

The Spirit Industry In Canada

Secondary Research Assignment
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This report will investigate the current spirits industry in Canada, including alcohol trends, consumer buying behaviour, competition, marketing tactics and environmental factors. This report will also analyze the current position spirits hold in the alcohol industry, while identifying key opportunities in the market.

Industry Overview

For the purpose of this report, the alcohol industry in Canada is divided by beverage types: Wine, Beer, and Spirits. The spirit industry includes hard liquor, such as Vodka, Whiskey, Rum, Gin and Tequila, aperitifs and liqueurs, and pre-mixed cocktails.

The Canadian spirits market is concentrated, with three companies holding 68.2% of the total market: Pernod Ricard, Diageo and Bacardi Limited.

- Pernod Ricard, which owns Absolute Vodka, Malibu and Beefeater, accounts for the largest portion of the market with 29.2%
- Diageo Plc, owner of Smirnoff, Captain Morgan, Crown Royal and Tanqueray, has a market share of 29.1%
- Bacardi Limited has a market share of 9.9%, owning Bacardi, Grey Goose and Bombay Sapphire
- Another major player is Beam Inc, which owns Jim Bean, Maker's Mark and Canadian club, as well as 4.1% of the market.¹

Size of Market:

- According to Stats Canada, there are approximately 34,880,000 Canadians living in Canada, as of July 1, 2012²
- The highest percentage of Canadians are between 45 to 49 and 50 to 54, each with 7.7% of the total population³
- Of the total population, roughly 14,185,000 of those individuals consumed spirits within the past 6 months⁴
- Of the 14,185,000 Canadians who consumed spirits, 18-35 year olds and 55-64 year olds are 10-11% more likely to consume spirits than other age groups of Canadians⁵
- Canadians making over \$100,000 were 12% more likely to consume spirits⁶

The market data indicate a few things. First, out of over 30 million Canadians, almost half are consuming spirits. Canadians aged 18-35 and 55-64 were the primary market for spirits. Also, the higher the income the more likely individuals were to consume spirits.

Profitability in the Market:

- In 2011, the alcoholic drinks market in Canada was valued at \$24,805.6 million⁷

¹ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.12

² <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo10a-eng.htm>

³ <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo10a-eng.htm>

⁴ <https://www-kmrsoftware-net.rap.ocls.ca/netquestapp/pmbquickreports/default.aspx>

⁵ <https://www-kmrsoftware-net.rap.ocls.ca/netquestapp/pmbquickreports/default.aspx>

⁶ <https://www-kmrsoftware-net.rap.ocls.ca/netquestapp/pmbquickreports/default.aspx>

⁷ MarketLine Industry Profile. "Alcoholic Drinks in Canada." February 2013, p.2

- In 2011, the Canadian spirits market was valued at \$5,885.1 million⁸
- In 2016, the Canadian alcohol industry is expected to reach \$27,118.2 million⁹
- Market consumption volumes increased with a compound annual growth rate of 1.6% between 2007-2011
- The government earns substantial revenue from the sales of alcohol in Canada due to its provincial monopolies¹⁰
- The alcoholic drink market as a whole grew by 1.6% in 2011
- The spirits market grew by 2.1% in 2011
- In 2016, the Canadian alcohol industry is forecast to have an increase of 9.3%, and an increase of 11% in the Canadian spirits market from 2011

Market profitability shows a steady increase over the past 5 years in consumption, growth and revenue for the alcohol and spirit industries. The forecast shows a larger increase from previous years, illustrating a positive trend towards spirits and liquor.

Market Segments (percentage of market value):¹¹

- Whiskey: 31.3%
- Vodka: 24.8%
- Liqueurs: 16.4%
- Rum: 13.4%
- Brandy: 5.7%
- Specialty spirits: 1.9%
- Other spirits and liquors: 6.5%

Price Trends:

Data from Statistics Canada show that since 2002 the prices of beer, wine and spirits have largely mimicked inflation for alcohol sold in licensed establishments.¹² This indicates consistency in price management with regard to the economy. (See Appendix A)

Recent/Projected Trends:

As illustrated through Market Profitability above, recent and projected trends in spirit consumption are on the rise. This shows potential for more products on the market. There is a high degree of product differentiation due to the expanding number of spirits entering the market. There is rising demand for specialty alcoholic beverages, and entry into the market may be achieved by finding a niche market.¹³

⁸ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.2

⁹ MarketLine Industry Profile. "Alcoholic Drinks in Canada." February 2013, p.2

¹⁰ <http://www.ccsa.ca/2012%20CCSA%20Documents/CCSA-Analysis-Alcohol-Sales-Policies-Canada-2012-en.pdf>

¹¹ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.10

¹² <http://www.ccsa.ca/2012%20CCSA%20Documents/CCSA-Analysis-Alcohol-Sales-Policies-Canada-2012-en.pdf>

¹³ MarketLine Industry Profile. "Alcoholic Drinks in Canada." February 2013, p.16

Channels of Distribution:

The sale and distribution of alcoholic beverages is typically controlled by provincial/territorial government liquor boards. The regulations and requirements differ depending on the province.¹⁴ Currently, only two provinces have deregulated the sale and distribution of alcohol, British Columbia and Alberta.

