

Magnotta: Breaking new ground with innovative marketing strategies

Vaughan, Ontario

Date established: 1990

www.magnotta.com

VAUGHAN, ONTARIO — Two weeks before Gabe and Rossana Magnotta were to release the first bottles of wine from their new winery, they learned that Ontario's liquor agency had decided not to carry Magnotta's wines in its retail stores, citing lack of shelf space. It was a devastating blow in an industry that is controlled and regulated by the Liquor Control Board of Ontario (LCBO), which also has a monopoly on retail sales of alcoholic beverages through its province-wide chain of liquor stores. But instead of being discouraged, the husband and wife team used the setback to look for other opportunities to get their wine into the hands of consumers. That was in December 1990. Today, Magnotta is the third largest winery in Ontario, with annual sales of \$29.3 million and more than 100 employees working in seven locations, 180 acres (73 hectares) of vineyards on the Niagara Peninsula, the heart of Ontario's wine industry, and another 350 acres (142 hectares) of vineyards in Chile. Now a publicly listed company on the Toronto Stock Exchange, Magnotta has expanded its winery to include a brewery and a distillery, the first and only company of its kind in Canada that is licensed to produce and sell wine, beer and distilled products. Since 1990, it has received more than 2300 awards for its products in both national and international competitions.

"We were able to create a company that is very successful outside the LCBO system," said Rossana. "Until very recently, we were 100 percent separate from their system, and despite that we have managed to become the third largest winery in volume of sales in Ontario, and the number one seller of ice wine in volume."

Background

Magnotta's roots go back to 1981 when Gabe and a partner started a home winemaking business. He had studied business administration at university and had always been interested in running his own company. After three years, his business partner left to pursue other interests, but Gabe was hooked. Together, he and Rossana launched their own juice business in 1984. By the time they opened Magnotta Winery in 1990, they had already built a successful business selling imported grape juice to the large homemade wine market in the Greater Toronto area. Festa Juice is now Ontario's largest distributor

of grape juice and equipment to home winemakers, with annual sales of more than \$3.5 million. Rossana, a certified medical lab technologist, first joined Gabe to help with the technical side of the Festa Juice business, applying her knowledge of biochemistry and microbiology to the wine industry. “The function of a yeast cell in your wine is identical to that of a yeast cell found elsewhere,” said Rossana. “Whether you’re testing for blood sugar or wine sugar, the chemistry involved is identical. What’s different is just the interpretation of results.”

She and Gabe opened up a retail store to sell Festa Juice to winemakers, installing a lab where the juice would be balanced for pH levels and acidity. The first challenge they had to overcome was the stereotypical view that women didn’t make wine. Most of their customers were first-generation Italian and Portuguese men. “They would come in and look at me and ask how a woman could possibly tell them how to make wine,” said Rossana. “They would say they were ‘born in the grapes,’ and start talking to me about the old country.”

She won them over with a creative marketing strategy that included offering free analyses to customers who were having problems with their wine and by producing a booklet, “Making Wine the Festa Way,” that provided a step-by-step guide to making wine. She had the booklet translated into Italian and Spanish, and gave it away with every purchase of Festa Juice.

By 1988, customers were asking the Magnottas for ready-made wine. At the same time, Ontario passed new legislation that allowed local wineries to create wines with a blend of up to 70 percent foreign grapes. Until then, no Ontario wine was allowed to be made with more than 30 percent imported grapes. Aimed at boosting the competitiveness of the Ontario wine industry in the wake of the Canada–US Free Trade Agreement, which came into effect in 1988, the new legislation expanded the variety of products local wineries could make and enhanced the quality and flavour of the wines through the use of a wider range and type of grape.

Gabe saw the change as a huge opportunity to break into the Ontario wine market. As a long-time importer of fresh grape juice for homemade wines, he was very familiar with the variety and quality of imported grapes available. However, changes to the Free Trade Agreement had put a moratorium on issuing new licences for wineries, limiting his ability to open up a new wine operation. The only other option was to purchase the assets of an existing winery. As it happened, Charal Winery, a boutique winery in Blenheim, Ontario, was up for sale. Gabe and Rossana decided to purchase the assets of Charal, which included the licence, some equipment and 17 product listings with the LCBO, but not the

actual land or vineyards. They moved the equipment from the winery to Vaughan, a suburb on the outskirts of Toronto.

“We changed the name to our family name, Magnotta,” said Rossana. “It was something we wanted to start and eventually pass on to our children. On December 7th, 1990, we opened up shop and immediately got hit with the recession that was rolling across the country.” As mentioned earlier, they also got hit with the news that the LCBO had decided not to list Magnotta’s wines in its stores, overshadowing the impact of the recession. That last-minute refusal forced Gabe and Rossana to come up with an alternative marketing strategy — one that has ultimately led to their success.

