Profitability and Financial Position

Profitability and Financial Position

Income and Expense Statement 2022

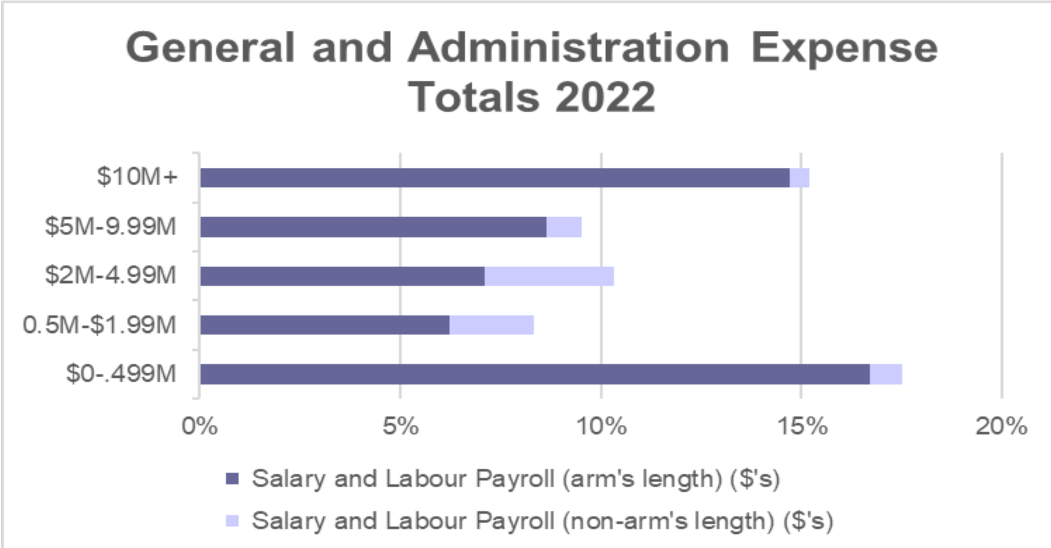
	$0-.499M	0.5M-$1.99M	$2M-4.99M	$5M-9.99M	$10M+
Wine Sales (VQA) $'s	45%	62%	66%	69%	35%
Wine sales (non-VQA) $'s	5%	2%	1%	0%	60%
External Grape Sales to another processor (wine grapes only) $'s	4%	0%	0%	0%	0%
Merchandise Sales ($'s)	2%	3%	2%	1%	1%
Hospitality Sales ($'s)	7%	9%	3%	4%	1%
Onsite food and wine service sales ($'s)	19%	11%	8%	17%	2%
Other Revenue ($'s)	11%	5%	11%	4%	1%
Provincial Grants and Program Revenues ($'s)	6%	7%	8%	4%	1%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**
Transport and Warehousing	-2%	-3%	-3%	-2%	-3%
Retail Programs	-2%	-1%	-3%	-1%	-2%
Raw Materials including grapes, juice, etc ($'s)	-15%	-15%	-11%	-15%	-16%
Salary and Labour Payroll (arm's length) ($'s)	-30%	-18%	-15%	-19%	-6%
Salary and Labour Payroll (non-arm's length) ($'s)	-7%	-4%	-6%	-1%	0%
Packaging ($'s)	-5%	-8%	-6%	-7%	-8%
Other Direct Manufacturing Expenses ($'s)	-9%	-3%	-4%	-8%	-3%
TOTAL COST OF GOODS SOLD	**-70%**	**-52%**	**-49%**	**-55%**	**-38%**
Gross Margin	**30%**	**48%**	**51%**	**45%**	**N/A**
Sales and Marketing Expenses	-4%	-7%	-12%	-13%	-19%
Contribution after sales and marketing	**26%**	**41%**	**39%**	**32%**	**43%**
Utilities	-3%	-2%	-1%	-1%	-1%
General and Administrative Expenses (arms Length) ($'s)	-17%	-6%	-7%	-9%	-20%
General and Administrative Expenses (non-arms Length) ($'s)	-1%	-2%	-3%	-1%	0%
EBITDA	**6%**	**31%**	**28%**	**21%**	**22%**
Depreciation and Amortization from Income Statement ($'s)	-12%	-10%	-9%	-8%	-17%
EBIT	**-7%**	**21%**	**18%**	**13%**	**3%**
Interest expense (enter as a positive number ($'s)	-3%	-3%	-8%	-2%	-5%
Interest income ($'s)	4%	0%	0%	0%	0%
Other non-Grape Income ($'s)	15%	7%	4%	5%	0%
Other non-operating income (enter as positive number for a gain and negative number for a loss) ($'s)	1%	1%	1%	3%	5%
Foreign Exchange Gain/(loss) (enter as positive number for a gain and negative number for a loss) ($'s)	0%	0%	0%	0%	0%
Profit/(loss) before tax	**12%**	**27%**	**16%**	**19%**	**2%**