Percentage of market share by province:¹⁵

- Ontario: 35.7%
- British Columbia: 20.3%
- Quebec: 18.5%
- Alberta: 15.4%

Current distribution channels for spirits in Canada:¹⁶

- Specialist retailers, such as the LCBO in Ontario, control 74.7% of the distribution
- On-Trade 24.6%
- Department Stores, such as Duty Free at the borders, control 0.7%

The distribution channels for spirit sales depend largely on the provinces and their regulations. See Environmental Factors below.

Competitive Environment

Type of Market:

Canadian provincial and territorial governments hold a regulatory monopoly over alcohol, except in Alberta, which privatized services related to alcohol sales in 1993.¹⁷

Current largest competitors (percentages of market):

Pernod Ricard: 29.2%
 Diageo Plc: 29.1%
 Bacardi Limited 9.9%
 Beam Inc 4.1%
 Other 27.7%

Analysis of Competitors:

Pernod Ricard is a decentralized French company manufacturing spirits for such brands as Chivas, Ballantine's, Jameson, Havana Club, Martell, Beefeater, Ricard, Malibu and Absolut.¹⁸ Its decentralization plays a unique role in allowing diversity among its various markets. The term "premiumisation" is used to describe the strategy by which Pernod Ricard plans to build its brands over long-term growth.¹⁹

¹⁴ Food and Drink Report

¹⁵ <https://www.ic.gc.ca/app/scr/sbms/sbb/cis/establishments.html?code=41322&lang=eng#est1>

¹⁶ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.13

¹⁷ <http://www.aglc.gov.ab.ca/liquor/albertaliquorprivatization.asp>

¹⁸ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.30

¹⁹ <http://pernod-ricard.com/635/brands/strategy>

Diageo is a British company manufacturing spirits for brands such as Smirnoff, Johnnie Walker, Captain Morgan, Baileys, J&B, Jose Cuervo, Tanqueray, Buchanan, Windsor Premier, Ketel One, Ciroc, Bushmills, and Crown Royal.²⁰ Diageo is “the leading premium spirits business in the world by volume, net sales and operating profit,” with a medium-term strategy reliant on brand equity, large scale operations, innovation and an array of products at various price points.²¹

Bacardi Limited is the world’s largest privately owned spirits label. Headquartered in Bermuda, its roster includes Bacardi rum, Grey Goose vodka, Dewar's Blended Scotch whisky, Bombay Sapphire gin, Eristoff vodka, Cazadores tequila and Martini vermouth.²² Strategy, targets and progress are expressed through *responsibility* at every level for Bacardi Limited.²³ It has publicly aligned itself with social and environmental organizations and causes through campaigning against under-age and irresponsible drinking²⁴ and environmental leadership.²⁵

Beam Inc., known earlier as Fortune Brands, is an American company producing spirits for such brands as Jim Beam, Maker’s Mark, Sauza, Courvoisier, Canadian Club, Teacher’s, Laphroaig, Knob Creek, Basil Hayden’s, Kilbeggan, Cruzan, Hornitos, EFFEN, Pucker, Skinnygirl, Sourz Liqueurs, Pinnacle, and Calico Jack.²⁶ As the world’s fourth largest premium spirits company,²⁷ Beam’s strategy is based on “creating famous brands, building winning markets and fuelling our growth,” highly focused on measurable objectives.²⁸

Positioning:

With a global oligopoly over spirits by the largest 3 or 4 companies, there is not always room for smaller competition to gain awareness by and access to the market through major distribution channels.²⁹ The largest producers enjoy substantial brand loyalty among consumers who recognize and identify with well-known names, compounding increased brand equity and minimized competition. The positioning of brands to gain loyal consumers works simultaneously to offset the chances that consumers may forsake a preferred brand for a cheaper alternative.³⁰

Successful positioning establishes a brand within a consumer’s mind as a representation of something more significant and personal than a drink, fuelling brand loyalty and possibly brand insistence. Investing in building a strong brand and creating awareness is a good way for smaller companies to position themselves to compete in the market.³¹

²⁰ MarketLine Industry Profile. “Spirits in Canada.” February 2013, p.26

²¹ <http://www.diageo.com/en-row/ourbusiness/aboutus/Pages/our-strategy.aspx>

²² MarketLine Industry Profile. “Spirits in Canada.” February 2013, p.22

²³ <http://www.bacardilimited.com/corporate-responsibility/marketplace/targets-and-progress>

²⁴ <http://www.bacardilimited.com/corporate-responsibility/marketplace>

²⁵ <http://www.bacardilimited.com/corporate-responsibility/environment-health-safety/targets-and-progress>

