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Commercial Cottage Wine Industry: Fruit Wine

The purpose of this factsheet is to provide an objective overview of the cottage wine industry. This overview is not intended to be a substitute for individuals making their own thorough assessment of key factors that would influence the success of their individual enterprise.

1. Industry Highlights

- The cottage wine industry in Alberta is the production of wine primarily for sale at the farm site, or through the Alberta Gaming and Liquor Commission distribution system.
- This is a new industry in Alberta as the majority of Canadian fruit wineries are currently located in Ontario, British Columbia and the Atlantic provinces.¹
- A cottage winery producing fruit wines would likely stem from an already existing orchard that is in production. New entrants to fruit wine production require a minimum of five acres of producer controlled production, facilities for handling the fruit and wine production, and a general knowledge of fruit production, wine vinification and business management.
- Individuals entering the cottage wine industry need to be prepared to market their own product on the farm site. They must also be willing to abide by strict regulatory measures that apply to the production and marketing of liquor.
- Entering the wine industry enables a fruit producer to use and add value to any excess fruits produced. Wine production and marketing can be spread out through the seasons. This creates periodic cash flows and spreads out the heavy seasonal workload an orchard typically demands.
- There are a number of fruits native to Canada. They include cranberries, blueberries, strawberries, raspberries, blackberries, black raspberries, and saskatoons.² The Canadian fruit industry has adapted to Canada's cool northern climate and short growing season. In the last number of years, new fruit varieties and production techniques have been adapted to the Canadian climate. These new fruit varieties have been developed through breeding programs. The result is more choices of berries to grow and an expanded line of products to market.

1 Fruit Wines of Canada. 2002. Fruit Wines of Canada Business Plan.

2 Agriculture and Agri-Food Canada. 2003. Canada's Agriculture, Food and Beverage Industry Canada's Fruit Industry (2003). http://atn-riae.agr.ca/supply/3304_e.htm.

2. Market Basics

Highlights

- Because the cottage wine industry is new to Alberta, innovative and aggressive marketing techniques need to be implemented. There are two main pathways through which marketing of cottage wine products can occur.
 - **On site** – This means establishing a retail store at the orchard site. Several factors should be examined when an on site retail store is being considered. Location is key to attracting a customer base. Ideally, close proximity to an urban centre helps. Setting up a store with curbside appeal is also important. Creating an experience by combining aesthetic appeal with knowledgeable staff creates a friendly environment to which customers are likely to return to.
 - **Retailers/restaurants** – By going through the Alberta Gaming and Liquor Commission, producers can work with specific retailers to obtain shelf space, or with chefs to promote the wines in restaurants.

Consumption

- Annual wine consumption in Canada has been at a steady increase since 1996. Statistics Canada data for 2004 indicates wine consumption of just over 13 litres per person for the Canadian population over 15 years of age.³ This growth looks promising for products such as fruit wine, even though Canadian per capita wine consumption is very low when compared to other major wine producing countries such as France, where per capita consumption is between 50 and 56 litres.⁴
- The Canadian market offers considerable scope for growth. Currently, domestic markets are estimated at 80 per cent of Canadian fruit wine sales.⁵ However, in general the wine market is currently dominated by imports and Canadian fruit wineries should attempt to grow their own share of the market. By creating a quality product and educating consumers about the product, cottage wineries could capitalize on the domestic market. Looking at Alberta specifically (Table 1), wine sales have been steadily rising. The increase between 1995 and 2004 was 35 per cent.⁶

Table 1. Total wine sales by province for 1995 to 2004, Domestic vs. Import (in litres)

Alberta	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Domestic	4,415,679	4,503,357	4,847,949	5,020,758	5,271,723	5,166,783	5,463,072	5,905,896	6,233,529	6,710,608
Imported	10,586,889	11,159,343	11,487,537	12,298,797	12,835,341	12,999,681	13,778,244	14,588,466	15,112,257	16,467,165
Total	15,002,568	15,662,700	16,335,486	17,319,555	18,107,064	18,166,464	19,241,316	20,494,362	21,345,786	23,177,773

3 Statistics Canada. October 2005. Food Statistics, vol. 4, no.2. Retrieved April 19, 2006 from <http://dsp-psd.pwgsc.gc.ca/Collection/Statcan/21-020-X/21-020-XIE2004002.pdf>.

4 United States Department of Agriculture. 2005. World Wine Situation and Outlook. <http://www.fas.usda.gov/agx/Processed/Wine/Circulars%20and%20Reports/WorldWineSituationandOutlookApril2005.pdf>.

5 Alberta Agriculture, Food and Rural Development, in consultation with various industry stakeholders.

6 Canadian Vintners Association. 2004. Statistics: The Canadian Market. Retrieved from <http://www.canadianvintners.com/canadianwines/statistics.htm>.

