



WINES OF  
BRITISH COLUMBIA

# BC Wine Institute

## Funding Model Review



*Prepared by:*

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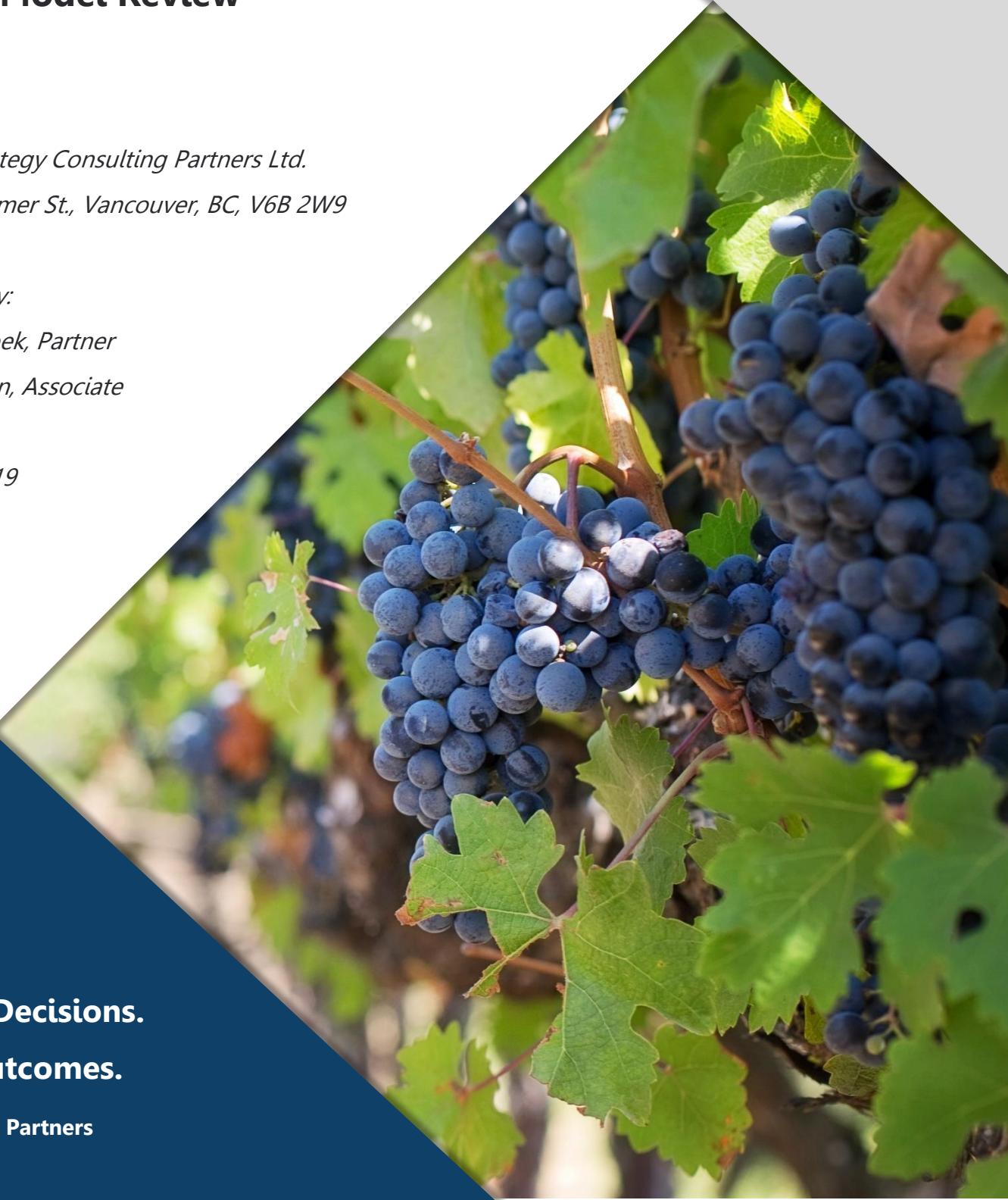
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*June 11<sup>th</sup>, 2019*

**Confident Decisions.  
Positive Outcomes.**



## EXECUTIVE SUMMARY

### Context

The British Columbia Wine Institute represents the BC wine grape industry as a volunteer, membership-based, not-for-profit society. The BCWI is member-funded through two funding streams, the Winery Membership Dues and the BC VQA Store Marketing Fee. A review of the existing funding model had not been completed for some time and the board was looking to investigate the funding model in more detail.

### Mandate

Cascadia Partners was selected to conduct a review of the current BCWI funding model. Interviews with BCWI Funding Structure Review Task Group members were completed to develop an in-depth understanding of the current model, enabling an accurate and holistic review, including a SWOT analysis. Additionally, interviews were conducted with external industry stakeholders to determine leading practices in other wine producing regions as well as other agriculture associations in British Columbia. Following interviews, options were developed analyzed, and modelled, leading to a series of recommendations.

### Funding Model Framework

A framework was developed to effectively evaluate components of the current state funding model and assist in developing options and recommendations for the future state model. This framework included four components that make up each fee, with the corresponding options outlined below.

- 1) Funding Envelope:** The total funds required by the entity to deliver targeted programming.
  - a. Collect Revenues & Adjust Spending Throughout
  - b. Match Funding to Desired Programming
- 2) Funding Model:** The contribution required depending as a function of output.
  - a. Linear, Progressive or Regressive
  - b. Cap or No Cap
  - c. Floor or No Floor
- 3) Funding Metric:** The unit of measurement used to calculate membership dues.
  - a. Sales or Production
  - b. Provincial or International / Out of Province
- 4) Funding Payment:** The payments required depending on billing processes.
  - a. Actual Volumes
  - b. Historical Volumes
  - c. Historical Volumes + True-Up

### Winery Membership Fee Recommendations

#### 1) Funding Envelope: **Match Funding to Desired Programming**

The BCWI will be able to accurately align the future state funding model with its new strategic plan, by projecting annual costs of WineBC2030 over the long term and matching funding needs to those costs. This will ensure that strategic objectives can be implemented effectively and sustainably.

## **2) Funding Model: Regressive, No Cap & Floor**

Use of a regressive model will significantly reduce one of BCWI's key threats, which is the potential of large member wineries exiting the BCWI. It will also better align perceived value and actual costs, particularly among large member wineries. Small members will not be put at risk of material increases of member dues by using a cap, and a floor will exclude membership from wineries who do not operate as full-scale producers.

## **3) Funding Metric: Production & International / Out of Province**

Calculating the Winery Membership Fee based on production data, including international / out of province sales, will allow the BCWI to reduce membership due leakage, and collect funds based on outcomes in which they currently provide programming and advocacy (i.e. out of province and international sales). By combining this option with a regressive fee approach it prevents a material impact to exporting producers.

## **4) Funding Payment: Historical Volumes**

Using historical volumes (tonnes from previous year) to calculate the fees for the current year will enable both the BCWI and member wineries to more accurately forecast its respective revenues and costs.

## **BC VQA Marketing Fee Recommendations**

Through interviews, analysis and alignment with the BCWI Funding Structure Review Task Group, Cascadia does not recommend a material redesign of the BC VQA Marketing Fee.