Cost of Goods



The cost of goods sold graph includes the cost of goods on packaging, labour, raw materials as a percentage of total sales. Overall trending shows cost of goods sold reducing as wineries increased in total sales. Cost of goods sold were 66% of sales for the $0M —0.499M segment and were lower at 28% for the highest segment, $10M +.

Labour Expense



The general administration expense totals 2022 graph represents the percentage of labour costs by the total expenses from the income statement. The graph shows arm's length salary and labour costs more across all segments than non-arm's length salaries.

Employment

Average Full Time Equivalents (FTE)

Winery Size	$0 - 0.499M	$0.5M-1.99M	$2M - 4.99M	$5M - 9.99M	$10M+
Full Time	3	4	8	16	73
Full Time Seasonal	6	5	10	11	67

The table above shows the average full time equivalent employees by number. As winery size increased, so did the average number of FTEs. Wineries in the $0M-0.5M segment averaged 3 FTEs while wineries in the $10M+ segment averaged 66 FTEs.

Respondents were not asked about part time and foreign worker employees in the 2022 survey.

The graph above shows the number of arm's length full time employees vs. non-arm's length full time employees. In all segments, there were substantially more arm's length full time employees than non-arm's length.

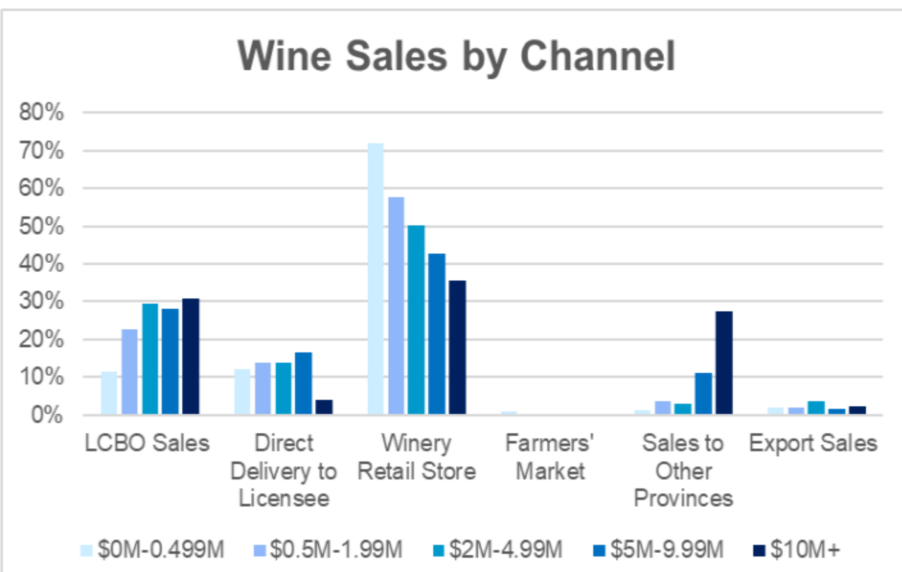
Sales

Wine Sales Detail 2022

	Winery Size (2022 Sales) $0-0.499M	$0.5M-1.99M	$2M-4.99M	$5M-9.99M	$10M+
Wine Sales by Channel (VQA and Non-VQA)					
LCBO Sales	12%	23%	29%	28%	31%
Direct Delivery to Licensee	12%	14%	14%	17%	4%
Winery Retail Store	72%	58%	50%	43%	36%
Farmers' Market	1%	0%	0%	0%	0%
Sales to Other Provinces	1%	3%	3%	11%	27%
Export Sales	2%	2%	4%	1%	2%
Total	100%	100%	100%	100%	100%