- Exports of fruit wine are difficult to determine, given that statistics fall within a broader grouping of products in the ‘fermented beverages’ category of Statistics Canada data. This overall category, dominated by specialty products other than fruit wines, shows a steep rise in exports between 1998 and 2002, and then drops significantly. The drop does not necessarily mean there is a change in interest in these products, but that other trade factors possibly have come into play. Export markets may play an important role for the cottage wine industry as it develops further. The U.S. market may offer export opportunities worth pursuing; however new import requirements may soon make it more of a challenge and more costly for fruit wine exporters to access this market.⁷ Parts of Asia and Europe are also showing increased interest in fruit wines, which may offer potential export opportunities for wine makers.⁸

Industry Connections

- Cottage wineries are becoming more popular across Canada and there are successful links between the wine industry and the agriculture tourism industry in British Columbia’s Okanagan Valley and Ontario’s Niagara Peninsula region.⁹ Combining agriculture tourism components with wineries may bring economic benefit. It may also build an appreciation for the sophistication of Canadian wineries and the quality of their wine, as well as Canadian agriculture in general. An appreciation for the whole wine making process can be experienced when the visiting public is exposed to more than just an onsite retail store. Seeing the orchard, the wine making process and the emphasis placed on quality control helps educate the public. Adding an entertainment component may encourage more farm visits, even if the new component is something as simple as a farm tour. Wine tourism, on and around a winery premise, increases the potential for growth on the domestic marketing front.

- A study conducted by Lang Research¹⁰ indicates there is an above average interest in wine and cuisine related tourist activities in Alberta, British Columbia and Ontario (as compared to other provinces). These provinces have larger urban centres, with more affluent populations that are attracted to such recreational activities. This study also shows that the affluent segment of society is the primary target. Thus, winery advertising should be focused on them. Overall, this population segment represents 24.5 per cent of the Canadian adult population (18 years and older).

Industry Challenges

- One obstacle facing fruit wine producers in Alberta is that consumer perception often equates fruit wines with ‘homemade’ products, implying a lower quality product. Initially, this may weaken consumer interest. However, with marketing initiatives and consistent standards of quality this perception can be changed. Alberta’s first wineries will be pioneers for an industry that may come to have a serious economic impact on the province.
- The local fruit industry recognizes the need for an educational component as part of any marketing strategy. To help consumers appreciate and place value on fruit wines it is important to conduct wine tastings, work with chefs and attend special events.
- Alberta’s unpredictable climate may also prove to be a challenge to the growth of the cottage wine industry as uncontrollable environmental conditions may hinder production capabilities. Producing fruits that are native to or have been bred for the cool Canadian climate should ensure some fruit wine production every year. Growing a selection of fruit varieties provides a more diverse offering of products to market. It also limits the risk of having a natural disaster destroy a single species. Incorporating various species will help to reduce the risk a new venture can pose. It is also advisable to incorporate an on-farm food safety program into the management of the orchard.

7 US requirements for certification of all wines (with an alcohol content of 7% or greater), including fruit wines and ciders may be implemented by the end of the year (2006). C. Leggett, personal communication, as cited in AAFRD, Market Research in Fruit Wine and Mead, April 2006.

8 Dominic Rivard, professional winemaker, in consultation with AAFRD Alberta Fruit Winery Project, 2005.

9 Agriculture and Agri-Food Canada. 2004. The Canadian Wine Industry. http://www.agr.gc.ca/misb/fb-ba/index_e.php?s1=proc-trans&s2=prof&page=wine-vin.

10 Lang Research Inc. 2001. Travel Activities and Motivation Report: Wine and Cuisine Profile Report. Retrieved from <http://www.tourism.gov.on.ca/english/tourdiv/research/tams.html>.

- As Alberta builds its fruit wine industry, it is important to take a close look at any market structures that have already been established. This helps with efficient decision-making. Also, marketing initiatives conducted by a group have more influence with regards to quality and are often more efficient at reaching a wider customer base. For example, the Vintners Quality Alliance (VQA) for grape wine enabled Canada to establish a market known for its high quality wines. This paved the way to meeting world market standards and creating demand. The Fruit Wines of Canada, a national body, followed in the footsteps of the VQA. Its intent was to increase awareness of the high quality of Canadian fruit wines, establish quality standards through the Quality Certified (QC) designation and increase sales to both domestic and export markets. The Fruit Wines of Canada is the holding entity of the QC designation. Winery owners may apply for a QC designation for their fruit wines, by going through the Fruit Wines of Ontario.¹¹
- Marketing wine through a retail store can be difficult and frustrating. It can be a major challenge to convince a store merchant to give new products any shelf space, although the privatization of liquor stores in Alberta has eliminated some of these obstacles. Initially, the best option may be to gain exposure and a customer base through focusing on farm gate sales, before tackling the retail outlets.
- A focus on domestic markets may result in some critical disadvantages as competing for market share against imports can be a challenge. Canadians have demonstrated a historical preference for imported wines. Altering these preferences will take time, particularly in the face of strong marketing strategies by these countries and companies. As noted, reputation is a key variable and changes in perception can be slow.