Initial financing

“Financially, starting the company was a huge burden on both of us,” said Rossana. A few years before starting Festa Juice, she had quit her job as a hospital lab technologist to stay home and raise the couple’s three children. “We didn’t have a lot of money, and the banks wouldn’t give us a penny because we had no assets.” They took out a second mortgage on their home and applied for a government-guaranteed Small Business Loan (SBL) for \$30 000 to purchase raw materials. “We were just starting out, so no one was going to give us credit — we had to pre-pay all our materials,” said Rossana.

She said that they paid off their government-guaranteed loan in less than a year. “We thought we were being very responsible citizens and business owners. We then applied for a line of credit but the bank turned us down again because we were right back where we started,” she said. “If we hadn’t paid off the other loan so quickly, they said they would have been able to give us the line of credit.” As Festa Juice grew, they were eventually able to get a line of credit.

When they purchased the assets of Charal Winery 1989, annual sales for Festa Juice had grown to just over \$1.2 million, but they still didn’t have enough cash to purchase the old winery outright. They came up with an innovative solution. Another nearby winery was closing down and selling all its equipment, including several huge stainless steel tanks. Gabe and Rossana negotiated a wholesale price for the stainless steel tanks with payment due the following month. They then sold the tanks separately to smaller businesses that only needed one or two tanks. The revenue from the sale gave the Magnottas the cash they needed to pay for the tanks as well as to purchase the assets of Charal Winery.

“When I think back, it was frightening at the time,” said Rossana. “But we knew the juice and wine business, and we felt we could make a go of it. We really wanted to build a winery and were hoping to make a decent living out of it.”

Placement

The first challenge for Magnotta Winery was to get its products into the hands of consumers. Although the LCBO had a monopoly on liquor stores, Ontario laws permitted wineries to sell wine directly from their premises. Gabe and Rossana opened up a store on the site of their winery and began selling to consumers almost immediately.

However, new regulations prohibited them from opening any other sales outlets. As the company grew, and in order to expand the number of retail outlets, they later purchased a manufacturer’s licence for an existing store in Mississauga and bought a winery in Beamsville, Ontario, that also had a store, eventually opening a total of six more manufacturing facilities and retail outlets throughout southern Ontario.

Another challenge was a law restricting wineries from stocking their products in off-site warehouses. Only the LCBO was permitted to warehouse alcoholic beverages, including all wine, beer and distilled products. Magnotta wines had to be stored on-site at its wineries, and could only be delivered to customers or one of the winery’s authorized representatives upon receipt of payment.

To make it easier to sell its wines to the public, Gabe and Rossana established a network of agents to market Magnotta’s products across Canada and abroad. When customers wanted to buy a bottle of Magnotta’s wine, they simply contacted their local wine agent, who would then place an order with the winery. The wine was usually shipped out within a day or two, with the agent delivering it to the customer and collecting the payment. Before being given a licence by the LCBO, agents worked with Magnotta to learn about the wine business. Once licensed, agents spread the word about Magnotta through friends and relatives, and would host wine tastings in their community to introduce people to Magnotta’s product line.

Magnotta also made it easier for customers to order wines directly from the winery by establishing a toll-free 1-800 number and an online store. When Magnotta launched its online store in October 2002, it was the first Ontario winery to partner with Canada Post for direct customer delivery.

Pricing

By selling its wines directly from the winery, Magnotta did not have to pay the LCBO distribution or listing fee (a flat rate of approximately \$1.50 per litre) nor were its wines subject to the LCBO's 48 percent markup. Magnotta took advantage of these savings to offer their wines at discounted prices. "We pass those savings along to the consumer," said Gabe.

Known as a maverick in the Ontario wine industry, Gabe has always insisted on selling his wines cheaper than anyone else. His philosophy is to provide the highest possible quality at the lowest possible price. "Our mission is to deliver the finest quality products to the general public at affordable prices," said Gabe. "We have developed diversity and original lines of inexpensive wines that range from generics to reserves, and as a consequence, we have been successful in broadening our range of customers."

Magnotta has also been able to keep prices low because it was able to cut down on costs by combining its winery operations and its fresh grape juice business — Festa Juice. The same oenologist (winemaker), staff and equipment handle both the imported juices and the wines. Retail prices for a 750 mL bottle of wine range from \$5 to \$9.95.