Wine Product Type (VQA and Non-VQA)					
Table Wine	88%	91%	88%	89%	91%
Sparkling Wine Sales	6%	5%	5%	6%	4%
Ice Wine Sales	1%	2%	5%	2%	1%
Other Grape Sales	3%	1%	0%	2%	2%
Other non-Grape Sales	2%	2%	3%	0%	3%
Total	100%	100%	100%	100%	100%

Wine Formal (VQA and Non-VQA)					
Packaged Wine	99%	97%	99%	99%	99%
Bulk Wine	1%	3%	1%	1%	1%
Bulk Juice	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%



The chart on wine sales by channel shows that across all segments, the majority of wine is sold at the winery retail store, and the least amount is sold at famers' markets compared to other sales channels.

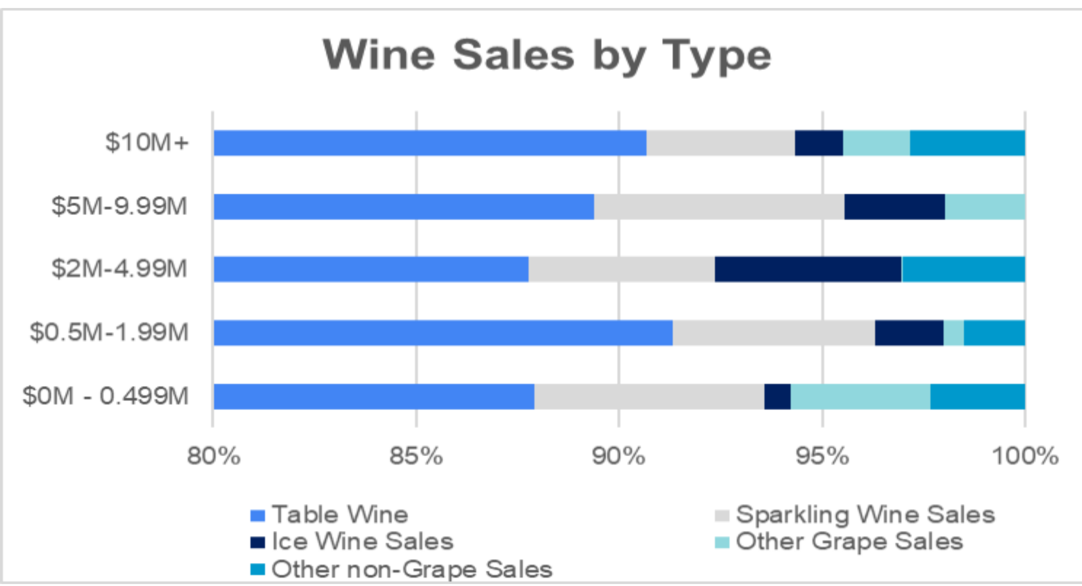
Sales

Wine Sales by Product Type and Wine Format 2022 (sales dollar per litre)

	Winery size (2022 sales)				
	$0M - $4.99M	$0.5M - $1.99M	$2M - $4.99M	$5M - $9.99M	$10M+
Wine Product Type (VQA and Non-VQA)					
Table Wine	25	18	18	20	7
Sparkling Wine	27	27	24	33	10
Ice wine	47	6	88	106	51
Wine Format (VQA and Non VQA)					
Packaged Wine	23	18	18	20	7
Bulk Wine	5	2	6	3	2

Note: figures in the above table represent sales dollars per litre, excluding taxes, levies and fees.