Consumer Awareness

- Increased consumer awareness of the health benefits of eating fruits and vegetables has contributed to an increase in consumption in recent years. This increased awareness could also be transferred to the wine industry. Recent research has highlighted the health benefits of fruit wines, particularly antioxidant activity that is claimed to be beneficial in fighting heart disease, cancer and the symptoms of aging.¹² If such claims continue to gain mainstream acceptance they could, over time, lead to further increases in wine consumption by the general population.¹³
- Monitoring consumer preferences for specialty wine will be important. Producers should never assume that they have arrived with a finished product line. Improving, enhancing and offering the consumer something new and exciting is the name of the game. Thus, customer feedback plays an important role in product development.

3. Regulations

Canada Revenue Agency Licensing¹⁴

- Obtaining a federal excise license from Canada Revenue Agency (CRA) is the first step in the cottage wine regulatory procedures. The following licenses apply to the cottage wine industry.
 - **Wine licence** – This licence is issued to those producing, packaging, importing, possessing and transporting bulk wine. Those producing less than \$50,000 worth of product annually still need a licence, but are exempt from paying duties.
 - **Excise warehouse licence** – This licence is required to store packaged wine and thereby defer excise duty payments. If wine is not warehoused, duty is payable at the time of packaging, otherwise payment is due upon removal from the warehouse. As well, wine transferred from a warehouse to those warehouses of provincial authorities is exempt from owing duties, creating a positive cash flow in favour of wineries.
 - **Users licence** – This licence is required if using either bulk or packaged spirits to fortify wine.

11 The Fruit Wines of Ontario. 2005. <http://www.fruitwinesofontario.com/qstandards.htm>.

12 Agriculture and Agri-Food Canada. 2003. Canada's Agriculture, Food and Beverage Industry: Canada's Fruit Industry (2003). http://atn-riae.agr.ca/supply/3304_e.htm; Sunnybrook Farm Winery. Helpful Information. <http://www.sunnybrookfarmwinery.com/helpfulinfo.htm>.

13 Agriculture and Agri-Food Canada. 2004. The Canadian Wine Industry. http://www.agr.gc.ca/misb/fb-ba/index_e.php?s1=proc-trans&s2=prof&page=wine-vin.

14 Canada Revenue Agency. 2003. Highlights for wine producers and packagers, Excise Act, 2001. <http://www.cra-arc.gc.ca/E/pub/eb/edb-a2/README.html>.

- These licences require the producer to file fiscal monthly returns, with different return sheets available for each licence category. Once a licence is obtained, it is valid for two years. Renewal forms are sent from the CRA prior to expiry. There are no costs associated with obtaining any of these licences, but duties are applicable and are as follows (if sales exceed \$50,000 annually):

Alcohol level by volume	Duty per litre
Less than 1.2%	\$0.0205
Between 1.2% and 7%	\$0.2459
Greater than 7%	\$0.5122

Alberta Gaming and Liquor Commission Licences

- Regulations in Alberta state that in order for a winery to manufacture and sell alcoholic beverages from the farm gate, a Class E licence¹⁵ is required from the Alberta Gaming and Liquor Commission (AGLC). This licence also allows sales to special event licensees.
- The AGLC requires a Class E licensee to meet the following for fruit wine production:
 - have a 1,500 litre minimum annual production capacity in year one, and 4,500 litres by year five
 - have a minimum of five acres of land in fruit production, with the winery located on the orchard site
 - produce wine where a minimum of 75 per cent is from fruit grown on land controlled by the farmer and up to 25 per cent can come from another Alberta grower for blending purposes
 - vinify 100 per cent of wine production on site
 - have fermentation, maturation and storage tanks, each with a minimum of 200 litre capacity
 - have adequate storage tanks to accommodate production capacity and aging

Note: Licensees are allowed five years from start of operation to reach production minimums.
- Preliminary assessments are to include a site location, an annual manufacturing capacity, a floor plan with equipment details, a listing of proposed products, applicant details and an application fee (\$200).¹⁶
- Once the premise is approved for development, an application form is sent. The applicant needs to supply a Certificate of Incorporation (in the case of a company), a copy of the lease or title, partnership or franchise agreements (where applicable), any financial reporting requirements as stipulated by the AGLC, copies of approvals from other regulatory agencies (federal and municipal) and the annual license fee (\$500).
- A final inspection ensures the premises are up to standard. Once this approval is given, a license is issued.
- A flat mark-up fee is paid to the AGLC, based on sales. While subject to change, the rates are:
 - \$.70 per litre for farm-gate sales
 - \$3.45 per litre for wine sold through AGLC with less than or equal to 16 per cent alcohol by volume
 - \$6.10 per litre for wine sold through AGLC with more than 16 per cent alcohol by volume
- Cottage wineries must also meet several AGLC financial requirements. These include:
 - providing an irrevocable letter of credit sufficient to cover two months of estimated sales levies
 - submission of required reports on a quarterly basis, keeping detailed records on raw materials, purchases, sales, expenses, production and inventories
- A Class D licence¹⁷ is also available to cottage wineries. It allows for a widened marketing approach. Obtaining a Class D licence permits a winery to sell to the general public off-site from the winery, through retail liquor stores and other licensees. However, this license comes with more regulations, as well as a \$100 annual licencing fee. A cottage winery may also apply for an endorsement, allowing them to provide a delivery service to the public.