Cascadia recommends that the BCWI increase the BC VQA Store Marketing Fee for non-member wineries, from 10% to between 15% and 20% while Cascadia recommends holding the BC VQA Store Marketing fee for members at 5%. There are currently a large number of member wineries that have a strictly financial incentive to opt out of BCWI membership. Increasing the non-member BC VQA Store Marketing Fee will reduce the incentive for member wineries to exit the BCWI. There are currently very few non-member wineries that use this channel and as a result the impact of this change will be immaterial.

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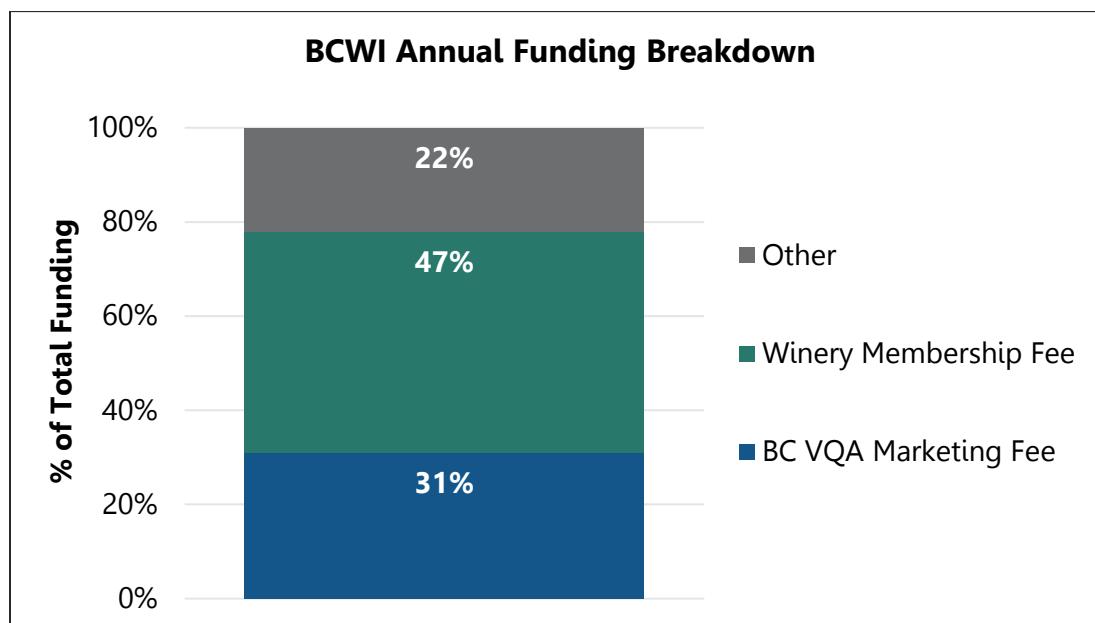
## CONTEXT

### Background

The British Columbia Wine Institute represents the BC wine grape industry as a volunteer, membership-based, not-for-profit society. Membership is not a requirement for BC wineries, but most wine producers choose to invest in membership and reap the associated member benefits. Currently, the BCWI represents 174 member wineries that produce 100% BC grape wine that together represent 94% of all BC VQA wine sold in British Columbia. Funding for the BCWI is primarily generated in two ways: (1) Winery Membership Fee (2) BC VQA Marketing Fee.

Wineries that choose to become a member of the BCWI are obligated to pay the *Winery Membership Fee*. This fee is based on the premise that BCWI market building and advocacy programs build awareness for all BC wine products to grow domestic market share and sales. Member wineries currently pay \$0.10 per litre (plus GST) on all wine sales made within the province of BC, with a \$100 (plus GST) per annum minimum. These figures are calculated based on data provided by the BC Liquor Distribution Branch. This fee represents approximately 47% of BCWI revenues.

Both member and non-member wineries are required to pay a BC VQA Marketing Fee through the purchase model for all wine sold through BC VQA wine stores (i.e. Save-On Foods). This fee is also referred to as a "pay-to-play" fee. Wine is purchased by these stores directly from wineries, and the BC VQA Marketing Fee is deducted from the winery payment and remitted directly to the BCWI. Members pay 5% of the wholesale price, while non-members pay 10%. This fee makes up approximately 31% of BCWI revenues. The graphic below outlines the BCWI's funding breakdown for fiscal 2019.



## The Mandate

The BCWI funding model, which includes the Winery membership Fee and BC VQA Marketing Fee, has not been reviewed or analyzed dating back to its last change, effective April 1<sup>st</sup>, 2008. As the BC wine industry has evolved significantly over the past decade, it became apparent that the current funding model should be intentional and not simply a product of history.

On February 19<sup>th</sup> 2019, a BCWI Board motion was passed to create a BCWI Funding Structure Review Task Group with the mandate:

- 1) To review and critically analyze current BC Wine Institute revenue and fee structure and policies, including BC VQA wine store pay-to play fee and payment process; member \$/litre dues based on BC LDB reported BC sales; and contingency fund;
- 2) To present its findings and recommendations to the Board at its June 2019 Meeting.

Following a Request for Proposals, Cascadia Partners was engaged to complete the scope of services outlined below:

- Review and SWOT analysis of the current BCWI funding model including interviews with BCWI Funding Structure Review Task Group members and staff;
- Research and analysis to identify best practices to be considered with respect to how other wine regions and BC agriculture industries / associations are member funded;
- BCWI funding options, including a SWOT analysis, current and WineBC2030 operational impact and equitable application to member wineries;
- Final recommendation to the Task Group for BCWI Board consideration

## OUR APPROACH

This targeted mandate was delivered over four phases which collectively took less than 5 weeks in elapsed time. The three phases that were completed are described in greater detail below.

### Phase 1 – BC Wine Industry Stakeholder Engagement & Analysis

As a part of the outlined scope of services, interviews with the BCWI Funding Structure Review Task Group members were scheduled and conducted. The Task Group is made of eight individual members and Cascadia attempted to interview as many as possible within the narrow window of this mandate.

Interviews were critical for Cascadia Partners to better understand the structure of the current funding model and relevant pain points applicable to each stakeholder. Based on the make up of the Task Group, stakeholders with differing viewpoints were engaged. This enabled a broader understanding of how the current funding model affects wineries of different sizes and locations. The table below outlines the interviews completed with BC wine industry stakeholders, all of which were conducted remotely by teleconference.

Date	Stakeholder	Name	Position
Wednesday April 24 <sup>th</sup>	BC Wine Institute	Miles Prodan	President & CEO
	BC Wine Institute	Traci Deman	Office Manager
Monday April 29 <sup>th</sup>	Monte Creek Ranch Winery	Erik Fisher	General Manager
	Corcelettes Estate Winery	Charlie Baessler	Managing Partner
	Volcanic Hills Estate Winery	Bobby Gidda	President & Owner
Tuesday April 30 <sup>th</sup>	Arterra Wines Canada	Josie Tyabji	National Sr. Director
Thursday May 2 <sup>nd</sup>	BC Wine Institute	Patricia Pracher	Accounting Manager

### Phase 2 – External Industry Stakeholder Engagement, Research & Analysis

In addition to engaging stakeholders within the BC wine industry, Cascadia reached out to external industry stakeholders to better understand member-funded funding model leading practices in other spaces. This brief industry scan was broken down into two categories.

- 1) Other wine regions (member-funded)
- 2) BC agriculture industries and associations (member-funded)

The table below outlines interviews that were completed with external industry stakeholders, all of which were conducted remotely by teleconference. Due to engagement time constraints, Cascadia was unable to schedule and conduct interviews with all identified stakeholders.