The wine sales by product type and wine format table above shows a large decrease in table wine by sales dollar per litre in the $10M+ segment, and a lower proportion of ice wine sold in the $0.5M—$1.99M segment.



The graph shows the percentage of wine sales by type: table wine, sparkling wine, ice wine, other grape sales, and other non-grape sales. Table wine has the highest sales across all segments.

Exports

Ranking of Relative Importance of Global Export Markets 2022

$0M - 0.499M	1. Asia 2. Europe* 3. South America* 4. Oceania* 5. Africa*
$0.5M - 1.99M	1. Asia 2. Europe* 3. North America*
$2M - 4.99M	1. Asia 2. Europe* 3. North America*
$5M - 9.99M	1. Asia 2. North America 3. Europe
$10M +	1. Asia 2. North America 3. Europe

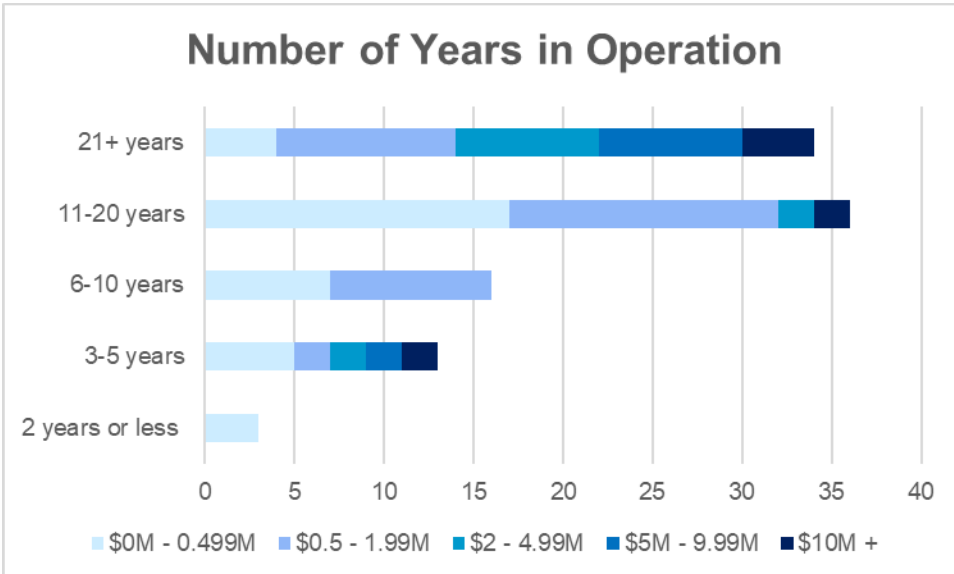
Ranking of Relative Importance of Canadian Export Markets 2022

$0M - 0.499M	1. Quebec 2. Atlantic 3. British Columbia 4. Prairies
$0.5 - 1.99M	1. Quebec 2. Prairies 3. Atlantic 4. British Columbia
$2M - 4.99M	1. Quebec 2. Prairies 3. British Columbia
$5M - 9.99M	1. Quebec 2. Prairies 3. Atlantic
$10M +	1. Prairies 2. Quebec 3. British Columbia