15 Alberta Gaming and Liquor Commission. 2005. Class E License. <http://www.aglc.gov.ab.ca/pdf/liquor/5237.pdf>.

16 The \$200 application fee is a one-time payment regardless of the type of licence or number of licences being applied for.

17 Alberta Gaming and Liquor Commission. 2005. Class D License. <http://www.aglc.gov.ab.ca/pdf/5225.pdf>.

4. Production Procedures

- The fruit species that are common in Alberta include crabapples, blackcurrants, sour cherries (Mongolian and Nanking), highbush cranberries, gooseberries, plums, raspberries, red currants, saskatoons, strawberries, white currants and rhubarb (rhubarb is considered a fruit in this case). Fruit wine can be produced from many different berries, but it is important to note that a reliable supply is important to sustaining a developed wine variety.
- Fruit wines differ from grape wines in that seldom do they improve with bottle age.¹⁸ The aromas and flavours of fruit wines tend to fade with time. Therefore, it is recommended that fruit wine not be stored for extended periods of time.

Ingredients¹⁹

- Because fruits contain relatively little sugar, most fruit wines are made from juice that has a considerable amount of sugar added to it. Sucrose (sugar) is a feasible and widely used sweetener because the high acid in fruit juice converts sucrose into the simpler sugars of fructose and glucose. These can then be fermented.
- Most fruits are naturally high in acidity. This means diluting the juice with water to produce wine that is palatable. This can be a problem as the juices can be needlessly diluted. As well, fruit wines require the presence of some residual sugar to sustain their flavours. Most often the sweetness of fruit wine is adjusted after the completion of fermentation.

Equipment²⁰

- Various pieces of equipment are needed for the efficient production of wine. The equipment needed may include a fruit crusher and press, storage tanks, a plate filter and pump, a sterile filter housing and cartridge, heat guns or a heat shrink unit, a bottle filler and corker, hoses and various lab equipment pieces such as a scale, various cylinders, beakers and pipettes, a pH meter and testing accessories.

- Keep in mind that the desired size of an operation will vary the equipment that is required. Having all equipment mobile on a floor with a drainage system for easy cleanup, automated labellers, pumps with hoses and cooling units are things to consider for expansion in the future.

Packaging

- As with any product going to market, packaging and labelling are particularly important in the winery industry.
- Strict regulations apply to labelling, bottle size and cork finish. Both the provincial and federal governments have stipulations that must be followed. Becoming familiar with federal legislation such as the *Food and Drugs Act* and *Consumer Packaging and Labelling Act* is important. Federal publications such as the *Guide to Food Labeling and Advertising* and the *Guide to Food Hygiene* provide additional information. Establishment guidelines, like the *Food Retail and Foodservices Code* from Alberta Health and Wellness, are also available. It is also important to contact the regional health authority in your area for regulations specific to an area within Alberta.

Fruit Wine in Canada²¹

- There are several variations of fruit wine that can be manufactured. Wines may be produced strictly with fruit, while some variations are blended with grapes. Processing methods vary, enabling producers to offer several product variations even if only one kind of berry is available.
- The definition of fruit wine varies, but generally fruit wine is made from the juice of sound, ripe fruit, fruit juices or concentrate, without containing any grape products. The alcohol content in wine can vary. According to certain regulations, fruit wine has to be greater than a minimum of 7.1 per cent alcohol. If greater than 14.9 per cent alcohol by volume it can be labelled as a 'dessert' wine or 'aperitif.' Light wine is considered that of nine per cent alcohol by volume or less.

18 Sparrow, David. 2005. Local Fruit Wines. http://www.zwire.com/site/news.cfm?newsid=13686647&BRD=1395&PAG=461&dept_id=511679&rfti=6

19 Sparrow, David. 2005. Local Fruit Wines. http://www.zwire.com/site/news.cfm?newsid=13686647&BRD=1395&PAG=461&dept_id=511679&rfti=6

20 Dominic Rivard, professional winemaker, in consultation with AAFRD Alberta Fruit Winery Project, 2005.

21 Details are from the standards, set by the Fruit Wines of Canada. Regulations may differ with other organizations or geographic regions. Fruit Wines of Ontario. Quality Standards and Regulations. <http://www.fruitwinesofontario.com/qstandards.htm>.