²⁶ MarketLine Industry Profile. “Spirits in Canada.” February 2013, p.23

²⁷ <http://www.beamglobal.com/about>

²⁸ <http://www.beamglobal.com/about/leadership-team>

²⁹ MarketLine Industry Profile. “Spirits in Canada.” February 2013, p.17

³⁰ MarketLine Industry Profile. “Spirits in Canada.” February 2013, p.17

³¹ MarketLine Industry Profile. “Spirits in Canada.” February 2013, p.20

Pricing Strategy³²:

Pricing strategies with liquor tend to deter consumers from buying or consuming too much:

- Price policies are effective in reducing alcohol consumption
- Price policies are effective in reducing alcohol related harm
- Young adult drinkers are particularly price sensitive
- Minimum price policies may be effective for reducing consumption among high-risk drinkers

Partnerships:

The Association of Canadian Distillers and Spirits Canada are two media helping to form partnerships between industries producing spirits and other organizations, such as interest groups, law enforcement including police, border and customs agencies, and hospitality industries and retailers who have significant contact and influence with consumers.³³

News and Media Coverage:

Regulatory issues comprise a large portion of media attention in the spirits/alcohol industry in Canada. Many individuals and organizations regard it as over-regulated and or convoluted, especially since many policies originate from the Prohibition era.³⁴ Pricing is sometimes the issue revolving around the monopolistic business model.³⁵ Recently, British Columbia has taken steps to consider reforms for this industry in that province, inviting public debate and feedback.³⁶

Consumer Behaviour

Consumer behaviour provides deeper insights into the mind of the spirits consumer. An analysis of behaviour, purchasing patterns, brand loyalty, new brand acceptance, and market sensitivity can identify possible consumer characteristics and needs in the spirits market.

Consumer Behaviour:

From 1992 to 1997, sales of spirits were sluggish due to consumer preferences for healthier choices and concerns over alcohol misuse, as well as high prices caused by taxation. This phase subsided and between 1997 and 2005 consumers resumed spirits consumption to the annual sales increase of 4%.

Between 1996 and 2006, consumption of spirits by Canadians over 15 years old increased from 5.07 litres per capita per person to 7.02 litres per capita per person, due to population growth and demand for new products.³⁷

³² <http://www.ccsa.ca/2012%20CCSA%20Documents/CCSA-Price-Policies-Reduce-Alcohol-Harm-Canada-2012-en.pdf>

³³ <http://www.businessreviewcanada.ca/reports/spirits-canada>

³⁴ <http://www.cbc.ca/news/canada/canada-s-weird-liquor-laws-1.1004724>

³⁵ <http://www.sunnewsnetwork.ca/sunnews/canada/archives/2013/02/20130201-145222.html>

³⁶ <http://www.theglobeandmail.com/news/british-columbia/bc-seeks-publics-input-for-overhaul-of-liquor-laws/article13654830/>

³⁷ <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/processed-food-and-beverages/the-canadian-distillery-industry/?id=1171995761751>

In the past 6 months, 47.1% of the population drank spirits. Of this number, 10.4% were classified as light drinkers, having 1-2 drinks per month. 11.8% were classified as medium drinkers, having 3-5 drinks per month. 5.7% are classified as heavy drinkers, having 6-9 drinks per week. Finally, 8.8% of the spirits drinking population has 10 or more drinks per month³⁸.

Males overall purchase more alcoholic beverages than females. Between the ages of 19 and 70, roughly 8% of females and 20% of men report consuming more than two drinks per day.³⁹ However, females are more likely to purchase alcohol for another person.⁴⁰

Brand Loyalty:

Brand loyalty plays a significant role in the spirits industry. The largest companies producing spirits also produce several beers and wines, which offset many losses if switching occurs,⁴¹ but they also tend to accrue high levels of brand loyalty in the spirits sector.⁴² However, it remains that substitutes such as beer and wine offer low cost switching and can be viewed as a cheap alternative to consumers. (See Appendix B)

Brand loyalty also depends on buyer power within the market, such as buyer independence, cost of switching, undifferentiated products and financial situation⁴³. There is a strong degree of buyer independence within the spirit market, which illustrates the amount of power buyers have in the market. This can also illustrate that brand loyalty may be affected by consumers ability to choose different products with their independence. As explained above, low-cost switching to different products also affects brand loyalty. Finally, products that are very similar, such as Bacardi, Captain Morgan and Appleton white Rum are arguably very similar in taste, price and quality. (See Appendix C)

New Brand Acceptance:

For new entrants into the spirit market, some positives and negatives affect the impact they will make in the market. It is relatively easy to enter the market from a financial standpoint, but new entrants will find it hard to compete with established major players⁴⁴. Although there is little regulation needed in starting a new brand, the distribution and small number of weak players make it hard to compete with larger brands. With steady market growth and undifferentiated products, new entrants will find it easier to enter the market initially than to compete with the large players. (See Appendix D)

