



Vineland Estates Winery

One in a series of profiles for the
Friends of the Greenbelt Foundation



Possibility grows here.

Supporting the long-term viability of farming within the Ontario Greenbelt is a primary objective of the Friends of the Greenbelt Foundation. This profile of Vineland Estates Winery is one of a series capturing the business practices and management skills of successful and innovative Greenbelt farmers.





Vineland Estates Winery

Introduction

Vineland Estates Winery produces a value-added agricultural product and operates an agri-tourism business in a multi-faceted enterprise. They import grape plants, grow grapes, make wine, market in domestic and international wholesale markets, and operate an on-farm wine shop and a four diamond restaurant, along with banquet and wedding facilities. All operations take place on their farm in Vineland on the Niagara Escarpment. Senior managers direct vineyard and winery production, wine marketing, the wine shop, the restaurant, and the warehouse, allowing President Allan Schmidt to focus on marketing, promotional, and industry activities.

Allan moved to Ontario from British Columbia's Okanagan Valley wine region in 1987 to become Winemaker and General Manager of Vineland Estates Winery for founder Herman Weis. Today, Allan holds the positions of President and Managing Partner and his brother Brian is the winemaker and manager of farm operations. The company started out as a family-owned business and is currently owned by a number of investors, with Allan holding a minority interest.

Company Aspirations

As a profit-driven business owned by non-management investors, the primary objective of Vineland Estates is a return on their investment. The goal of the company is to boost quality and average price by selling in the most profitable distribution channels.

The firm prides itself on creating 75 jobs at Vineland Estates that support area families. Allan refers to this as a huge obligation, one that he and many farmers take very seriously.

On a personal note, Allan considers his involvement in the wine industry to be very rewarding. "The wine business comes with a great work environment and sense of community. It is not just my work, but also my life." He hopes to help the industry become stronger and more viable; one that his children may choose to enter.

A further objective of Vineland Estates and Allan, through his industry leadership, is effecting regulatory change, nationally and provincially, which will have a profound positive impact on the future of the industry.

Vineland Estates has produced over 30 vintages since their entry into the Ontario wine industry in the 1980s. The business was established early in the revitalization of the Ontario wine industry. Their volumes support worldwide sales and innovative marketing programs in the domestic market, as they produce 50,000 cases per year, with 70 per cent from their own grapes and 30 per cent from other Niagara growers.

Allan serves on numerous industry boards including the Canadian Vintners Association, the Niagara Wine Festival, Ontario Grape and Wine Research Inc., and the Wine Council of Ontario, of which he was elected Chair in 2013. His brother Brian chairs the industry's quality promotion program, Vintners Quality Alliance (VQA), and was recognized as Ontario's 2014 Winemaker of the Year.

Successes

Vineland Estates is widely recognized as a quality wine producer and as one of the pioneers in the revitalization of the sector during the 1980s and 1990s.

The firm is profitable, a situation that did not exist for the first 15 years of operations. Allan believes they lead competitors of their size in profitability because they have been around longer and are carrying less debt.

Allan is passionate about Vineland's success in producing quality wine, and its vintages have won many gold medals. "Winning a gold medal at an international wine competition gives a greater sense of accomplishment and pride than profit on our income statement," Allan explains.

Mentorship and staff development provide significant satisfaction for Allan. The wine industry is close knit, and at the same time quite competitive. Notwithstanding the winery's drive to succeed, Allan asserts that it is gratifying to witness the achievements of other wineries they have helped, or wine makers or assistant wine makers they have previously employed and mentored.



Vineland Estates' successes are attributable to:

- Will and determination of the entire team. Allan notes: "It's been the team's success that has gotten us to where we are today, not just a single person or vintage."
- Becoming a member of the Wine Council of Ontario and involved with other industry organizations. The industry can only prosper by working together.
- A Farm Credit Canada vineyard planting program that Allan and other wineries worked on to promote new plantings. Growers could delay paying the cost of vineyard planting until the vines were producing.
- The Vintners Quality Alliance, which sets standards for quality that the industry has continued to raise.

Current Challenges

Appreciation of the challenges faced by Vineland Estates requires an understanding of the structure, regulation, and limitations imposed on Ontario wine producers and hence the fortunes of Ontario wine grape producers.

- The biggest challenge is that of operating in a marketplace entirely controlled by government regulation. Other than consumer wine sales directly from the winery, all wine in Ontario must be marketed through either the Liquor Control Board of Ontario (LCBO) or a limited number of wine stores grandfathered into the system decades ago. Vineland Estates shares the view of the Ontario Wine Council that the limitations of this system are the biggest barriers keeping Ontario's wine industry from realizing its full potential.
- VQA wines in British Columbia have 30 per cent market share in that province. In Ontario, VQA wines are at eight per cent market share, which will not increase unless regulations change to allow growth. Of the 2,500 VQA wines available in the province the LCBO devotes shelf space to 350 (8 per cent of shelf space), effectively meaning Ontario wineries cannot grow their market share through those channels.
- From a winery's perspective, marketing Ontario wines through the LCBO can be the least financially desirable approach. From a bottle of Ontario wine sold at an LCBO outlet, the Ontario winery receives approximately \$6. The rest of the \$15 represents handling, listing and markup fees, taxes and LCBO profit. The taxes and some LCBO fees cannot be avoided by marketing through other channels, but winery revenues can be increased from \$6 to \$9 per bottle by serving markets more directly. Vineland is aggressive in this regard as explained in the Marketing section below.