Products

When Gabe and Rossana first opened their winery, they concentrated on producing blended wines, using a combination of domestic grapes grown in Ontario and imported grapes. They would shop around for the best price on U.S., Italian, Chilean and Argentinian grapes, blending them with Ontario grapes to provide a wider variety of flavours. Under Ontario law, local wineries are required to purchase a minimum amount of Ontario grapes each year, based on their sales volume and size of operation. By combining its Festa Juice and winery production, Magnotta was able to maximize use of its Ontario grape quota while also taking advantage of new legislation allowing local wineries to use up to 70 percent foreign content in their wines. That amount has since been increased to 75 percent.

Magnotta also makes a line of wines that are produced according to Vintners Quality Alliance (VQA Ontario) guidelines. Unlike blended wines, which can use up to 75 percent imported grapes and still be labelled "product of Ontario," VQA wines use only 100 percent Ontario-grown grapes. The VQA was established by the Ontario wine industry to promote the local grape-growing and wine industry.

Today, Magnotta produces more than 180 products, including 100 wines — both blended and VQA — several ice wines, more than 10 brands of beer and a number of spirits, the most famous of which is grappa. It has also begun experimenting with the production of fruit wines — iced apple, wildberry, raspberry and plum wines.

Magnotta's products have earned more than 2300 awards, winning more international and highly regarded awards than any other country, writes Hrayr Berberoglou, a columnist for the Ontario Wine Society. "In several large-scale blind tastings with varietal wines from France, Italy and California at more than double the price of Magnotta's, Gabe and Rossana's products were clear winners," he said.

For Gabe and Rossana, the awards reinforce their commitment to quality. "We do not produce wines to win medals," said Gabe. "We produce wines to win new customers. If we happen to win accolades along the way, we are proud to accept them on the basis that we will continue to produce wines of highest quality that our greatly expanding customer base will continue to enjoy."

"It all comes down to quality and honesty of products," said Rossana. "You cannot fool today's consumer. When something is good, they come back. That is why we are always setting new and higher standards for all our products."

In order to ensure that the winery had access to a reliable supply of high-quality grapes, Magnotta purchased its own vineyards in 1996 — a 350 acre (142 hectare) property in Chile and another 180 acres (73 hectares) in three locations on the Niagara Peninsula, well known in Ontario for its favourable grape-growing conditions.

Since opening its first winery, Magnotta has expanded and diversified its operations to include a brewery and a distillery. Both its lager and its ice wine grappa have won awards at several international wine competitions. As with its wines, Magnotta's beers are only available through the brewery's on-site retail stores and are not sold in either LCBO outlets or Ontario beer stores. As for Magnotta's spirits — mainly gin, vodka and grappa — they are now starting to show up on shelves at LCBO stores and in liquor stores as far away as British Columbia.

Promotion

Following their decision to market Magnotta's wines through the winery's on-site stores, Gabe and Rossana launched an aggressive advertising campaign focussing on the substantial savings to be had by buying wines direct from the winery. Their first wines were priced at just \$3.95 a bottle, in part to draw media attention and attract customers

and in part to demonstrate that a decent quality wine could be purchased at affordable prices.

Other promotional activities included offering free samples and tastings at Magnotta's wineries and retail outlets, open seven days a week, wine tastings organized by their agents in various communities across southern Ontario, a toll-free 1-800 number and an online store. They also regularly submit their wines to prominent wine writers and columnists for reviews.

Packaging is another area where Magnotta has applied its innovative marketing skills. Located in a business park in Vaughan, Ontario, the main winery had none of the romance of Ontario's more traditional wineries, which were surrounded by vineyards. "We have no ambience," said Rossana. Borrowing from Mouton Rothschild, Gabe and Rossana decided to use original artwork for their labels. For each new wine, they have commissioned original paintings from both Canadian and international artists, using them on product labels. The originals are then hung on display in the company's corporate headquarters, and include paintings by artists native to each country from which Magnotta imports grape juice.

Expansion

In October 1995, Magnotta became a public company, completing a \$1.5 million initial public offering to help raise funds for construction of the company's new flagship manufacturing facility and retail store. Gabe said that the decision to go public was made in response to the company's need to expand. Its original location in Vaughan, which consisted of one 14 000 square-foot (1300 square metre) facility in 1990, had grown to three leased buildings in an industrial park. The \$3.5 million expansion project was completed by the end of 1996.

Magnotta continues to grow and establish its presence in Canada's wine, beer and spirits industry. It now exports its products to the United States, Belgium, the United Kingdom, Asia and the Caribbean.

"We're basically risk-takers," said Rossana. "We have a good idea and we'll go after it until we've accomplished what we set out to do."

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