³⁸ <https://www-kmrsoftware-net.rap.ocls.ca/netquestapp/pmbquickreports/default.aspx>

³⁹ <https://www-kmrsoftware-net.rap.ocls.ca/netquestapp/pmbquickreports/default.aspx>

⁴⁰ <http://www.nielsen.com/ca/en/insights/news/2012/exploring-the-alcoholic-beverage-consumers-mindset.html>

⁴¹ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.20

⁴² MarketLine Industry Profile. "Spirits in Canada." February 2013, p.17

⁴³ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.19

⁴⁴ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.19

Purchasing Patterns:

The purchasing patterns of consumers show the reasons consumers buy spirits, the number of visits per month and their impulse buying habits when purchasing spirits.

Percentages of consumers buying spirits for various reasons:

- 3.7% for gifts
- 14.7% for home consumption
- 0.9% for other reasons
- 27.2% did not specify reasons, which is further discussed in Market Sensitivity⁴⁵

Consumers' average number of spirits purchases:

- Over 28% more than once per month
- 13.3% approximately once per month
- 10.2% 2-3 times per month
- 3.4% 4-5 times per month
- 1.7% 6 or more times per month
- 14.6% did not specify⁴⁶

Consumers were shown to postpone spirit purchases until they go out to make other purchases. This suggests spirits may be more of a convenience item, and consumers do not typically go out solely to purchase this item. In 69% of instances, buying alcoholic beverages is generally planned. In addition, consumers are more impulsive with pre-mixed cocktails and malt-based purchases, indicating impulse buys. This demonstrates that in-store marketing and displays of pre-mixed spirits near the front of the store could affect these unplanned purchases⁴⁷. See Marketing Tactics below for more on product placement and displays.

Market Sensitivity:

- personal choice
- substance abuse
- sensitive subject
- connected to injuries

While the idea of over-regulation has been discussed, some public opinions represent a contradictory idea, that liquor control boards are the best way to protect the public from harms associated with alcohol. Organizations such as Mothers Against Drunk Driving (MADD) and Centre for Addiction and Mental Health (CAMH) take this stance. The National Union of Public and General Employees cites research correlating deaths related to alcohol with the increased presence of private liquor stores in parts of British Columbia.⁴⁸

⁴⁵ <https://www-kmrsoftware-net.rap.ocls.ca/netquestapp/pmbquickreports/default.aspx>

⁴⁶ <https://www-kmrsoftware-net.rap.ocls.ca/netquestapp/pmbquickreports/default.aspx>

⁴⁷ <http://www.nielsen.com/ca/en/insights/news/2012/exploring-the-alcoholic-beverage-consumers-mindset.html>

⁴⁸ <http://nupge.ca/content/5823/madd-canada-policy-paper-supports-liquor-board-model>

Due to adverse experiences with alcohol in society, Health Canada and related associations such as the National Native Alcohol and Drug Abuse Program, the Pan-Canadian Fetal Alcohol Spectrum Disorder (FASD) Initiative, First Nations and Inuit FASD program, the Canadian Institutes of Health Research and the Canadian Alcohol and Drug Use Monitoring Survey take a special interest in alcohol consumption and regulation.⁴⁹

Marketing Tactics

“Until recently, restrictions on advertising of alcoholic beverages made it difficult to introduce new products to increase market share and to compete against other beverages”⁵⁰. These restrictions have now been lifted, providing a greater opportunity for advertising and promotions.

Products Available:

As an industry, the Canadian Distillery industry carries a wide range of products, from whiskey to bourbon to vodka to gin. The products available depend on the location, the distributor (see Market Segments) and the parent brand to that beverage (See Market Competition).

Although the shape of the bottle, colours and liquor vary depending on the brand, there are standard sizes for spirit bottles. They come 12 ounces (known as a ‘Mickey’), 26 ounces, 40 ounces, 60 ounces and 101 ounces (known as a ‘Texas Mickey’). These sizes are standard for any spirits sold in Canadian liquor distribution locations.

Promotional Tactics:

Different provinces use different promotional tactics to advertise and promote the sale of spirits and liquor. The most recent data on advertising alcoholic beverages showed an increase of almost 50% more alcohol advertisements between 1999 and 2003⁵¹. Advertising is also a shared interest between the CRTC (Canadian Radio and Telecommunications Commission), provincial and territorial governments and the Canadian Code of Advertising Standards⁵².