- There are three basic kinds of wine variations that can be produced on top of a classic variety.
 - **Iced fruit wine** – This is any fruit wine that has been fermented from juice through cyro-extraction. At this stage there is no measurement of what fruits should yield in the must.
 - **Fortified fruit wine** – This is the wine product obtained by adding alcohol, derived from the alcoholic fermentation of a food source and distilled to not less than 80 per cent alcohol by volume. In addition, a fortified fruit wine shall have an actual content no less than 14 per cent alcohol by volume.
 - **Sparkling fruit wine** – This wine is impregnated with carbon dioxide to a minimum of 200 kPa at 10 degrees Celsius and has an actual alcoholic strength of not less than 8.5 per cent by volume. As well, sparkling wine has to be, or derive its effervescence exclusively from primary or secondary alcoholic fermentation in a closed vessel.
- Sparkling wine can be produced using two methods: the traditional method or the charmat method.
 - The traditional method produces a sparkling wine through a secondary fermentation in a glass bottle that has a capacity not exceeding five litres. In addition, the finished wine shall be sold in the bottle in which the secondary fermentation took place, and will not have left the bottle prior to final corking.
 - The Charmat method produces sparkling wine through a primary or secondary fermentation in a closed vessel having a capacity exceeding five litres. This process may not take less than six months from the start of the alcoholic fermentation, including aging at the undertaking where the fruit wine was made.

Quality Control²²

Fruit

- Basic tests should be done on the fruit being used for winemaking to ensure it is of adequate quality to render an acceptable wine. For the production of great fruit wine, the production of great fruit is paramount.²³ Consistency is important, as well as the ripeness. It is important that the fruit is ripe, even a bit overripe, but be free of mold or spoilage. When freezing fruit, it is important to use containers that are clean and designed to prevent freezer burn.
- Tests for sugar level, pH and titratable acidity of the fruit should be conducted to determine if the fruit is suitable for winemaking.
- To ensure a basic standard of wine is being produced, the AGLC²⁴ has the right to conduct periodic tests with regards to appearance (colour, clarity, odour), specific gravity, ethyl alcohol, PH level, volatile acidity and sugar content.

Wine²⁵

- Tests need to be made throughout the winemaking process to allow for adjustments, to determine and correct faults and to ensure the long-term stability of the end product. Chemical analyses need to be conducted to determine the various chemical adjustments in the must and wine.
- Complications in quality control often arise in the areas of adequate record keeping, fruit quality, control of phenol extraction and oxidation. Monitoring each production activity affecting the wine and making applicable adjustments increases quality. A complete and accurate recording of the production process enables the producer to look back and further increase knowledge and expertise.
- An overall sanitation program adds to the quality of a wine. Activities as simple as tasting the wines in the tanks and monitoring water quality increases control within the operation. As well, filtering the wine removes haze particles, yeast cells and bacteria. The result is improved taste, appearance and durability, and thereby overall quality.

²² Dominic Rivard, professional winemaker, in consultation with AAFRD Alberta Fruit Winery Project, 2005.

²³ Hohenstein, Joan. 2005. Cottage Wine Industry, The World of Wine: Quality Production for a New Industry.

²⁴ Alberta Gaming and Liquor Commission. 2005. Class E Licenses, Cottage Winery. <http://www.aglc.gov.ab.ca/pdf/5237.pdf>.

²⁵ Dominic Rivard, professional winemaker, in consultation with AAFRD Alberta Fruit Winery Project, 2005.

- Under the Fruit Wines of Ontario, a wine can undergo a quality assessment that enables it to bear the national Quality Certified (QC) symbol.²⁶ Those who wish to receive the QC status with their wines outside of Ontario will require an independent panel assessment. There are no upfront costs to join this program, but fees are charged for wines submitted for the panel assessment, as well as a per bottle charge for QC wines sold.

5. Wine Expertise

- The winemaking process is an art and a science, and experience is often the only source of such knowledge. Starting an operation that offers quality wine products from the beginning establishes a satisfied customer base, which is likely to return. A winemaster can help fill in the gaps of missing knowledge by providing expertise and experience that is sometimes hard to find elsewhere. When hiring a winemaker, consideration should be given to:²⁷
 - educational background
 - past winemaking experience
 - competent understanding of the whole fruit winemaking process from fruit growing to production to selling
 - wine awards won while working at any other wineries
 - whether the winemaker can provide samples of wines that he or she has made commercially
 - wine sales experience or the ability to provide good leads or contacts for wine sales
 - whether he or she has good contacts with wine industry suppliers, distributors or the media
 - whether or not this person is outgoing, creative, good with people, co-operative and a public relations asset

- A winemaker's job should also include assisting in the sourcing of equipment and supplies, setting up and implementing a production program and procedure and developing wine recipes. Hired winemakers should have knowledge in the areas of cellar technology, microbiology or oenology.²⁸
- From a producer standpoint, there are various courses offered to increase knowledge of the wine industry. Both the Southern Alberta Institute of Technology²⁹ (Calgary, Alberta) and Northern Alberta Institute of Technology³⁰ (Edmonton, Alberta) offer courses through the International Sommelier Guild³¹ (emphasis on grape wines). Okanagan College³² in British Columbia offers several courses ranging from increasing tasting knowledge to the practicalities of marketing and customer relations in the wine industry.