External Space	Industry Organization	Representative (if applicable)
<b>Other Wine Regions</b>	Wine Institute of California	<b>Steve Burns</b> , <i>Former International Marketing Manager</i> <b>Honore Comfort</b> , <i>VP of International Marketing</i>
	Sonoma County Vintners	<b>Honore Comfort</b> , <i>Former Executive Director</i>
	Canadian Vintners Alliance	<b>Dan Paszkowski</b> , <i>President &amp; CEO</i>
<b>BC Agriculture Industries &amp; Associations</b>	BC Cattlemen's Association	<b>Kevin Boon</b> , <i>General Manager</i>

**Note:** The following two additional BC agriculture industries and associations were contacted, but interviews were unable to be scheduled due to availability and engagement time constraints.

- 1) **BC Craft Brewers Guild:** Ken Beattie, Executive Director
- 2) **BC Shellfish Growers Association:** Darlene Winterburn, Executive Director

### Phase 3 – Funding Model Options, Analysis, Modelling and Recommendations

Cascadia developed a framework for analyzing and evaluating funding model options following the completion of interviews, research and analysis of the BC wine industry and external industry stakeholders. The funding model options were created based on several key criteria that were determined to be most critical for the future success and sustainability of the BC wine industry.

### Phase 4 – Final Report

Cascadia prepared this report based on our analysis of the current BCWI funding model.

## GUIDING PRINCIPLES

To ensure that future state funding model recommendations meet the needs of the BCWI and all relevant stakeholders over the long term, it is critical to outline the guiding principals used to analyze and evaluate options. The guiding principles that are outlined below were developed using input from interviews conducted with the BCWI Funding Structure Review Task Group members and BCWI staff as well as insights gleaned from interviews and research conducted with other wine regions and BC agriculture industries and associations.

The guiding principles for developing a funding model for the BCWI:

- A. Align Membership Fees to Membership Value:** The BCWI membership fees should be aligned to the perceived value that the BCWI provides wine producers of all sizes (small, medium, large). By no means does this suggest an a-la-cart menu of services that are offered at a costed rate. But different members perceive value in different activities and programs and fees should reflect this.
- B. Align Funding Envelope to WineBC2030:** BCWI revenues should align with the WineBC2030 plan to ensure that the implementation of its strategic objectives are successfully financed.
- C. Align Revenue to Funding Envelope:** BCWI is a not-for-profit society and aims to neither have an annual surplus or shortfall. Creating structures that enable this alignment reduces mid-year abrupt changes that would occur on misalignment.
- D. Limit Material Deviations for Individual Members:** Funding that is required from members based on the future state model, must not be materially different from the current invoices received from the BCWI.
- E. Ensure Equitable Rollout of New Model:** The BCWI represents member wineries of different sizes, that focus on a many varietals and vintages. The rollout plan for the new model must consider these factors to ensure that members are affected in an equitable manner.

The future state funding model recommendations that are provided for future implementation will be aligned back to these guiding principles.

## CURRENT STATE ASSESSMENT (SWOT)

The current state BCWI funding model was assessed based on the analysis and research completed throughout interviews with BC wine industry and external industry stakeholders. Additional background research was conducted where necessary. This section of the report will outline the following:

### 1) BCWI Funding Model Structure

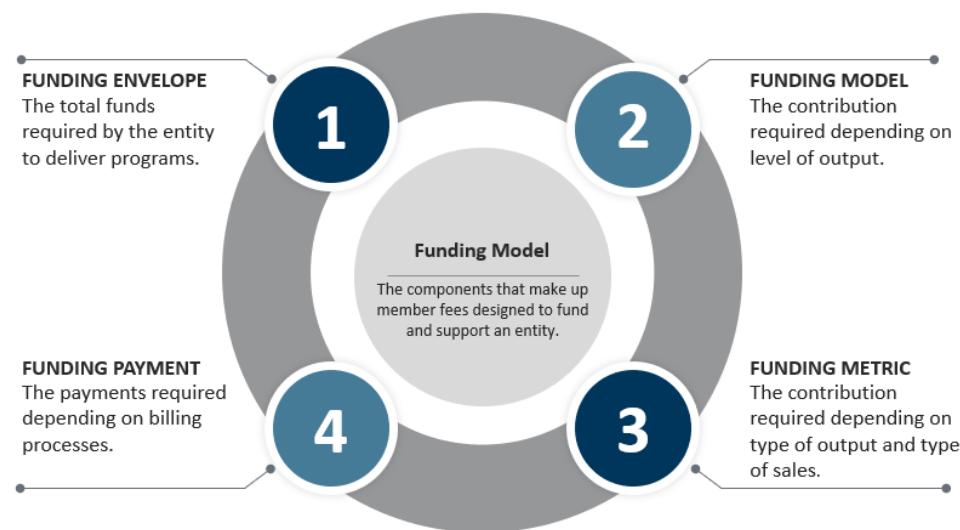
- a. Winery Membership Fee
- b. BC VQA Marketing Fee

### 2) BCWI Funding Model SWOT Analysis

A thorough current state assessment of the current state funding model enabled Cascadia to develop options and recommendations that would tackle the key pain points experienced with the existing model.

#### Funding Model Structure

Prior to completing a SWOT analysis of the current funding model, a framework was developed to outline the four key components that together make up member fees for any member funded organization. The adjustment of these fee components will be the core focus of this report, to align the components in a manner that better serve the needs of the industry.



## 1) Winery Membership Fee (Members)

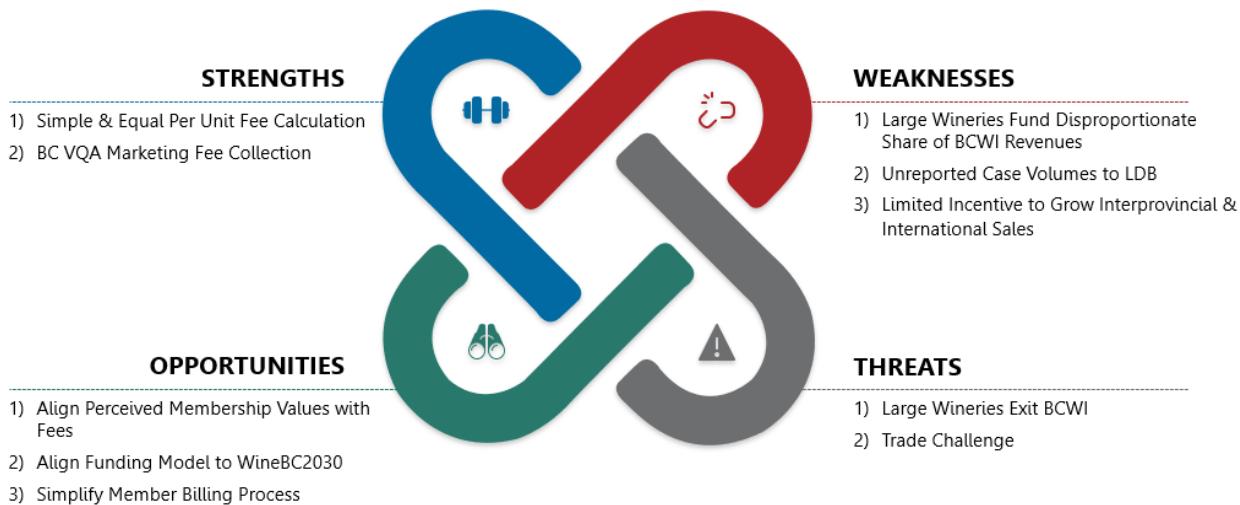
Component	Detail
<b>Funding Envelope</b>	Member wineries contribute \$0.10 per litre (plus GST) on all wine sales made within the province of BC, with a \$100 (plus GST) per annum minimum. A target funding envelope is not developed, instead the overall budget is a direct function of BC wine grape sales in BC.
<b>Funding Model</b>	Member winery fees are calculated based on a linear model. As a winery increases wine sales, the required membership fee owed to the BCWI increases on a linear basis for each unit of output (i.e. \$0.10 is owed for each litre of wine sold).
<b>Funding Metric</b>	Membership fees are calculated based on liters of wine sold in British Columbia. These figures are calculated based on data provided to the BCWI by the BC Liquor Distribution Branch. This is a sales metric that is not inflation protected.
<b>Funding Payment</b>	Member wineries are billed 6 months in arrears on a quarterly basis. The BC LDB provides a report that outlines BC wine sold in British Columbia for the three-month period that is six months in arrears. BCWI uses this information to bill member wineries.