Liquor and spirit companies frequently utilize television advertising to promote their products. This allows them to mass market their products to a wide variety of current and potential consumers. A recent trend in marketing spirits is to resonate more with the consumers, by changing the tone and content of their ads. Smirnoff, Bacardi and Absolut have created innovative apps and dance competitions to promote their products⁵³. It is important for super premium brands, such as Beefeater Gin, to employ aspirational advertising and emotional engagement in drink advertising⁵⁴. In addition, there has been a recent trend in online advertising of spirits: 45-48% of consumers interact online to let friends know they like the brand of liquor while 31-34% wanted to let others know what they thought of the brand. This

⁴⁹ <http://www.hc-sc.gc.ca/hc-ps/alc/index-eng.php>

⁵⁰ <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/processed-food-and-beverages/the-canadian-distillery-industry/?id=1171995761751#struc>

⁵¹ [http://www.apolnet.ca/resources/education/presentations/ANOC9_Shows/OPHA_AlcAdv%20\(3\).pdf](http://www.apolnet.ca/resources/education/presentations/ANOC9_Shows/OPHA_AlcAdv%20(3).pdf)

⁵² [http://www.apolnet.ca/resources/education/presentations/ANOC9_Shows/OPHA_AlcAdv%20\(3\).pdf](http://www.apolnet.ca/resources/education/presentations/ANOC9_Shows/OPHA_AlcAdv%20(3).pdf)

⁵³ <http://www.ipsos.com/sites/ipsos.com/files/Drinking-to-the-Future-Trends-in-the-Spirits-Industry.pdf>

⁵⁴ <http://www.ipsos.com/sites/ipsos.com/files/Drinking-to-the-Future-Trends-in-the-Spirits-Industry.pdf>

encourages communication between brand and consumers, making the brands seem more accessible.

In addition to brand advertising, provincial governments advertise their products and distribution channels as well. This area will focus on 4 of the largest alcoholic distributing provinces: Ontario, British Columbia, Alberta and Quebec.

Ontario: The Liquor Control Board of Ontario, known as the LCBO, utilizes many different promotional methods. They have a website, which not only shows the products they sell, but have advertising for new products, promotions and discounts⁵⁵. They also have a magazine, called Food & Drink, which they use to advertise new products as well. This also has a variety of advertisements for high-end appliances, cars and cooking products that would also be targeted to the same group of consumers. These magazines are available four times a year, for subscription or pick up from the LCBO at no cost⁵⁶. The LCBO also has both billboard advertisements and radio advertisements that are frequent around holidays and seasonal events such as Thanksgiving and Christmas.

British Columbia: Advertising and marketing of liquor products in British Columbia must comply with Liquor Control and Licensing regulations for private facilities⁵⁷. There are very strict advertising rules in British Columbia, some of them being: not associating drinking with driving, not showing people drinking liquor or anyone intoxicated or behaving irresponsibly. BC uses magazines, periodicals, television, radio and published brochures to advertise spirits⁵⁸. BC Liquor Stores also have an online website for viewing products, finding out new promotions and encouraging consumers to buy local wine, craft beer and spirits⁵⁹. They also offer a 'Food Pairing' part of the website, dedicated to complimenting food with the right drinks.

Alberta: Alberta is the only privatized retailer of alcohol in Canada. Along with British Columbia, they have very strict guidelines for advertising and marketing alcoholic beverages. These include not advertising to minors, not advertising a price of alcohol, no well-known personalities advertising the product and illustrating a legal drinking scene. Their online website is more about the privatization, regulations and associations than it is with associating products and discounts to consumers⁶⁰.

Quebec: Quebec has the most diverse marketing and advertising in the country, with a variety of information, products and distribution channels. SAQ, known as Quebec Alcohol Corporation in English, supplies and controls alcohol distribution in Quebec⁶¹. Alcohol sales are available in licensed grocery or convenience stores in Quebec, along with liquor stores. They have a large online presence, showing a wide range of products available. They have tips and pairing options

⁵⁵ <http://www.lcbo.com/main/en.shtml?promo=07>

⁵⁶ <http://www.lcbo.com/fooddrink/index.shtml>

⁵⁷ <http://www.pssg.gov.bc.ca/lclb/LLinBC/advertising.htm>

⁵⁸ <http://www.omaccanada.ca/Sites/omac/multimedias/Ad%20Guidelines/2011/Alcohol/Advertising%20Guidelines%20%28Alcohol%29-BC-Nov%202011-ENGLISH.pdf>

⁵⁹ <http://www.bcliqorstores.com/>

⁶⁰ http://www.aglc.gov.ab.ca/liquor/search_instruction.asp

⁶¹ <http://www.saq.com/content/SAQ/en.html>

for cooking to accompany drinks. SAQ also has a strong radio and television presence, regarding new products, large liquor brands and buying local.

Advertising Standards also encourage responsible drinking as a main message to consumers. Most alcoholic beverage advertisements will include “must drink responsibly” in their advertisement.

Advertising alcoholic beverages, banned in Canada until the 1990s and in the US until later, is an important action that offers considerable advantage to building brand awareness, which is pertinent to establishing brand loyalty, a determining factor for success in the spirits market, as discussed earlier.⁶²

Assessment of Effectiveness:

There are a few ways these provinces can monitor the effectiveness of their advertising. Through online websites, companies can view their click-through rates, seeing what percentage of viewers have viewed online promotions and sales. Form conversion rates are also a good way to view what percentage of consumers clicked all the way through the advertisements. These measures help to track and monitor web traffic and consumer viewing habits to make a more effective advertisement.