6. Economic and Finance Basics

- Individuals considering establishing and operating a cottage winery are encouraged to be prepared to assess the profitability and cash flow performance before committing capital.
- The economic data is based on an operation that has an existing fruit orchard in place and begins wine production in year one with 1,500 litres (one batch), increases to 3,000 litres (two batches) in year two and then increases to 4,500 litres (three batches) in year three, for a total of 10 years of production. The figures are based on production of classic table wines in the 750 ml bottle size, and production at a winery with an AGLC Class E license and annual sales after year one greater than \$50,000.

26 Fruit Wines of Canada QC standards. Information obtained from Jim Warren, Stoney Ridge Cellars in Ontario, and member of Fruit Wines of Ontario. February 3, 2006.

27 Dominic Rivard, professional winemaker, in consultation with AAFRD Alberta Fruit Winery Project, 2005.

28 Dominic Rivard, professional winemaker, in consultation with AAFRD Alberta Fruit Winery Project, 2005.

29 Southern Alberta Institute of Technology. Continuing Education, page 103. <http://www.sait.ca/calendars/conedcalendar/pdf/currentconed.pdf>.

30 Northern Alberta Institute of Alberta. 2005. Part-Time Studies. <http://www.nait.ca/part-time>.

31 International Sommelier Guild. <http://www.internationalsommelier.com/>

32 Okanagan College. 2005. Continuing Studies. <http://www.okanagan.bc.ca/page723.aspx>.

- Table 2 is an approximation of start-up equipment and prices. Depending on the amount of manual labour a winery has available, equipment costs can range greatly. This capital investment schedule uses the prices for a manual corker (\$75 compared to \$6,000 for a semi-automatic type) and a manual labeler (self applied therefore no cost). As the winery increases production, the manual machinery can be replaced with more advanced equipment to speed the winemaking process and cut back on labour time. A money saving option that may be worth looking into is acquiring used equipment, although this may be a difficult task within the western provinces.
- Table 3 is a representative income and expense statement of a winery that would begin production at a modest level of 1,500 litres, before ramping up to the 4,500 litres. The revenue is based on sales of a 750mL table wine with a wholesale price of \$18 a bottle.³³ Return to management can vary greatly, depending on variables such as management methods, acquiring used equipment and different pricing points.
- Table 4 is a projected cash flow with the resulting net present value figure of \$287,272. This positive value indicates the project has the potential to be both worthwhile and profitable. To cover the negative cash flows in the first year, an operator could utilize an operating loan, or the initial loan amount could be increased to ensure no cash flow problems are encountered.

³³ A cost of \$18 a bottle is being used as an estimate. Dessert wines may be sold in a higher price range (\$20-25), while a table wine may be in the \$15 dollar range. Actual retail price will be higher once markups are included.

Table 2. Capital Investment Schedule

Equipment/Tanks	Value	Lifespan (years)	Depreciation	Interest on Investment
Fruit crusher	\$ 500	10	\$17	\$3
Fruit press	3,500	10	122	20
Wine tanks				
200 L (\$300 ea)	300	10	10	2
500 L (\$600 ea)	1,200	0	42	7
1,000 L (\$1,500 ea)	3,000	10	105	17
20 plate wine filter & pump	2,200	8	98	15
Sterile filter pads	825	1	660	46
Sterile filter housing	1,500	8	67	11
Sterile cartridge	595	1	476	33
Bottle filler (4 spout)	1,600	10	56	9
Bottle corker	75	3	11	1
Heat gun (x 2)	440	3	62	8
1.5" hose, 100'	300	5	23	3
Lab equipment	5,000	10	174	28
Initial winemaking supplies	3,500	2	865	98
Total	\$24,535		\$1,924	\$203
Buildings	\$60,000	10	\$1,550	\$210
Other Investments				
AGLC application fee	\$200			
Label design	4,000			
Total	\$4,200			
Total Capital Cost	\$88,735			