* Ranked equally

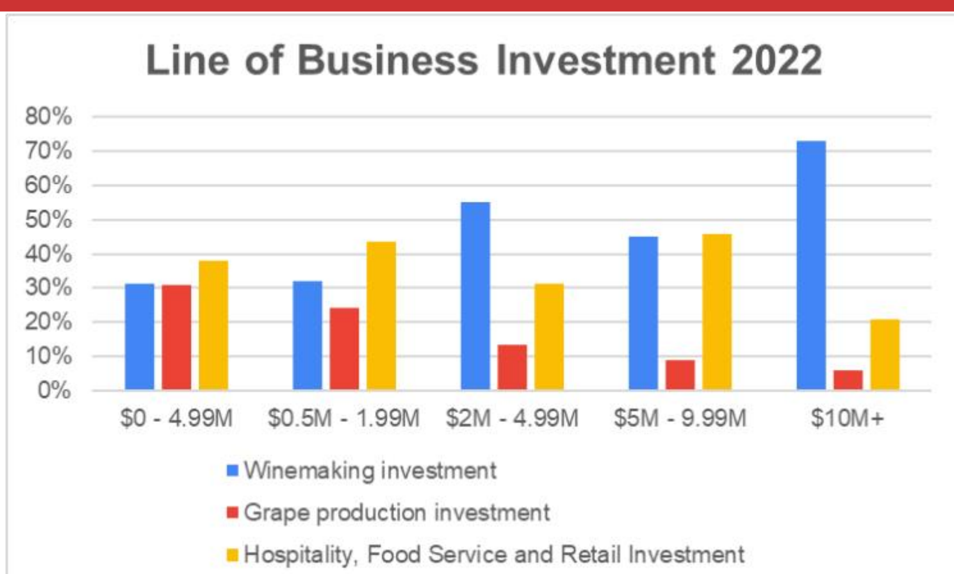
Operational Information

Number of Years Operating



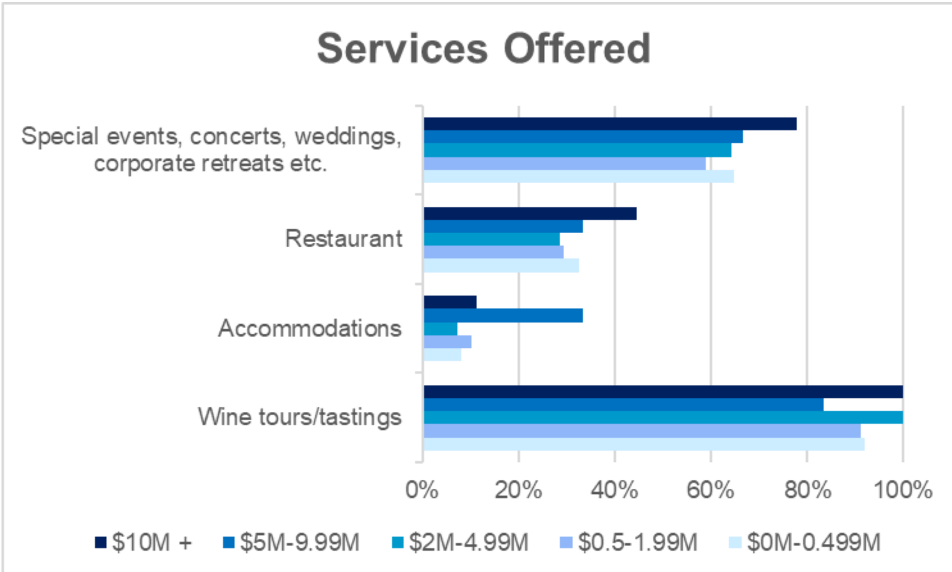
The graph shows the number of years the wineries have been operating by segment. Most wineries have been in operation for longer than 11 years.