Environmental Factors

Political and Legal Factors:

Both federal and provincial regulations apply to distilled beverages. The Importation of Intoxicating Liquors Act informs much of the provincial and territorial regulation and these governments, save for Alberta, hold monopolies over alcohol and are dominant retailers of alcohol in their respective jurisdictions. However, there is substantial variation in among these jurisdictions in terms of licenses to sell privately and full government retail monopolies.⁶³

Liquor boards oversee the regulation of alcohol for provinces and territories. For a comprehensive list, see Appendix E.

The Canadian Food Inspection Agency (CFIA) is a regulatory body involved in assessing the safety of alcoholic beverages and approving the sale in Canada, applying to both foreign and domestic products. CFIA ensures proper labeling, quantity information and container size under the Food and Drugs, and Consumer Packaging and Labeling Acts. Policies such as NAFTA and GATT have facilitated international trading of goods, including alcohol. Imports continue to gain momentum, accounting for up to half the Canadian market. This is partly due to a diversified population increasing the demand. Liquor boards have responded to the market by stocking any

⁶² <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/processed-food-and-beverages/the-canadian-distillery-industry/?id=1171995761751>

⁶³ <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/processed-food-and-beverages/the-canadian-distillery-industry/?id=1171995761751>

attainable product, domestic or imported, that consumers desire. Although most liquor boards tightly control alcohol, their market-oriented policies widen the entrance for new products.⁶⁴

Canadian whisky entered into political and legal scrutiny in 2000. Spirits Canada and Health Canada worked to standardize the national beverage so that it would a) be distilled in Canada; b) be aged for a minimum of 3 years in Canada in wooden barrels, and; c) contain 40% alcohol by volume.⁶⁵

Economic Conditions:

Canada exports over 80% of its domestic spirits to the United States. This market has been threatened by the recent economic downturn in the US, decreasing Canadian exports. The Canadian dollar has been a contributing factor to this effect.⁶⁶ In such a tightening economy, entrants into the alcohol market are constrained by larger competitors that produce to economies of scale with expensive infrastructure and secure contracts with growers.⁶⁷

The spirits industry contributes numerous benefits to the Canadian economy, such as employment in production and related industries including hospitality and transportation. Federal and provincial governments collect several alcohol-related taxes including those on sales, income and businesses. Governments exercise the power to apply their own markups on alcoholic products.⁶⁸

The following table indicates the frequency of alcohol consumption, past year drinkers, general population age 15+, Canada, 2010:⁶⁹

Frequency	% of past-year drinkers	
	Male	Female
Less than once a month	16.8	26.7
1–3 times a month	28.9	33.0
1–3 times a week	39.1	32.2
4+ times a week	15.2	8.1

Social Trends:

⁶⁴ <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/processed-food-and-beverages/the-canadian-distillery-industry/?id=1171995761751>

⁶⁵ <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/processed-food-and-beverages/the-canadian-distillery-industry/?id=1171995761751>

⁶⁶ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.17

⁶⁷ MarketLine Industry Profile. "Alcoholic Drinks in Canada." February 2013, p.19

⁶⁸ Thomas, Gerald. "Analysis of Beverage Alcohol Sales in Canada, Alcohol Price Policy Series, Report 2 of 3." Canadian Centre on Substance Abuse. November 2012, p.9
<http://www.ccsa.ca/2012%20CCSA%20Documents/CCSA-Analysis-Alcohol-Sales-Policies-Canada-2012-en.pdf>

⁶⁹ Thomas, Gerald. "Levels and Patterns of Alcohol Use in Canada, Alcohol Price Policy Series, Report 1 of 3." Canadian Centre on Substance Abuse. November 2012, p.6
<http://www.ccsa.ca/2012%20CCSA%20Documents/CCSA-Patterns-Alcohol-Use-Policy-Canada-2012-en.pdf>

Consumer distrust of genetically modified organisms and bioengineering is viewed as a threat by the spirits industry should their products be connected with these practices in the public's mind.

Consumers purchased more vodka than Canadian whisky for the first time in 2006. Vodka serves as the most neutral base for cocktails, revealing a younger consumer preference that involves increasing demand for liqueurs and flavoured drinks.⁷⁰

Vodka continues to lead among Canadian spirits (4.76 million cases in 2011) and growth is projected at 9.83% from 2012-2016. Rum is second in demand with a consumption rate increase of 6.55% between 2007 and 2011.