“Allan and his colleagues in the wine sector have proven capable of working closely together on research and marketing programs and when addressing past regulatory issues. That collegiality will be required on an ongoing basis to tackle future regulatory roadblocks.”

Vineland Estates is on top of its game and challenges within the business itself are minimal. Continuing to develop new marketing approaches will require some creativity, something Vineland has demonstrated in its wine club and FreshTAP. Allan and his colleagues in the wine sector have proven capable of working closely together on research and marketing programs when addressing past regulatory issues. This collegiality will be required on an ongoing basis to tackle future regulatory roadblocks.

Strategic Focus and Decision-Making

The strategic direction of Vineland Estates receives a great deal of Allan's time, unlike in the earlier, less stable days. They have seen benefits in integrating their strategic planning into their budget cycle rather than undertaking planning as a separate function.

Operational decision-making centres on a Thursday morning meeting where all eight senior managers share views on activities and issues. This collegial effort helps take pressure off Allan to be the key decision maker, develops a team atmosphere, and underpins a profit sharing plan for the participants.

“ The industry conducts production research collectively through Ontario Grape & Wine Research Inc. and the Cool Climate Oenology and Viticulture Institute at Brock University.

The focus of Vineland Estates departs from the approach of the other businesses profiled in this series in that Vineland operates almost as much as a part of the Ontario wine industry as it does as a standalone business. Allan estimates that while 30 per cent of his time is currently devoted to industry issues in his capacity as Chair of the Ontario Wine Council, in all years he devotes a considerable portion of his strategic efforts to industry-wide regulatory and government policy matters.

Best Management Practices

Marketing

Vineland Estates marketing efforts combine opportunities to partner with other Ontario wineries, the strategy of marketing where the returns are greatest, and innovation. They participate in co-operative industry promotion under the industry brand, Wine Country Ontario, and jointly export through an industry group, Wines of Canada.

They pursue retail sales at the winery, restaurant, and banquet facilities and through their wine club to capitalize on the opportunities to increase revenue by direct marketing outside the LCBO. Award winning social media attract customers to their premises and to their wines in the LCBO.

Vineland is an early adopter of wine on tap, selling VQA wines to restaurants in a way that promotes sales by the glass and reduces waste and oxidation/spoilage of part bottles. The wine is supplied in 20 litre stainless steel kegs pressurized with inert gases. This marketing approach recognizes and addresses very real customer problems and involves technology and distribution logistics that are hard for out-of-province competitors to match. Vineland Estates achieved wine on tap sales of \$300,000 in the first year. Six other Ontario wineries are subscribing to Vineland's kegging service, now under a separate company, FreshTAP. The provision of FreshTAP wine from several establishments also addresses the food service industry's desire to offer their patrons variety.

On-farm wine shop customers access tasting notes on iPads at the tasting bars.

The 1,200 members in Vineland's wine club pay a monthly fee for two bottles of wine, one from Vineland and one from a colleague winery (not termed a competitor). The other winery gets increased sales and exposure while Vineland buys their wine wholesale and sells retail.

Financial and Production Management

Allan readily acknowledges that Vineland Estates took on too much debt in its early years and did not spend enough time on budgeting or proper fiscal planning. His personal accounting and business training has proven valuable in bringing more focus to what are now considered critical business

functions. “In a lot of ways financial management defines your success. Like it or not, financial success is your first success. There are no others without money.”

“ The wine business comes with a great work environment and sense of community. It is not just my work but also my life.

Because margins are small in the sector, Allan considers cost containment more important than maximizing production. Leasing of equipment is favoured over purchase in many instances to achieve this end. Extensive budgeting and the benchmarking of costs against those of colleague wineries identify further opportunities to contain costs.

Wine club members buy futures six to eight months in advance of a new release, thereby contributing to cash flow.

Vineland’s grape and wine production is conducted under food safety and traceability protocols, and the firm is currently exploring HACCP certification to further ensure the safety of their products.

The industry conducts production research collectively through Ontario Grape & Wine Research Inc. and the Cool Climate Oenology and Viticulture Institute at Brock University.

Human Resource Management

Vineland Estates’ human resource management values employees, offers profit sharing for senior managers to instill motivation, and pays employees what they are worth to the organization. Rather than attempting to minimize ongoing payroll costs, Allan believes in minimizing turnover and replacement costs by paying staff what you would be willing to pay to match an outside offer. That is a strategy that less established firms could have difficulty duplicating, but it works for Vineland.

A very open style of management is practised. Staff is encouraged to take chances, try new ideas, and speak up. Group dynamics are encouraged as they produce well thought out solutions.

Risk Management

The management team at Vineland Estates employs an enterprise risk management program that can manage up to 20 risks in each of their 12 departments. They devote a great deal of time to risk mitigation,

“ Access to adequate capital is very important. In Vineland’s case, greater shareholder equity would have reduced their reliance on debt in the early years and they would not have been forced to make decisions not in the firm’s long-term interests. For example, Vineland sold wine cheaply on the international market for cash flow only to forego doubling that revenue after the wine won a gold medal.

covering everything from weather setbacks to equipment or power failures to computer viruses. The example cited by Allan was their understanding of the impact of an interest rate hike of two per cent and the steps they would take to compensate.

They participate in government funded risk management programs to deal with agricultural related setbacks: AgriStability, AgriInvest, and Self Directed Risk Management.



Possibility grows here.

