Icewine, Appassimento and Canadian Wine Sales in Asia

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Jamie Slingerland
Director of Viniculture
Pillitteri Estates Winery

Lefa Teng
Professor
University of Guelph
Pillitteri Estates Winery has increased our winery’s strengths with OMAFRA / University of Guelph funded projects and research.
JAMIE SLINGERLAND

- Director of Viticulture, Pillitteri Estates Winery
- 2015-16 Grape King
- OAC 79A Graduate
- OMAF 1980-85, Leamington, Sudbury, Kitchener
- Board of Directors, Wine Council of Ontario, Chair Sustainability
- Full time Grape Grower since 1985 (BFAP participant)
- Son-in-law to owners

PILLITTERI ESTATES WINERY
NIAGARA-ON-THE-LAKE, ONTARIO

- Family business of 3 generations, 8 full time family members
AWARDED BEST VINEYARDS IN ONTARIO
-1981 & 2015 GRAPE KINGS

- Pillitteri Estates Winery achieved the best vineyards in Ontario by utilizing OMAFRA’s programs, funding, education and research through: Vineland Innovation Research Centre (VRIC), Cool Climate Oeneology and Viticulture Institute (CCOVI), University of Guelph (U of G), Environmental Farm Plan (EFP) and others

- We are the largest estate producer of Icewine in the world and one of the top ten VQA wine producers in Canada

- Our production is 50% Icewine and 50% table wine, mostly reds

- Over 800 wine awards, Including “Best in Show” at every major world wine competition
HACCP TEAM

- We were a 2007 pilot project for the OMAFRA Advantage HACCP Plus program becoming the first HACCP certified winery in Canada
- Utilized FISTI program for upgrades
- Our export sales have increased due to the food safety program
CLIMATE PROTECTION

- Lake Ontario creates a micro climate in Niagara north creating the best climate in the world to produce Icewine.

- Research studies by OMAFRA led us to purchase wind machines through the OVIP / OMAFRA programs to further reduce crop damage due to cold weather.

- Our crop insurance claims and premiums have been reduced by 40%.

- Agricorp runs crop insurance and is funded by OMAFRA.
WHY ICEWINE?

- Icewine opens doors in world markets
- Icewine is a rare style of wine, produced only in a few parts of the world, 90% of Canada’s Icewine is produced in Niagara-on-the-Lake, within 7km of our doorstep
- Canada is world renowned for the best Icewine

Icewine is a luxury product, more accessible to the affluent.
ICEWINE

- Bird damage can add up to 1% losses per day in full winter
- In a joint study with OMAFRA / VRIC we provided a 2 year test site for a bird deterrent product
- OVIP and COFSP programs funded by OMAFRA helped with the purchase of devices and netting to deter birds

- Icewine Harvester harvesting Vidal grapes at night
ICEWINE PRODUCTION INCREASES THE VALUE CHAIN

- In an Icewine vs. Table Wine analysis the gross value per acre is 3X for Icewine.

- Margins under optimal conditions can exceed that

- Vidal Grape ready for Icewine Harvest

- Vidal Grape ready for table wine Harvest
ICEWINE GARNERS NATIONAL AND WORLD MEDIA ATTENTION EACH YEAR

WINERIES

Bottling success in Asia

Canadian icewine was the inroad into this growing middle-class market, but now table wines are seeping in

SHELLEY WHITE

Pillitteri Estates is a family-run winery in Niagara-on-the-Lake, Ont. – a place where wine lovers can get up close and personal with the wine-making process before taking home a bottle. But increasingly, some of Pillitteri's best customers are buying its products more than 10,000 kilometres away.

About 30 per cent of Pillitteri's business is exports these days, says chief executive officer Charlie Pillitteri, with the majority going to Asian countries such as South Korea, Japan, Taiwan and China. Increasing sales in Asia is a major part of the winery's business plan, he said.

"It takes a lot of effort on our side, dealing with the language and the culture," said Mr. Pillitteri. "But in terms of all of our customers, I think the Asians are the most aggressive and the most interesting."

Canadian wine exports have increased steadily over the past few years – from $19 million in 2009, to close to $58 million in 2013. And a large part of that bump in sales is due to the emergence of a vibrant Asian market, and its appetite for Canadian icewine.

While icewine exports to some
OMAFRA’S LEGISLATIVE AND POLITICAL IMPACT

- As OMAF Minister, Premier Wynne’s initiative on Farmers markets increased sales at Pillitteri in one year by 3%. Pillitteri Winery accounted for 20% of all wine sold at farmer’s markets.
- Travelling on trade missions with Premiers and OMAFRA ministers helps generates sales

- Premier Wynne as Minister of OMAF visiting Pillitteri barrel cellar

- Farmers Market Wine Sales
NEW PRODUCT DEVELOPMENT – APPASSIMENTO

- Appassimento is partially dried grape wines made famous by Amarone wines from the Corvina grape in Verona, Italy.
- There is market potential for this calibre of ultra reserve wines for export and domestic markets utilizing existing grape varieties from our vineyards and introducing a Canadian Corvina Appassimeto.