From 2012-2016, consumption of spirits in Canada is set to grow by 3.7%, due to increased imports of foreign spirits (+4.16% in 2012) and decreased domestic spirits.⁷¹

Technological Trends:

Technology in the spirits sector in Canada is well-developed and comparable to that of major competitors such as in the United States, taking into account differing economies of scale. Bottling and packaging are current areas of technological focus, decreasing the weight of glass bottles and substituting PET plastic for some glass formats with environmental factors in mind.⁷²

Recommendations

Key Opportunities:

There are a variety of key opportunities to be utilized through the assessment of this report.

- As an industry, the spirits market is rapidly growing, increasing by 2.1% since 2011, valued at \$5,885.1. million CAD.
- Whiskey holds the largest segment in the market, with 31.3% of the total market value
- Ontario, British Columbia, Alberta and Quebec have the largest percentage of the Canadian market
- Despite the 4 major players controlling 68% of the market, data showed consumers were not strongly attached to a certain brand, products were hard to differentiate between and there is a low cost to switching brands. This all benefits new entrants into the spirit market
- There are a variety of outlets in which to market and promote products, whether it is through government run websites or privatized liquor companies.

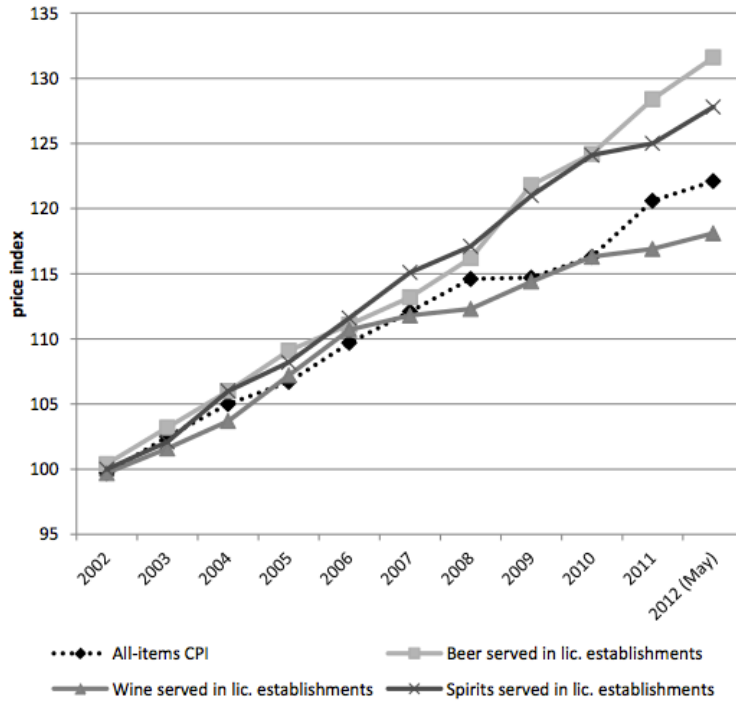
Greater expansion of Canadian distillery exports beyond the US holds much potential considering the increasing liberalization of trade among the Americas. This is an important area of focus as many more spirits are commonly imported into Canada, diluting the national industry.

⁷⁰ <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/processed-food-and-beverages/the-canadian-distillery-industry/?id=1171995761751>

⁷¹ <http://www.newswire.ca/en/story/1102565/canada-s-wine-and-spirits-market-to-continue-rapid-growth>

⁷² <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/processed-food-and-beverages/the-canadian-distillery-industry/?id=1171995761751>

Appendix A⁷³

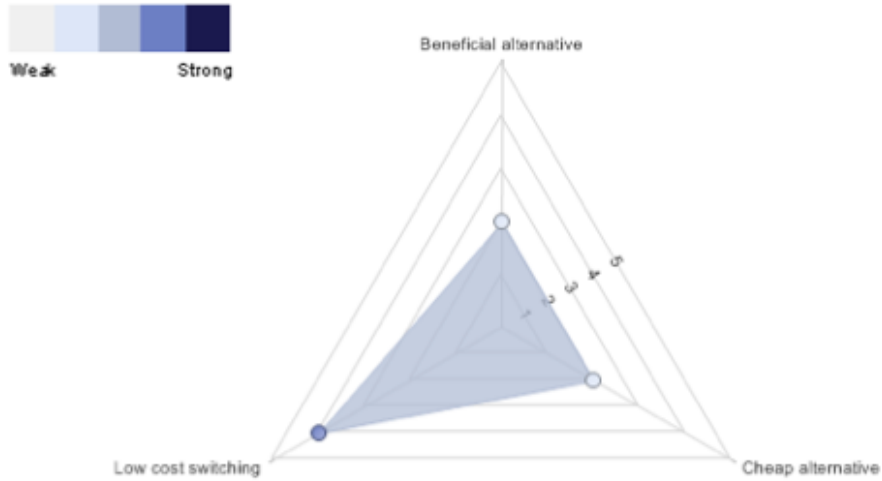


Source: Statistics Canada, 2011a.