Line of Business Investment

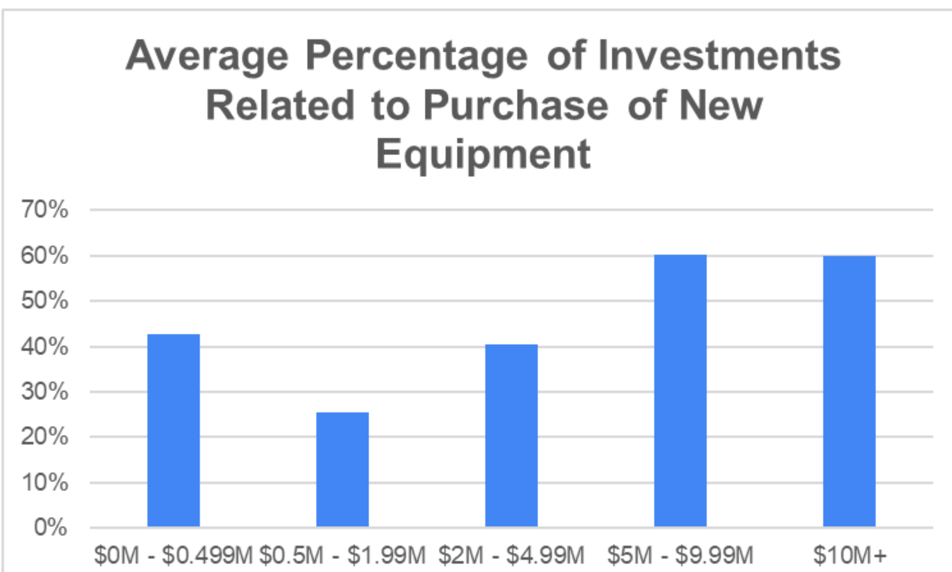


The graph above shows the line of business investment by segment. Most wineries have wine making as the predominant investment.

Innovation and Investments



The graph above shows the services offered by segment. The majority of wineries provided wine tours/tastings in 2022, however, few provide accommodations.



The graph above shows the average percentage of investments related to the purchase of new equipment by segment, which is highest in the $5M—9.99M and $10M+ segments.

Business Climate

Tourism

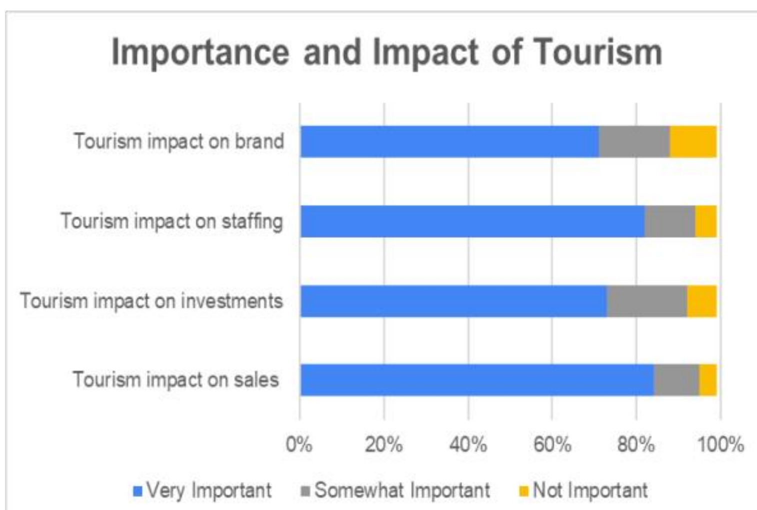
Winery Sales 2022

	$0 - 0.499M	$0.5M - 1.99M	$2M - $4.99M	$5M - $9.99M	$10M+
Annual number of transactions at register	9,040	11,034	21, 844	26,856	99,002
Estimated number of annual visitors	19,875	26,837	59,838	60,867	175,385
Conversion rate (transactions at register/annual visits)	45%	41%	37%	44%	63%

The ratio of the average number of transactions to the average estimated number of visitors showed that across most segments, the conversion rate is about 40%, and in the larger wineries was reported at 63%.

Participants were asked to report on the number of transactions at on-site stores and the number of annual visitors. As winery size increased, the number of reported transactions and visitors increased. The percentage of visits that resulted in a transaction (transaction conversion rate) was similar for all segments.

The graph shows the importance and impact of tourism. Tourism ranked as very important across all areas pertaining to sales in over 70% of participants.