Table 3. Income and Expenses at Three Production Levels

Production Litres	1,500	3,000	4,500
Revenues			
Wholesale sales	\$3,600	\$7,200	\$10,800
Retail sales	32,400	64,800	97,200
Total Revenues	\$36,000	\$72,000	\$108,000
Cost of Goods Sold			
Raw materials	\$3,533	\$7,067	\$10,600
Packaging	3,467	5,933	8,900
Total of Goods Sold	\$7,000	\$13,000	\$19,500
Variable Costs			
Direct labour	\$4,500	\$9,000	\$13,500
Indirect raw materials (cleaning supplies)	140	280	399
Variable other manufacturing cost			
Heat	2,400	2,400	2,400
Power	2,400	2,400	3,000
Septic	300	300	600
Garbage disposal	240	240	480
Water	120	120	240
Equipment operating	600	600	1,200
Total Variable Costs	\$10,700	\$15,340	\$21,819
Fixed Costs			
Fixed other manufacturing costs			
Machinery depreciation	\$1,924	\$1,910	\$1,984
Building depreciation	1,550	2,584	2,584
Interest on investment	413	553	564
Taxes	1,500	1,500	1,500
Insurance	600	600	600
Administration	2,620	2,880	3,140
Fixed Marketing Costs			
Signage	600	600	600
Tourist guides	160	160	320
Printed materials	1,200	1,200	2,400
Internet	960	960	960
Networking	1,200	1,200	1,200
Hospitality labour	4,000	4,000	4,000
Total Fixed Costs	\$16,727	\$18,147	\$19,852
Total Variable and Fixed Costs	\$24,427	\$33,487	\$41,671
Return to Management	\$1,573	\$25,513	\$46,829

Table 4. Cash Flow Projections and Net Present Value for a 10-Year Period

Year	0	1	2	3	4	5	6	7	8	9	10
Inflows from Operations											
Wine Sales											
Total sales (bottles)		2000	4000	6000	6000	6000	6000	6000	6000	6000	6000
Wholesale sales		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Wholesale price		\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$18
Income from wholesale	\$ -	\$3,600	\$7,200	\$10,800	\$10,800	\$10,800	\$10,800	\$10,800	\$10,800	\$10,800	\$10,800
Retail sales		90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Retail price		\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$18
Income from retail	\$ -	\$32,400	\$64,800	\$97,200	\$97,200	\$97,200	\$97,200	\$97,200	\$97,200	\$97,200	\$97,200
Total sales	\$ -	\$36,000	\$72,000	\$108,000	\$108,000	\$108,000	\$108,000	\$108,000	\$108,000	\$108,000	\$108,000
Capital Transaction Inflows											
Long term loan	\$29,587										
Personal contributions	\$54,948										
Equipment	\$ -										
Buildings	\$ -										
Capital inflows	\$84,535	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Cash Inflows	\$84,535	\$36,000	\$72,000	\$108,000	\$108,000	\$108,000	\$108,000	\$108,000	\$108,000	\$108,000	\$108,000
Outflows from Operations											
Direct materials	\$7,000	\$13,000	\$13,000	\$19,500	\$19,890	\$20,288	\$20,694	\$21,108	\$21,530	\$21,960	\$22,400
Direct labour	\$4,500	\$9,000	\$9,000	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500
Indirect materials	\$6,200	\$6,340	\$6,340	\$8,319	\$8,485	\$8,655	\$8,828	\$9,005	\$9,185	\$9,369	\$9,556
Operating interest	\$620	\$992	\$992	\$1,446	\$1,466	\$1,486	\$1,506	\$1,526	\$1,548	\$1,569	\$1,591
Fixed mftg costs	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100
Fixed non-mftg costs	\$11,260	\$11,000	\$11,000	\$12,620	\$12,620	\$12,620	\$12,620	\$12,620	\$12,620	\$12,620	\$12,620
Operating costs	\$31,160	\$42,432	\$42,432	\$57,485	\$58,061	\$58,649	\$59,248	\$59,859	\$60,482	\$61,118	\$61,767
Total Cash Outflows	\$ -	\$7,216	\$7,216	\$7,216	\$7,216	\$7,216	\$7,216	\$7,216	\$7,216	\$7,216	\$7,216
Capital Transaction Outflows											
Long term loan payments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash withdrawals	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equipment	\$24,535	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Buildings	\$60,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital outflows	\$84,535	\$7,216	\$8,636	\$8,664	\$8,693	\$8,723	\$8,753	\$8,783	\$8,813	\$8,843	\$8,873
Total Cash Outflows	\$84,535	\$38,376	\$51,068	\$66,150	\$66,755	\$67,372	\$67,989	\$68,606	\$69,223	\$69,840	\$70,457
Net cash flow	\$ -	\$(2,376)	\$20,932	\$41,850	\$41,245	\$40,628	\$47,215	\$46,573	\$45,919	\$45,251	\$44,570
Cumulative cash flow	\$ -	\$(2,376)	\$18,556	\$60,406	\$101,652	\$142,280	\$189,495	\$236,068	\$281,987	\$327,238	\$371,807
Net Present Value	\$287,272										

7. Key Management Issues

- If you continue to investigate the cottage wine industry as a business opportunity, the following are a few issues to consider with regards to production, marketing and management of such an enterprise.
 - Are you prepared to learn all you can about wine production and marketing?
 - Have you clearly defined a target market, the type of products you want to produce and the buyers you will market to?
 - Have you clearly defined the production practices needed to be implemented to be a low cost producer of wine?
 - Have you clearly defined the marketing activities to be performed to market your wine to a specific market segment?
 - Are you aware of the amount of time you need to devote to continuously marketing your product and improving your wine products?
 - Are you aware of the level of performance that is needed for your business to be economically viable?