## 2) BC VQA Marketing Fee (Members & Non-Members)

Component	Detail
<b>Funding Envelope</b>	Member wineries contribute 5% of the wholesale price for BC VQA wine sold using BCWI licenses through Save-On Foods venues, while non-members contribute 10% of the wholesale price.
<b>Funding Model</b>	Member and non-member winery fees are calculated on a linear model.
<b>Funding Metric</b>	Member and non-member winery fees are calculated as a percentage of the wholesale case price. This is a sales metric that is inflation protected.
<b>Funding Payment</b>	Save-On Foods reports inventory movements on a monthly basis (i.e. purchases, damaged goods) directly to the BCWI, and remits the 5% or 10% fee on behalf of member and non-member wineries. Save-On Foods pays wineries only 90% or 95% of the wholesale price and remits the remaining value to the BCWI.

### BCWI Funding Model SWOT Analysis

A SWOT analysis was completed to flush out potential pain points associated with the current state funding model and to set the stage for future state recommendations. At a high-level, the graphic below outlines the current strengths, weaknesses, opportunities and threats of the existing funding model. Each point was analyzed in further detail to extract valuable insights for the development of future state funding model options and recommendations.



## Strengths

### **1) Simple and Equal Per Unit Fee Calculation**

The Winery Membership Fee is calculated at \$0.10 per litre of wine sold in BC across all members. This is a straightforward calculation for members to understand as the per unit fee remains constant at all levels of output. The calculation is not structured to increase or reduce Winery Membership Fees based on the size of a winery (small, medium, large), generating "equal" fees on a per unit basis. Several winery owners noted that when their BCWI contributions have increased, it is ultimately a positive story (i.e. wine sales have increased).

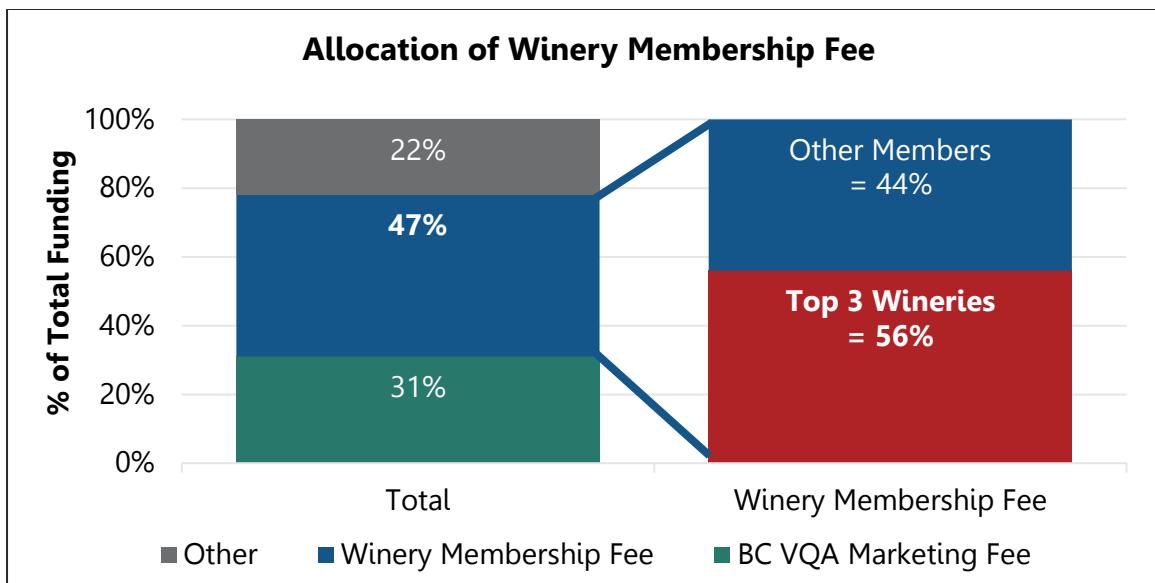
### **2) BC VQA Marketing Fee Collection**

Save-On Foods remits the 5% and 10% BC VQA Marketing Fees directly to the BCWI, calculated on the wholesale case price of BC VQA wines sold in-store. The BCWI benefits from this collection process as the reception of funds is assured, additional collection work is reduced, and back-end administration is simplified. Save-On Foods is a large organization with the capacity to process these fees and make payments accurately. This process is ideal for Save-On Foods, BCWI and member and non-member wineries.

## Weaknesses

### **1) Large Wineries Fund Disproportionate Share of BCWI Revenues**

The current state funding model produces contributions from member wine producers that are equitable from a sales per unit perspective. Given the current structure of the BC wine industry, several large wineries are funding a majority share of the BCWI member fees on an annual basis. The graph below shows the annual funding breakdown for the BCWI, and the percentage of the winery membership fee that is funded by the 3 large wineries in the current state.



The BCWI derives approximately 47% of its total annual revenues from the Winery Membership Fee. The top 3 wine producers, Arterra Wines, Peller Estates, and the Mark Anthony Group fund approximately 56% of this fee, equalling to approximately a quarter of total BCWI annual revenues ( $47\% * 56\% = 24\%$ ). Like other wine industries, the larger wine producers should contribute a majority share of BCWI revenues. Although, there is a point at which these respective wine producers may be contributing more than their perceived “fair share” as it relates to their membership fees.

## 2) Unreported Case Volumes to the LDB

Cascadia was made aware of an estimate by an experienced and senior player in the BC wine industry that 300,000 to 400,000 cases of wine annually (\$270,000 – \$360,000 in member dues to the BCWI) are currently unreported to the BC LDB. Winery Membership Fees are not contributed by members on these unreported cases, generating a reduced level of funding for the BCWI and inequality between reporting members and non-reporting members.

## 3) Limited Incentive to Grow Interprovincial & International Sales

The BCWI funding model does not currently levy dues to member wineries for interprovincial and or international sales, tying funding exclusively to sales made within BC. The BCWI does have programs and invest in marketing and advocacy outside of British Columbia, but these efforts are, in effect, subsidized by BC sales. As out-of-province programming grows and becomes more successful (i.e. sales increase), misalignment with the current state funding model will become increasingly apparent as the BCWI continues to leave these fees on the table.