Inventory and Production

Wine Type	$0 - 0.499M	$0.5M-1.99M	$2M - 4.99M	$5M - 9.99M	$10M+
Table Wine Bulk	36,827	74,936	264,203	350,920	6,858,815
Table Wine Packaged	30,370	57,952	170,146	316,881	2,379,351
Table Wine Juice	1,583	-	-	-	-
Total Table Wine	68,781	132,888	434,349	667,801	9,238,166
Icewine Bulk and Pack-aged	921	1,307	2,600	2,600	154,592
Other Grape Wine Bulk and Packaged	402	782	1,968	34,515	198,346
Sum of Average	**70,105**	**134,978**	**438,917**	**672,370**	**9,590,104**

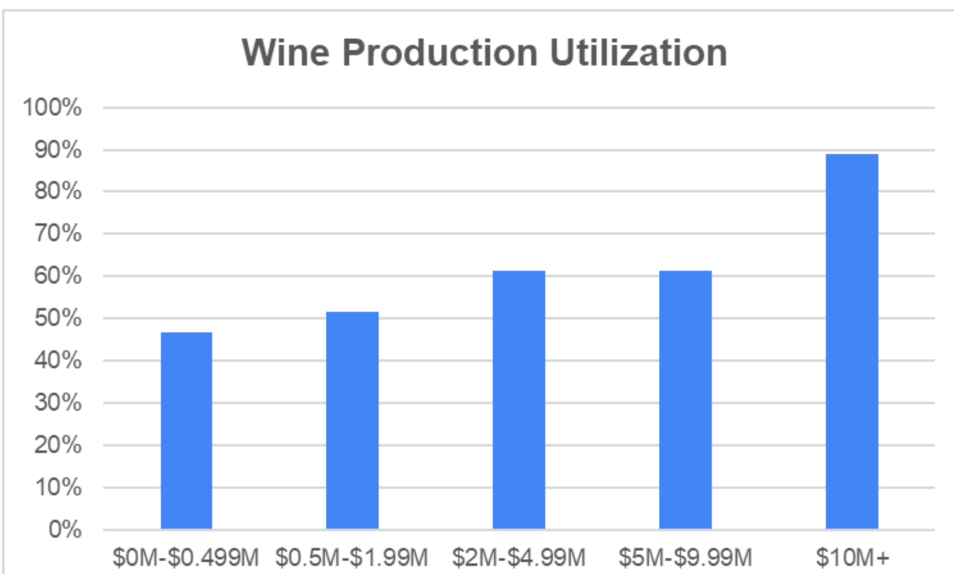
The Inventory and Production Table shows the average litres of wine produced per business, showing that table wine is the most abundantly produced.

Wine Production

Wine Production Detail by Winery Size (2022 Sales)	$0M-$0.499M	$0.5M-1.99M	$2M-4.99M	$5M-9.99M	$10M+
Average litres of wine produced	26,303	58,042	194,868	286,355	8,767,907
Average maximum production capacity based on cooperage*	56,309	112,836	317,283	467,375	9,863,750
Utilization	47%	51%	61%	61%	89%