8. Useful Definitions

Cuvee – bulk wine; wine in casks or vats blended to ensure uniformity and marketability

Effervescence – an excess of dissolved carbon dioxide in a wine

Fortification – the process of adding distilled spirits to a finished wine to increase its alcohol content, improve its preservation qualities, or improve its flavour

Lees – deposits of yeast and other solids formed during fermentation; the sediment of liquor (as wine) during fermentation and aging

Must – the combination of basic ingredients, both solid and liquid, from which wine is made

Still wine – wine without effervescence; any wine not sparkling

Sparkling wine – any wine that has been allowed to complete the final phase of its fermentation in the bottle so that the carbon dioxide produced is trapped within. A *carbonated wine*, on the other hand, is a still wine that has been artificially carbonated by infusing carbon dioxide into the wine before or during the bottling process.

Vinify – the conversion of sugar containing solution such as fruit juice or honey into wine by fermentation.

9. Resources

The following resources are available to individuals wanting to take a more detailed look at the cottage wine industry.

Contacts

For industry awareness and involvement information, contact:

Paul De Jonge – Industry Group Contact
Phone: (403) 327-9843

For specific information on the cottage wine industry, markets and economics, contact:

Alberta Agriculture, Food and Rural Development
Cottage Wine Initiative
Sharon Faye – Project Lead
Phone: (780) 422-5326
E-mail: sharon.faye@gov.ab.ca

For specific information on fruit production, contact:

Lloyd Hausher – Provincial Fruit Industry
Development Specialist
Phone: (403) 362-1309
E-mail: lloyd.hausher@gov.ab.ca

For new venture assessment, research and business ideas, contact:

Alberta Agriculture, Food and Rural Development
Ag Info Centre
Kathy Bosse – New Ventures Specialist
Phone: 1-866-882-7677
E-mail: kathy.bosse@gov.ab.ca

For food safety programs, contact:

Alberta Agriculture, Food and Rural Development
Agri-Food Systems Branch
Betty Vladicka – Food Safety Systems Specialist
Phone: (780) 427-0840
E-mail: betty.vladicka@gov.ab.ca

Regulations

Alberta Gaming and Liquor Commission (AGLC)
Laine Vertypora – Policy and Development Analyst
Phone: (780) 447-8793
E-mail: laine.vertypora@aglc.gov.ab.ca
<http://www.aglc.gov.ab.ca/pdf/liquor/5237.pdf>
http://www.aglc.gov.ab.ca/pdf/quickfacts/markup_rates_schedule_effective_sept_1_2004.pdf

Canadian Food Inspection Agency (CFIA) – Food inspection and labelling
Main Offices
Phone: (780) 495-3333 (Edmonton)
Phone: (403) 292-4650 (Calgary)
<http://www.inspection.gc.ca/english/toce.shtml>
Regional Health Authority
http://www.health.gov.ab.ca/regions/RHA_map.html
Canadian Revenue Agency, excise duty information
<http://www.cra.gc.ca/tax/technical/exciseduty-e.html>
<http://www.cra-arc.gc.ca/E/pub/eb/edb-a2/edb-a2-e.pdf>
Canadian Food Inspection Agency, food labelling and advertising information
<http://www.inspection.gc.ca/english/fssa/labeti/guide/ch10e.shtml>
<http://www.inspection.gc.ca/english/fssa/labeti/guide/ch2e.shtml#2.3>
Consumer Packaging and Labelling Act
<http://laws.justice.gc.ca/en/C-38/index.html>
Food Retail and Foodservices Code
<http://www.dthr.ab.ca/resources/documents/foodestablishment/Food%20and%20Food%20Establishments%20Regulation.pdf>
Food and Drugs Act
<http://laws.justice.gc.ca/en/F-27/index.html>
General Principles of Food Hygiene
http://www.cfis.agr.ca/english/regcode/gpfh/gpfhc_e.shtml
Health Canada, unpasteurized fruit beverages
http://www.hc-sc.gc.ca/fn-an/securit/facts-faits/unpast_fruit_juices-jus_fruits_cidre_nonpast_e.html

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Alberta Agriculture, Food and Rural Development

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Alberta

Marvin Gill – Owner, Field Stone Fruit Wines