## **Opportunities**

### **1) Align Perceived Membership Values with Fees**

Wineries of various sizes receive value from BCWI membership in different ways. For example, smaller wineries benefit by having the ability to showcase their business and wine products at member-funded events that they would not have access to without a membership. Larger wineries disproportionately benefit from public policy and other advocacy initiatives. The BCWI has an opportunity to better align perceived value with actual costs, providing greater perceived value for wine producers of all sizes.

### **2) Simplify Member Billing Process**

Members are currently billed their membership fees on a quarterly basis. Invoices are generated using sales data from six months in arrears, as that is the most recent sales data available to the BCWI from the BC LDB. This timing creates difficulties for both the BCWI and member wineries as it relates to forecasting. The BCWI is unable to accurately forecast revenues as past sales are not a predictor of current sales, while member wineries are not effectively able to budget for these fees. There is an opportunity to simplify the member billing process as part of the funding model review, to benefit the BCWI and its members.

## **Threats**

### **1) Large Wineries Exit BCWI**

Given the reliance on the three large wine producers to fund the BCWI as explored above, even one of these wineries exiting the BCWI would reduce the ability to continue existing levels of programming and industry advocacy. It will be critical to develop a future state funding model that allows the larger wineries to contribute an equitable share of membership revenues aligned to their perceived value.

### **2) Trade Challenge**

There is a risk that trade challenges may materially change the BCWI licences and ultimately both the revenue generated from them but also the BC VQA market share which drives member dues.

## JURSIDICITIONAL SCAN

To assist in developing future state funding model options and recommendations, Cascadia completed research and analysis to identify member-funded funding model leading practices in comparable spaces. This research focused on the following two external spaces, and respective organizations:

External Space	Industry Organization	Representative (if applicable)
<b>Other Wine Regions</b>	Wine Institute of California	<b>Steve Burns</b> , <i>Former International Marketing Manager</i> <b>Honore Comfort</b> , <i>VP of International Marketing</i>
	Sonoma County Vintners	<b>Honore Comfort</b> , <i>Former Executive Director</i>
	Canadian Vintners Alliance	<b>Dan Paszkowski</b> , <i>President &amp; CEO</i>
<b>BC Agriculture Industries &amp; Associations</b>	BC Cattlemen's Association	<b>Kevin Boon</b> , <i>General Manager</i>

To remain consistent regarding the analyses of the above organizations, Cascadia conducted research into the same four areas that were analyzed for the current state BC wine funding model; (1) Funding Envelope (2) Funding Model (3) Funding Metric (4) Funding Payment.

### Other Wine Regions

#### 1) Wine Institute of California

Component	Detail
<b>Funding Envelope</b>	Wine produced or bottled in California that derives any portion of its volume from grapes grown in California is subject to dues. This includes wine that is sold out of state and internationally. Members pay dues for the upcoming calendar year in one of two ways: 1) <b>Formula A:</b> Dues based on current calendar year gross sales including taxes paid <ul style="list-style-type: none"> <li>a) Use Formula A for wine under \$78.45 per case (FOB)</li> </ul> 2) <b>Formula B:</b> Dues based on current calendar year total gallons sold <ul style="list-style-type: none"> <li>a) Use Formula B for wine over \$78.45 per case (FOB)</li> </ul> Dues based on current calendar year gross sales (including taxes paid) are calculated by multiplying 0.2% of net sales, with a \$300 per annum minimum. Dues based on current calendar year total gallons sold are calculated by multiplying 6.59 cents of net gallons sold, with a \$300 per annum minimum. Members are to complete separate calculations for each distinct brand or SKU depending on the per case cost.
<b>Funding Model</b>	Member contributions are calculated based on a linear model.
<b>Funding Metric</b>	Members are to calculate membership dues based on either on a % of net sales or cents per net gallons sold for each distinct brand or SKU, depending on the per case cost. This includes wine that is sold out of state and internationally.
<b>Funding Payment</b>	Members who own or lease more than one bonded winery or permit number must self-report and pay dues for each entity. Dues may be paid collectively or individually on a monthly, quarterly or annual basis.

**Summary:** Member wineries benefit by calculating membership dues on either gross sales or gallons sold, ultimately reducing dues based on their respective pricing strategy for each distinct brand or SKU. The Wine Institute of California collects dues on all wine that is produced or bottled in the state of California, including out of state and international sales, increasing

funds for the institute. The BCWI funding model does not charge member wineries on out of province and international sales of BC wine, leaving potential unbilled revenues that are not currently collected by the institute.

## 2) Sonoma County Vintners

Component	Detail
<b>Funding Envelope</b>	Members of Sonoma County Vintners are charged membership dues based on cases of wine sold on an annual basis. Membership dues are calculated depending on case volume in the following two ways: 1) Below 6,000 Cases Sold – Flat rate fee 2) Above 6,000 Cases Sold – Flat rate fee + \$0.10 Per Case for each additional unit
<b>Funding Model</b>	Sonoma County Vintners uses a linear model over the pre-determined volume of 6,000 cases sold. Below this volume only floor is set to charge member wineries a flat rate fee. Additionally, this association uses a cap to benefit wineries who produce large volumes of wine for the industry and its clients.
<b>Funding Metric</b>	Above the pre-determined volume of 6,000 cases sold, a cents per case metric is used to calculate membership dues up until the cap amount. This is not an inflation-protected metric.
<b>Funding Payment</b>	Members are invoiced on an annual basis at year-end as part of the Membership Renewal Process. The invoices are based off prior year volumes of cases sold, whereby member wineries can revise their contributions based on current year volumes of cases sold.

**Summary:** Sonoma County Vintners can forecast membership dues accurately by using prior year volumes of cases sold, while providing members wineries with the option to true up fees to current year volumes. This funding payment component allows the institute and its members to remove fee discrepancies on an annual basis. The use of a cap also allows larger wineries to avoid being charged more than their fair share of industry revenues, an identified weakness in BCWI's funding model.

## 3) Canadian Vintners Alliance (CVA)

Component	Detail
<b>Funding Envelope</b>	The Canadian Vintners Association (CVA) is funded based on a basic fee and a litre fee. The basic fee is a flat rate fee depending on the size of each member winery, and the litre fee is set at \$0.05 cents / litre of wine sales.
<b>Funding Model</b>	The CVA uses a linear model to fund the association. A floor is also set as result of the basic fee, which differs based on the size of each member winery.
<b>Funding Metric</b>	Litre fees are calculated based on cents per liters of wine produced and or sold in Canada.
<b>Funding Payment</b>	Member wineries are billed their respective basic fees on the first invoice of the fiscal year, while litre fees are billed quarterly.

**Summary:** The CVA sets a floor based on their basic fee rates, which range from \$500 to \$5,000. Most of the CVA member wineries are considered larger members, which enables their ability to set a higher floor in their respective funding model. Total annual funding remains relatively flat for the CVA, as membership volume does not typically fluctuate to large extents, combined with a minimal litre fee. The BCWI appears to have a much different membership base in terms of winery size and drives much more industry advocacy and marketing for the BC wine industry, in

contrast to the CVA's focus in international policy advocacy. The funding model used by the CVA should not be a focus in designing the BCWI's future state funding model.