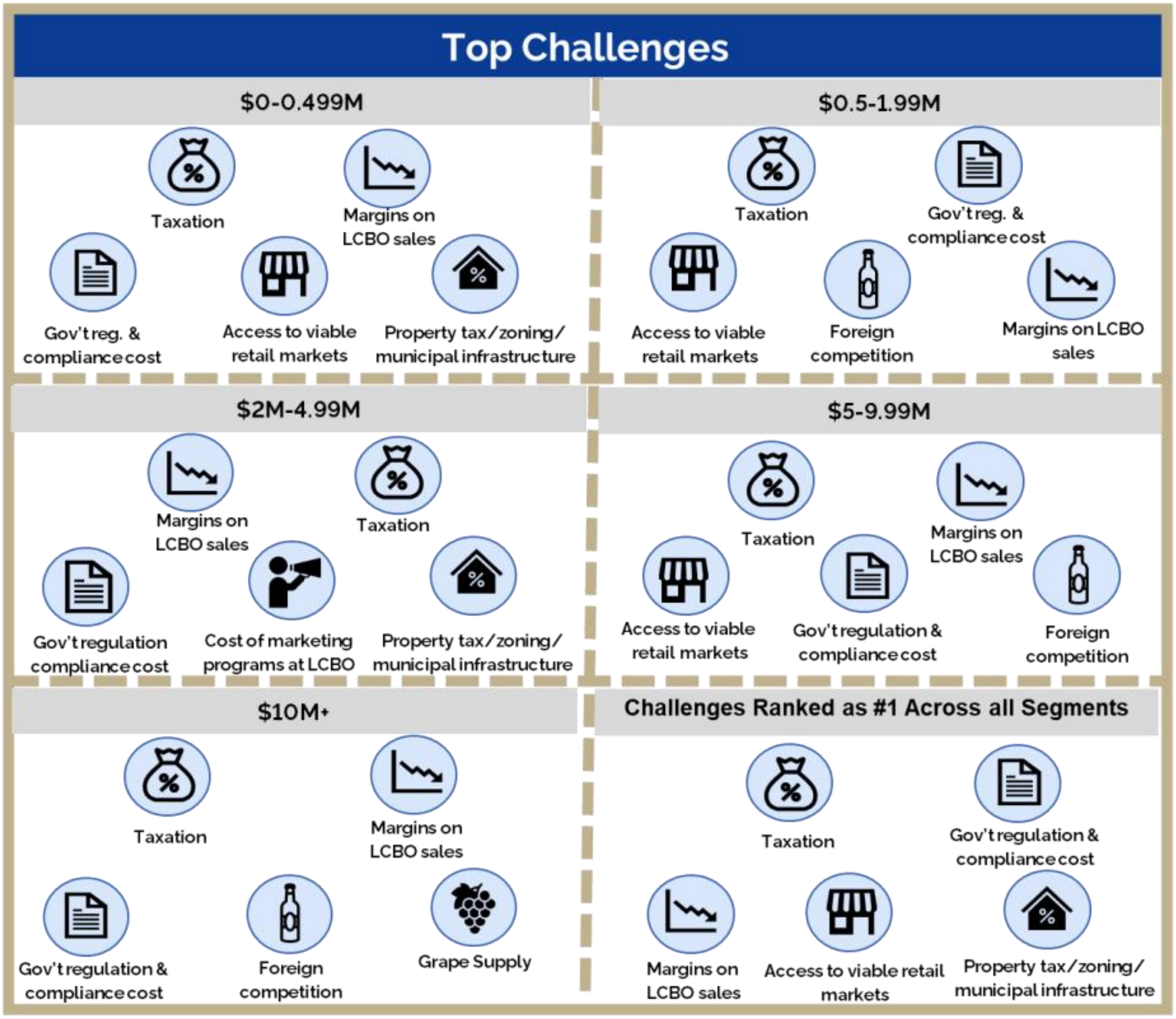
The table above shows winery production detail by litres. Higher production utilization was reported from wineries in the larger segments. Lower utilization suggests that there is unused capacity relative to demand.

*Cooperage is a container used for making or storing wine



The largest wineries reported full production utilization (production divided by cooperage capacity). All segments below $10M used less than 70% of their production capacity.

Top Challenges



Wineries were asked to rank their top five business challenges from a list of 14. The top five challenges by segment were determined by a scoring system based on rank and frequency. Taxation, gross margins n sales through the LCBO, and government regulations and cost of compliance were commonly ranked as top challenges.

The challenges that were ranked as number one most frequently are shown in the last section of the infographic, which shows that taxation was most frequently ranked as the number one challenge.

Taxation, gross margins on LCBO sales, and government regulation and cost of compliance are among the top challenges overall.

Summary

The 2022 Wine Performance Study was conducted by the Government of Ontario in support of the Ontario wine sector. It provides regular updates to help wine organizations to continuously improve, build resiliency, and understand strengths, weaknesses and opportunities by sales segment. The report highlighted financial, operational, and business information based on the 100 survey respondents.

Overall findings showed that Asia is the top ranked international export market, wineries heavily rely on tourism, and most wineries across all segments provide wine tastings and tours for guests. Table wine is the most abundantly produced type, and the main sales channel for wineries is through their winery retail stores. Taxation is a recognized challenge across all segments.

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