Charlie Pillitteri with Premier McGuinty, Minister Duguid, Minister Leal and Minister Chan
Our climate is different than Verona Italy so we had to research the best drying methods for Appassimento.

From 2011-14 we partnered in a project with CCOVI at Brock U, Niagara College and VRIC - established in 2006 by OMAFRA.

This included 7 private industry partners, the GGO, OGWRI, OMRI’s ORF-RE program fund that finances U of G/OMAFRA and 10 research stations. Ag Canada DIAP also provided funding.
ESTABLISHING THE FIRST CORVINA VINEYARD IN CANADA

- The Corvina grape did not exist in Canada prior to 2010
- Only virus indexed vines can enter Canada
- Dr. Helen Fisher from the U of G helped us locate the only source in the world from University of California, Davis. Very small quantities were available
- We partnered with Dr. Fisher U of Guelph, Dr. Brown from OMAFRA, utilizing the VRIC greenhouse to rapid produce vines from Green Grafting
- During 6 weeks in 2010 from 20 buds, 2,000 vines were produced
- In 2011, 1000 more vines were produced
APPASSIMENTO

- Cheque to Dr. Fisher, U of G, Dr. Brown, OMAFRA
- Premiers Award for Agra-Food Innovation Excellence, by Minister McMeeken
- Harvesting Grapes for Appassimento Wines
Green grafting allows timely rapid increase of new, virus indexed cultivars in northern climates

K. Helen Fisher*, Brian Piott, Wayne Brown, Steven Trussler, Wes Wiens, and Jamie Slingerland
* University of Guelph, 83 Simpson Road, St. Catharines, Ontario L2N 325, Canada hfisher@uoguelph.ca

INTRODUCTION: The introduction of new grape cultivars is often hampered by restricted volumes of clean, virus indexed propagation material. In 2009, a small number of dormant, indexed hardwood cuttings of three Italian cultivars was received by a Niagara-based winery, presenting this exact dilemma. The plants required for the winery’s proposed field planting exceeded that which was feasible from the immediately available, indexed hardwood cuttings for 2 of the 3 cultivars. The time delay to bulk up the scion wood suitable for dormant bench grafting using an outdoor planting would also result in a reduced virus status. Green grafting with available green-house grown rootstock of similar virus status was proposed as an alternative.

METHOD: Two cultivars (Corvina and Rondinella) were planted as own rooted cuttings in a root-based soilless medium and grown in a secure greenhouse. These two cultivars were grafted using two techniques – ‘V’ or cleft (2010) and mini-Omega (2011) – as hand tied, single node, green shoot grafts. In 2010 and 2011, the following scion/rootstock, green graft combinations were made: 2010: Rondinella/SO4, Corvina/SO4 and 2011: Corvina/C3309. Young vines were overwintered in the greenhouse at 5°C and field planted the following season (2011, 2012).

RESULTS: The 2010 green grafts planted in 2011 and the 2011 green grafts planted in 2012 have established well. Vines began producing in 2012 with semi-commercial production planned for 2013. Field losses and winter injury have been minimal and grafts unions strong and healthy. Grafting in both 2010 and 2011 was ~40% successful when performed in late spring/early summer, but less than 20% when performed in September. More work needs to be done to establish specific protocols for the removal of scion roots, rootstock leaf remnants and root stock suckers to maximize scion growth. C3309 appeared to root more easily and required less rootstock suckering.
VALUE CHAIN RESULTS

- We succeeded in our product development with Appassimento through collaborated research with OMAFRA and other research / government partners
- Grape drying methods were developed that were unique to Niagara
- A commercially viable Corvina vineyard was established for Appassimento
- Pillitteri’s 2012 Appassimento Cabernet Franc Family Reserve chosen at the Ontario Wine Awards as the “Red Wine of the Year”
- We are now selling Appassimento wines domestically and in our export markets in Asia
- The first Canadian Corvina Appassimento wine will be released in 2016
WHY EXPORT? ...MARGIN!