Appendix B⁷⁴

⁷³ <http://www.ccsa.ca/2012%20CCSA%20Documents/CCSA-Analysis-Alcohol-Sales-Policies-Canada-2012-en.pdf>

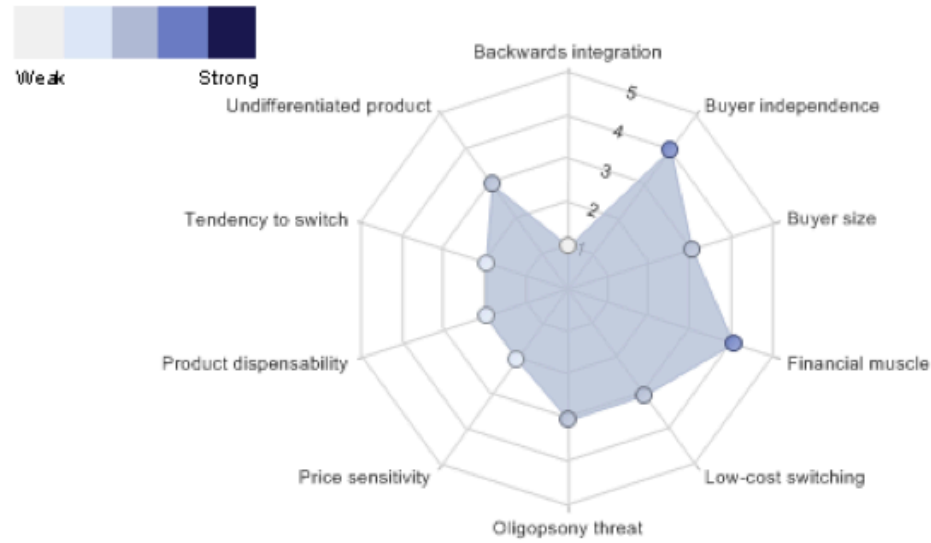
⁷⁴ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.20



SOURCE: MARKETLINE

MARKETLINE

Appendix C⁷⁵

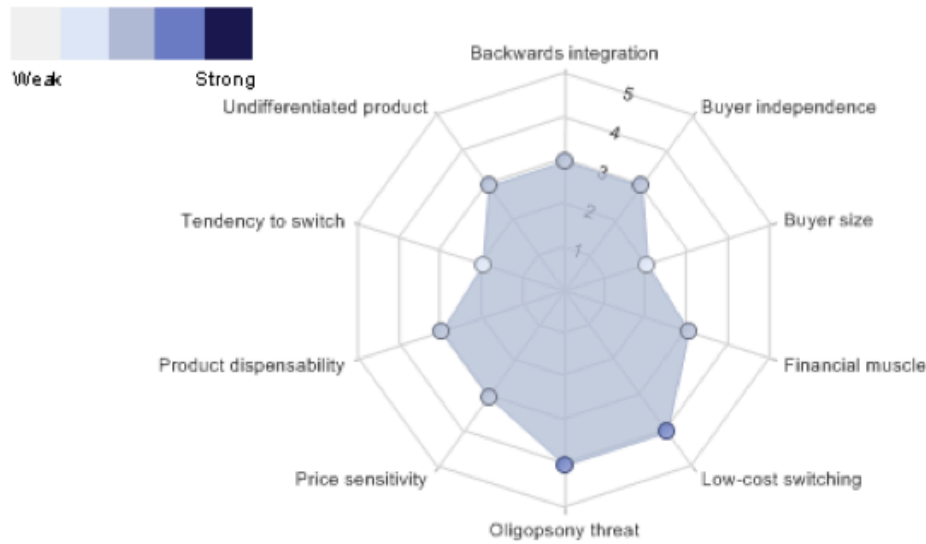


SOURCE: MARKETLINE

MARKETLINE

⁷⁵ MarketLine Industry Profile. "Spirits in Canada." February 2013, p.17

Appendix D⁷⁶



SOURCE: MARKETLINE

MARKETLINE

Appendix E⁷⁷

Canadian Provincial and Territorial Liquor Boards

1. Yukon Liquor Corporation
2. Northwest Territories Liquor Commission
3. Nunavut Liquor Licensing Board
4. British Columbia Liquor Distribution Branch
5. Alberta Gaming and Liquor Commission
6. Saskatchewan Liquor and Gaming Authority
7. Manitoba Liquor Control Commission
8. Liquor Control Board of Ontario (LCBO)
9. Société des alcools du Québec (SAQ)

⁷⁶ MarketLine Industry Profile. "Alcoholic Drinks in Canada." February 2013, p.17

⁷⁷ <http://www.calj.org/CALJMembers.aspx>

10. New Brunswick Liquor Corporation (NBLC)
11. Nova Scotia Liquor Corporation (NSLC)
12. Newfoundland Liquor Corporation
13. PEI Liquor Control Commission

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Footnotes illustrate all sources used, while the bibliography will illustrate the main sources we used and how we found them.

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