### **BC Agriculture Industries & Associations**

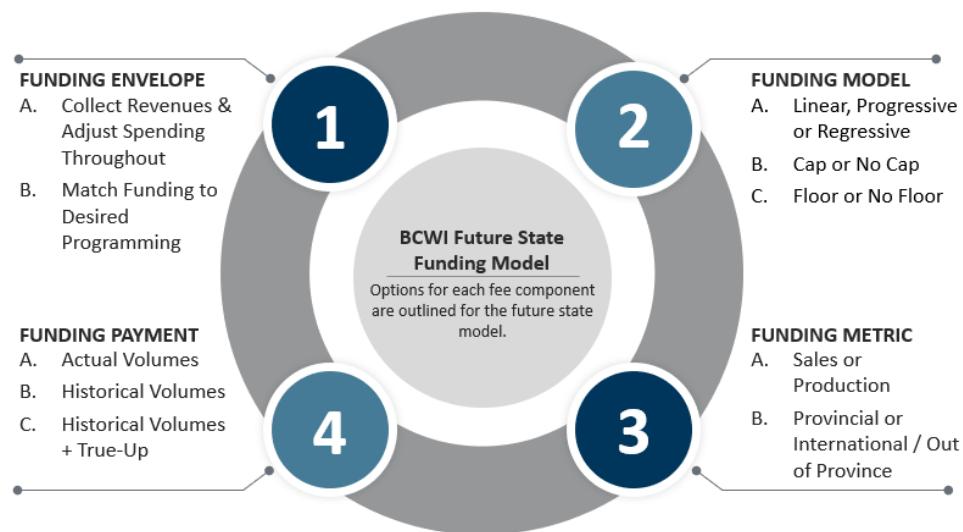
#### **1) British Columbia Cattlemen's Association (BCCA)**

<b>Component</b>	<b>Detail</b>
<b>Funding Envelope</b>	The BC Cattlemen's Association (BCCA) is funded through the three following mediums: 1) \$5 levy on every industry transaction (four associations apply for these funds) 2) \$400,000 in annual interest based on a \$10M Beef Cattle Development Fund 3) \$125 annual membership fee (\$25 attributed to annual subscription of Beef in BC magazine)
<b>Funding Model</b>	The BC Cattlemen's Association is funded using a linear model regarding the \$5 levy. Annual funding is received from three different sources, including the respective transactions, government investments, and flat rate membership fees.
<b>Funding Metric</b>	A \$5 per transaction metric is used regarding the industry levy. An animal will be sold 2.5 times on average throughout its lifetime, generating \$12.50 in levy revenues. \$10 is contributed to a marketing and research agency, while the remaining \$2.50 can be applied for by the BCCA and 3 other industry organizations to receive as funds.
<b>Funding Payment</b>	The cattle buyer is responsible to remit the \$5 levy to the BCCA for any transaction completed. There appears to be minimal slippage with these transactions, and most members acknowledge the value provided by the BCCA. Annual Membership Fees are made on an annual basis. The BCCA represents approximately 85% of the industry, with only several small cattle producers remaining independent.

**Summary:** Industry revenues remain relatively constant year-over-year for the BCCA, as the quantity of cattle in BC will only spike or fall in extraneous circumstances (i.e. mad cow disease outbreak). This enables the BCCA to effectively forecast budgeted costs on an annual basis. Industry revenues are also split relatively evenly across members, in contrast to a few large players contributing the majority share to the BCCA. In addition to the \$10M Beef Cattle Development Fund that was developed, the BC wine industry is operating within different constraints relative to the BCCA. Most notably, industry revenues will not remain constant year-over-year for the BC wine industry, and most funds are contributed from several large players. The BCCA best practices should not be a focus for the BCWI in its development of a new funding model.

## FUTURE STATE FUNDING MODEL OPTIONS

The options for the future state funding model have been developed using the funding model framework. The graphic below details the specific options for each component that could be recommended for a future state funding model.



### 1) FUNDING ENVELOPE

**A) Collect Revenues & Adjust Spending Throughout:** The BCWI currently collects fees based on the Winery Membership and BC VQA Marketing Fees. Revenues are collected based on these fees on quarterly and monthly bases. Based on whether these funds are above or below plan, spending is then adjusted to align with the funding envelope produced for that given quarter or year.

The likelihood that funds generated from this option match the funding needs of WineBC2030 (once costs are projected) are very low. If a funding envelope is developed for the future state model that does not align with the industry's new plan, the BCWI will have extreme difficulties implementing and sustaining its strategic objectives. This option **should not be considered** for the future state funding model.

**B) Match Funding to Desired Programming:** We understand that WineBC2030, the industry strategic plan, has been adopted. The BCWI has the opportunity match the funds produced by its future state funding model with WineBC2030, ensuring that the implementation and sustainability of long-term strategic objectives will be successful. To do this effectively, total revenue projections based on the Winery Membership and BC VQA Marketing Fees need to align with the cost allocations of WineBC2030. As noted, the BCWI will need to budget and project WineBC2030 costs on an annual basis, ideally 3 – 5 years out, before an effective funding model can be implemented. Once the funding envelope has been established, the

funding metrics can be adjusted instead of the other way around. This option **should be considered** for the future state funding model.

## 2) FUNDING MODEL

**A) Linear, Progressive or Regressive:** The BCWI can continue to use a **linear model** to calculate the funding envelope for member wineries (i.e. Winery Membership Fee). The linear model allows for equitable contributions from all member wineries based on per unit sales volume. Despite equal per unit contributions, the use of a linear model has resulted in the industry's larger wineries contributing more than their perceived "fair share" of revenues to the BCWI. This option **should be not considered** for the future state funding model as perceived value is not linear in nature.

The BCWI could design and implement a **progressive model**, which would increase per unit contributions for member wineries beyond a pre-determined level of output. This would enable BCWI to grow their revenues by charging larger wineries at an increased per unit rate, once the pre-determined level of output has been achieved. The key issue with growing industry revenues through this model is the result of increased fees for large member wineries, may widen the gap between perceived value and actual member fees. This option **should not be considered** for the future state funding model.

A **regressive model** could also be implemented by the BCWI, which would reduce per unit contributions for member wineries beyond pre-determined threshold levels of output. This model aligns well with BCWI's growth goals, as wineries are incented by lower per unit membership fees as volume increases. This option **should be considered** for the future state funding model.

**B) Cap or No Cap:** BCWI can continue to use **no cap** as structured in the current funding model. Using no cap provides BCWI with the opportunity to collect on all current and future output of the BC wine industry. There is a pattern that also exists in the industry of large member wineries acquiring small member wineries. If the industry were to create a cap for the Winery Membership Fee, revenues may be lost as member consolidation continues. This option **should be considered** for the future state funding model.

A **cap** could be implemented to eliminate Winery Membership Fees for wineries that reach a pre-determined volume of output. Introducing a cap would continue to incent all wineries to grow, particularly the large member wineries, who would realize a reduction in fees based on the capped amount. Conversely, a cap could potentially present difficulties if future changes were to be made to the funding model, as well the previously noted trend of winery acquisitions. This option **should not be considered** for the future state funding model

**C) Floor or No Floor:** BCWI can continue to use a **floor**, which is currently set at \$100 per year in the current model. A floor allows the BCWI to collect a minimum fee from all member

wineries and eliminates potential members who may not be operating as full-scale producers of wine. Low floors encourage member growth. Below a certain level of output, it also becomes more of an administrative burden for the BCWI to manage a member relative to the associated fees received. If a floor is implemented in the future state model, it should be set at an amount that aligns with historical data of member wineries producing in the bottom 10% of the industry. This option **should be considered** for the future state funding model.