- Diversification of markets. Asian export markets are more open than other markets and there is minimal competition from other Icewine producers.
- Margins. The lowest tax bracket is exports and the highest is the LCBO.
- On a $15 x 750ml bottle of wine:

<table>
<thead>
<tr>
<th>Sales Channel</th>
<th>Margin</th>
<th>% of Sales</th>
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</thead>
<tbody>
<tr>
<td>Export/Duty Free</td>
<td>$2.50</td>
<td>- 50%</td>
</tr>
<tr>
<td>Front Door</td>
<td>$2.25</td>
<td>- 39%</td>
</tr>
<tr>
<td>Farmers Markets</td>
<td>$2.00</td>
<td>- 3%</td>
</tr>
<tr>
<td>Restaurants</td>
<td>$0-$0.50</td>
<td>- 3%</td>
</tr>
<tr>
<td>LCBO/(wine in Grocery)</td>
<td>$0-$0.25</td>
<td>- 5% (+5%**)</td>
</tr>
<tr>
<td>*LCBO /(wine in Grocery)</td>
<td>$2.00</td>
<td></td>
</tr>
<tr>
<td>*With VQA Rebate Program</td>
<td></td>
<td></td>
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<tr>
<td>**Projected sales at “wine in grocery”</td>
<td></td>
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The VQA enhancement program operated by OMAFRA has been a game changer in the LCBO sales channel by improving LCBO margins.

The change to “wine in grocery”, we estimate will grow our sales by 5% in two years.

It is hoped that when the VQA program expires in a few years wine will have the same tax credits as breweries currently receive.

Sales channels continue to evolve both domestically and internationally.
FOCUS ON EXPORTS TO CHINA

- The demand in China for authentic, premium, food safe, healthy and 100% Ontario (Canada) is huge and virtually untapped.

- Pillitteri Winery has exceeded in China with higher risk/value/margin/quality products like Icewine and premium red wines. We currently have 23 agents in 4 cities and are looking beyond that.

- Pillitteri received the 2013 Ontario Food Exporter of the Year Award from Premier Wynne.

- Charlie Pillitteri pictured with Premier Wynne receiving the award.
WHY SUCH SUCCESS IN CHINA?

- We focused on Icewine to open the door then up-sold with other wines, mostly red, to fill containers and diversify sales.

- We have specialized in export and are always looking for new markets.

- Red wines are perceived as healthy and premium red wines ($50) have great demand and ultra premium red wines like Appassimento ($80) have shown even greater demand.

- Pillitteri Winery has gained greater prestige and opportunities by traveling with OMAFRA ministers when traveling to China which we have converted to sales.
RESEARCH PROJECTS WITH PROF. LEFA TENG, UNIVERSITY OF GUELPH / OMAFRA

- On previous visits to China by CEO Charles Pillitteri, Prof. Lefa Teng has made introductions to new customers that have resulted in sales during 2012-2016

President Chen of Jiangnan University, with President Vaccarino of U of G, Charlie Pillitteri CEO Pillitteri Winery, Dr. Lefa Teng of U of G, OMAFRA Minister Leal
ICEWINE RESEARCH WITH DR. LEFA TENG
Project 1: 2010-2013, No: 26947 - Completed

- Improving Pillitteri Icewine Sales in China
  Sponsored by OMAFRA and Pillitteri

- Ontario Icewine – Origin Effect
  - The importers and distributors were only familiar with Niagara Falls
    - Niagara is one of the only places where summers are warm enough to produce fine wine grapes and winters are cold enough to produce Icewine
    - Pillitteri promotes its Niagara origin in its marketing strategy
Increased Interest in Canadian Wine
• Canadian (Ontario) Icewine has a good reputation
• Chinese distributors and importers are looking to sell Canadian wine

Branding Pillitteri, Niagara and Canada is an effective strategy

The Chinese market can handle increased prices
Ontarian Icewines and Canadian Icewines are extremely similar in terms of taste and quality
A strategic pricing strategy premiumizes Pillitteri wines

The results of this research helped Pillitteri increase wine sales in China
ICEWINE RESEARCH WITH DR. LEFA TENG
Project 2: Counterfeit Icewine Research

- Professor Teng engaged the College of Business and Economics of the U of G to study the cases of Fraudulent Icewine with the assistance of Pillitteri Estates Winery, through the MBA Boardroom Challenge 2015

- This project led to a counterfeit Icewine strategy for Pillitteri, including the “ProofTag” security seal and global trademarking

- We have requested Dr. Teng to further study the impact of fake Icewine on Canadian sales in the Asian market
ICEWINE RESEARCH WITH DR. LEFA TENG
Project 3: Proposal for Consumer Research

- TAPPING INTO THE CHINESE APPETITE: DRIVING SALES FOR ONTARIO FOOD PRODUCTS IN CHINA
  (Submission Number: U of G 2015-2016 No.2373)

  - Pillitteri is sponsoring another OMAFRA project with Dr. Teng
  - This project will study the Chinese consumer and their buying habits of Icewine
  - Goals are to find new consumers, geographic locations to market, to increase consumer loyalty, and generate sales and profit from existing consumers
THE NEED FOR CONTINUING RESEARCH...

- Pillitteri will continue to work with OMAFRA, the University of Guelph and other industry partners in research as it is vital to the growth of our wine industry.