Using **no floor** in the future state model would prohibit the BCWI to collect dues from member wineries who produce below a certain amount. As noted, excluding a floor from the future state funding model could also enable nonproducing or other unusual wineries to gain membership with the BCWI but may not operate as full-scale producers. This option **should not be considered** for the future state funding model.

### 3) FUNDING MODEL

**A) Sales or Production:** The BCWI can continue to charge members based on **sales**, at \$0.10 per litre of all wine sales made in British Columbia or another amount required to achieve the desired funding envelope. The current method allows member wineries to make Winery Membership Fee payments to the BCWI following the receipt of sale from its customers, in contrast to "paying out of pocket". Cents per unit of sale is a commonly used metric across wine associations, including the Wine Institute of California, Sonoma County Vintners and the Canadian Vintners Association. Despite its popular use, this is not an inflation-protected metric and in the case of BC may not be including all actual sales. If this sales metric were to be used in the future funding model, the standard should be revisited to align with the industry's strategic plan, to ensure the successful implementation of initiatives. This option **should not be considered** for the future state funding model.

A **production** metric of bottles produced, or another corresponding metric could be implemented to calculate the Winery Membership Fee in the future state model. It is a mandatory requirement for BCWI members (excluding Vancouver Island members) to report grape tons for all grape wine to the BC Wine Grape Council. Given that grape tons is a proxy for wine production and ultimately wine sales, this metric could be used to collect BCWI membership fees. As there is evidence of a significant amount of fee leakage within the BC wine industry (unreported sales), using grape tons would allow the BCWI to collect on all owed membership dues. This model assumes that membership dues are applied to all production and not simply production intended for domestic consumption. Using a production metric alone would dramatically increase total membership fees for larger member wineries who have significant out of province sales. If grape tons in recommended as the funding metric for the future state model, it should be implemented in an equitable way for larger members. This option **should be considered** for the future state funding model.

**B) Provincial or International / Out of Province:** The BCWI can continue to bill member wineries on **provincial** wine sales made exclusively in the British Columbia. This benefits large member wineries who have developed strong sales presences in areas outside of BC and is also consistent with the major historical objectives of the BCWI: increasing domestic market share. This option keeps the BCWI focused on BC, but major market opportunities may lay elsewhere. For this reason, this option **should not be considered** for the future state funding model.

Like other wine associations, including the Wine Institute of California, BCWI could choose to charge member wineries on sales executed **internationally and out of province**. The BCWI advocates on behalf of the BC wine industry not only within the province, but also outside of BC, including international markets. As a part of the category building that an association like the BCWI provides, funding models have been developed that charge dues based on these sales, setting a precedent if the BCWI were to implement this change. As noted, if the BCWI were to begin levying members on sales out of province and internationally, the funding model would need to be developed to ensure that it is equitable for large member wineries. This option **should be considered** for the future state funding model.

#### D) FUNDING PAYMENT

**A) Actual Volumes:** The BCWI uses **actual volumes** in the way of sales data that is provided by the BC LDB 6 months in arrears, to bill member wineries on a quarterly basis for the Winery Membership Fee. The BCWI and member wineries both currently experience forecasting difficulties using actual volumes. As past sales do not predict current sales, the BCWI is unable to effectively forecast the Winery Membership Fee revenues on annual or even quarterly basis, while member wineries are unable to estimate Winery Membership Fee costs. An opportunity of the current state funding model is to simplify the member billing process. Accordingly, this option **should not be considered** for the future state funding model.

**B) Historical Volumes:** The BCWI could choose to use **historical volumes** to bill member wineries in the future state funding model. Using historical volumes would enable both the BCWI and member wineries to accurately forecast respective revenues and costs. Based on increased or decreased production or sales, this option would result in member wineries paying more than exact in some years, and less than exact in other years. This option **should be considered** for the future state funding model.

**C) Historical Volumes + True-Up:** In addition to using **historical volumes** to bill member wineries, the BCWI could choose to allow members to **true-up** fees to actual volumes at year-end. This would ensure that all members paid exactly the amount that was due but only affects those with production or sales changes year to year. This option **should be considered** for the future state funding model.

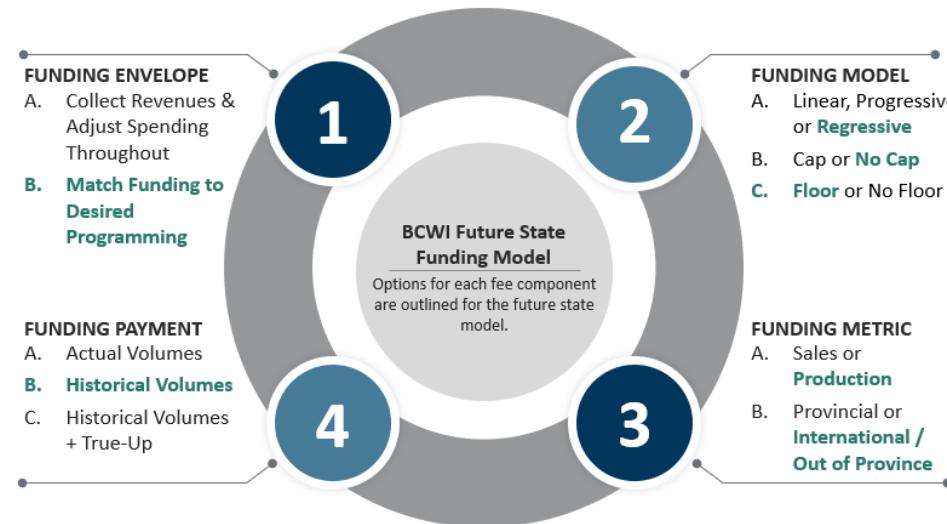
## RECOMMENDATIONS

Funding model options were analyzed in part by aligning the guiding principles of the funding model review to each option. The guiding principles that were outlined at the beginning of the report are as follows:

- A. Align Membership Fees to Membership Value:** The BCWI membership fees should be aligned to the perceived value that the BCWI provides wine producers of all sizes (small, medium, large). By no means does this suggest an a-la-cart menu of services that are offered at a costed rate. But different members perceive value in different activities and programs and fees should reflect this.
- B. Align Funding Envelope to WineBC2030:** BCWI revenues should align with the WineBC2030 plan to ensure that the implementation of its strategic objectives are successfully financed.
- C. Align Revenue to Funding Envelope:** BCWI is a not-for-profit society and aims to neither have an annual surplus or shortfall. Creating structures that enable this alignment reduces mid-year abrupt changes that would occur on misalignment.
- D. Limit Material Deviations for Individual Members:** Funding that is required from members based on the future state model, must not be materially different from the current invoices received from the BCWI.
- E. Ensure Equitable Rollout of New Model:** The BCWI represents member wineries of different sizes, that focus on a many varietals and vintages. The rollout plan for the new model must consider these factors to ensure that members are affected in an equitable manner.

Guiding principles were aligned to all options to ensure that the recommended future state funding model would meet the long-term needs of the BCWI and relevant stakeholders. The funding model framework below outlines the future state funding model recommendations specific to the **Winery Membership Fee**, followed by the **BC VQA Marketing Fee**. More detail is provided below, including the guiding principles that align with each individual Winery Membership Fee recommendation.

## Winery Membership Fee Recommendations



### **1) FUNDING ENVELOPE (B | C)**

**Match Funding to Desired Programming:** Projecting annual WineBC2030 costs will enable the BCWI to accurately align the future state funding model with its new strategic plan, ensuring that objectives can be implemented effectively and sustainably. Once the BCWI has projected costs, funding estimates for the Winery Membership and BC VQA Marketing Fees will need to be forecasted and aligned with the respective costs. The sum of both forecasted fees will equal the budgetary requirements to execute WineBC2030. If actual revenue is greater or less than the original forecasts, the BCWI will need adjust the per unit rates for either and or both fees.

In addition, the BC VQA Marketing Fee should be estimated in a trade protected and non-trade protected scenario. This takes a proactive approach based on the potential for a future trade challenge that could reduce the sales of BC VQA wine sold in Save-On Foods venues.

**Guiding Principles:** This recommendation allows the BCWI to align its funding envelope to WineBC2030 and assists in avoiding annual funding surpluses and or shortfalls.

### **2) FUNDING MODEL (A | D)**

**Retrogressive Model:** Implementing a retrogressive model to calculate the Winery Membership Fee will significantly reduce one of BCWI's key threats, which is the potential of large member wineries exiting the BCWI; particularly as consolidation increases. A retrogressive model better aligns perceived value and costs, particularly large member wineries, who currently bear a disproportionate share of the BCWI's funding. Step-down costs could be implemented at specific volume thresholds that are viewed as a change in a respective winery's size (i.e. small, medium, large). To accurately define these thresholds, data analysis is required to ensure targeted funding for the BCWI based on the defined thresholds. This retrogressive nature will also help to ensure equity if member fees are applied to all production or sales, not simply domestic production or sales.

**No Cap:** Continuing to use no cap in the future state funding model will enable the BCWI to maintain the opportunity to align member fees to the funding envelope without material increases to smaller members. As the large member wineries have continued to acquire small wineries, the BCWI should avoid a cap that would cause the loss of all dues from wineries that experience consolidation in the future.

**Floor:** The BCWI should continue to use a floor in the future state funding model and should be increased from the current \$100 per year minimum. We recommend the new floor to be the average of historical volumes from the lowest 10% of wine producers in BC and converting it into a dollar value based on the recommended funding metric. Raising the floor may slightly increase the funding for the BCWI but more importantly, exclude membership from members who do not operate as full-scale producers.

**Guiding Principles:** This recommendation more effectively aligns membership costs to membership value for larger wineries using a regressive model. The step-down costs of the regressive model will be set at levels that limit material deviations in funding for individual members relative to the current state model.

### 3) FUNDING METRIC (B | D | E)

**Production:** The BCWI should base its funding model on production volume. Instead of waiting on sales data from the LDB, it is currently a mandatory requirement for member wineries to report grape tons to the BC Wine Grape Council (excluding Vancouver Island members). Using a production metric will reduce the existing leakage resulting from unreported sales. Grape tons are reported annually which makes forecasting for both the BCWI and the member wine producers very simple. Implementing grape tons as the industry's funding metric will provide a clearer picture for the BCWI regarding where the industry stands in terms of size and varietals, which can be communicated back to its members aggregate in a valuable way. This metric will affect wine producers that cellar wine over long periods and a phase-in approach may be the most equitable.

**International / Out of Province:** Like many other wine associations, including the Wine Institute of California, Sonoma County Vintners and the CVA, Cascadia recommends that the BCWI levy international and out province sales (production). As noted, Cascadia recommends calculating membership fees using grape tons, which will include out of province and international sales automatically. Including this production as part of the Winery Membership fee will allow the BCWI to reduce membership leakage, and collect funds based on sales in which they currently provide programming and advocacy (i.e. out of province and international sales). This will enable the BCWI to gain funding on all production in which they have a hand in pushing to market effectively and better align their programming to their funding.

**Guiding Principles:** This recommendation will assist the BCWI to accurately align its funding envelope to WineBC2030. The production metric will be set at a level that limits material deviations in funding for individual members relative to the current state model. Rollout of the

new model will consider various factors of individual wineries, including size, varietals and vintages, ensuring members are affected in an equitable manner.

#### 4) FUNDING PAYMENT (C)

**Historical Volumes:** The BCWI should use historical volumes to calculate the Winery Membership Fee for its members. Using previous year volumes (tons) to calculate the fees for the current year will enable both the BCWI and member wineries to more accurately forecast its respective revenues and costs. In addition, by not truing up historical volumes to current year volumes, initial forecasts are not required to be adjusted throughout the year.

**Guiding Principles:** This recommendation will enable the BCWI to more accurately forecast its respective programs, while avoiding significant funding surpluses and shortfalls.

#### BC VQA Marketing Fee Recommendations

It was determined that significant redesign of the BC VQA Marketing Fee was not required. The four components of the BC VQA Marketing Fee are briefly outlined with an explanation for generally maintaining the status quo. A sole recommendation is also provided, regarding the amount in which non-member wineries are currently charged based on the commission fee %.

- 1) Funding Model Envelope:** The BC VQA Marketing Fee can be used as a "plug" in the future state funding model, to ensure that revenues are aligned to the funding envelope (as a percentage of overall BCWI funding), and that the funding envelope is aligned to WineBC2030. The Winery Membership Fee will be accurately forecasted in the future state by using historical volumes, which can be altered to ensure alignment in funding, while the BC VQA Marketing Fee is maintained at a constant rate.
- 2) Funding Model:** Members and non-members are charged on a linear basis, in which wineries pay an equal per unit fee to the BCWI, allowing the sale of BC VQA wines in Save-On Foods venues. The "pay-to-play" fee appears to be charged an equitable rate for the use of licenses to sell BC VQA wines.
- 3) Funding Model Metric:** Members are charged 5% of the wholesale price on BC VQA wines sold in Save-On Foods venues, while non-members are charged 10%. This is an inflation-protected metric, whereby the BCWI is not required to frequently readjust the fee to ensure that the intended value of fees is received in their entirety.
- 4) Funding Payment:** Save-On Foods remits the BC VQA Marketing Fee directly to the BCWI on behalf of each respective winery. This benefits the BCWI and relevant wineries, as the administrative burden lies with Save-On Foods, a large organization that possesses the resources to effectively bill multiple wineries and submit payments to the BCWI on a monthly basis.

**Recommendation:** Cascadia recommends that the BCWI increase the amount charged for the BC VQA Marketing Fee for non-member wineries only. The fee should be increased from 10% of the wholesale price, to an amount whereby the sum of the Winery Membership Fee and BC VQA

Marketing Fee for member wineries equals the BC VQA Marketing Fee for non-member wineries. Further data analysis will be required to determine the amount in which this fee for non-member wineries should be raised.

There is currently a small number of non-member wineries that sell BC VQA wine through the Save-On Foods channel. By increasing this fee, the BCWI will neither receive a significant increase in funding nor marginalize important members. Although, by increasing this fee for non-member wineries an incentive is created to invest in membership with the BCWI over the long-term.