

A Fork in the Road at the Foreign Affair Winery

By Bruce McAdams and Mike von Massow

Introduction

Len Crispino brushed the dust off his pants as he stood in the doorway of the deserted building that stood adjacent to his winery. "What a mess," he thought. In fact it reminded him very much of the building he and his wife Marisa had leased seven years previously to start the Foreign Affair Winery.

As a visionary, Crispino could look beyond the abandoned neglect of the space and see a room filled with energy and people enjoying a meal in a beautifully designed restaurant. He'd been looking at this space with more frequency since his landlord had planted the seed of an idea for him to turn this building into a restaurant several months ago. "Would a restaurant be a good use, a profitable use for this building?" Was this even the answer to the real issue he faced? Would turning the abandoned building into a restaurant help contribute to the success of Foreign Affair by driving more people to the winery to purchase wine? Crispino felt overwhelmed with the questions he faced. As he locked the door of the building to head back to his winery he realized it was time to sit down with his team and take a more serious look at the issues at hand.

The Crispino's and Their Winery

Len Crispino is the 'dreamer, visionary and front man' behind the Foreign Affair winery. As well as his role in the captain's chair of Foreign Affair, Len is the past President and CEO of the Ontario Chamber of Commerce. Len did his undergraduate work at the University of Toronto and followed it up with an MBA at York University. Len's early career was spent working in government, including a stint as a Trade Commissioner for the Province of Ontario. While stationed in Milan, Italy between 1990 -1993 one of Len's responsibilities was the promotion of the Ontario wine industry. It was during this posting that both he and his wife Marisa fell in love with the local style of wine-making known as appassimento. On his return to Ontario in 1993 Len started thinking about an idea to open a winery in Ontario making the wines that he had fallen in love with in Italy. A 'Blue Ocean' thinker, Len was particularly motivated by the fact that nobody else in the Niagara region was producing such wines. Len had always been looking to 'do something different' and appassimento wine seemed to fit the bill quite nicely.

Marisa Crispino who recently retired from a career as a physio-therapist can best be described as 'the glue' that holds the operation together. Whether it is processing invoices, planning large private events or handling government auditors, Marisa runs the show on the administrative and organizational side of things. During the majority of the year Marisa works up to forty hours a week filling this role.

Foreign Affair Winery has been a runaway success since the release of its first full vintage (2007) of wines in the fall of 2008. The Crispino's had purchased 40 acres of farm land and planted vines in 2000 with the goal of becoming the first producer of appassimento style wines in Ontario. Fifteen years later with eight vintages behind them they had indeed entrenched themselves as one of the top producers at the premium end of the Ontario wine market. (More information of the winery is available on their website <http://foreignaffairwinery.com/>)

Loosely translated, 'appassimento' means 'to dry', referring to the process of drying grapes before pressing them in this style of wine-making made famous in the Veneto region of northern Italy. Dried grapes lose some of their water but retain other components such as sugars, acids and phenolic compounds which are the flavor components of wine. This process makes wines that are concentrated and full flavored. Using this technique, Foreign Affair makes approximately 10 types of wine each year including red, white and dessert. Production averages approximately 5000 cases a year with the majority (60%) of the wine being sold from the retail store at the winery. Another 20% of wine is sold through a representative agency to restaurants throughout Ontario which earns a return of 78% of the retail price at the winery. The remaining 20% of sales is sold to the Liquor Control Board of Ontario (LCBO) and to an export company that sells the wine in China which earn 68% and 70% of retail respectively. The split between these two channels can vary dramatically from year to year. Because of taxes, handling fees and commission each channel recovers a different percent of full retail sales price for the wine sold.

Foreign Affair produces partial appassimento style red wines from the Merlot, Pinot Noir, Petite Verdot and Cabernet Sauvignon grape and a full appassimento style Cabernet Franc that sells for \$110/bottle. They also produce partial appassimento whites made from Riesling, Sauvignon Blanc and Chardonnay. In 2008 they released a very popular Ripasso style wine called "Conspiracy" made from Cabernet Sauvignon

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grapes. This wine is produced to sell to restaurants at the affordable price of \$16 a bottle. The wine has also become a bit of a cult favorite at the LCBO where it has recently become a Vintages Essential and is sold for \$19. Becoming a Vintages Essential ensures the wine will have strong distribution amongst LCBO outlets across the province for the entire year. Foreign Affair uses estate grown fruit sourced from their 40 acre vineyard located just outside of the town of Vineland in the “Vinemount Ridge” sub appellation of the Niagara Peninsula.

Although the Foreign Affair brand is built around a style of wine-making that is Italian in its heritage, the Crispino’s are fiercely patriotic and have ensured this comes through to their customers by the use of iconic Canadian animals on their wine labels. Bottle labels show an Italian vignette with super-imposed animals such as beaver, moose and Canadian geese on them. This award winning packaging has been received extremely well by both public and industry observers. In fact, one ‘ubermember’ of the Ontario wine community has stated that Foreign Affair is the “tightest and most complete branding package to come out of Niagara in many years.”

Competition amongst wineries in Ontario is fierce, especially at the premium level where Foreign Affair exists. Small producers or ‘boutique wineries’ like Foreign Affair rely on people visiting their wineries to purchase product on site. In such a competitive market place these wineries are looking to differentiate themselves in any way they can. This can be done by introducing new production techniques or adding value to their customer experience through additional services and amenities such as tastings and tours and in some cases on site restaurants.

Although Foreign Affair still leads the field in appassimento production, other wineries have started to replicate the method and are using the process to make some of their wines as well.

Inventory turnover can become an issue at a winery. Inventory may become ‘stale’ and hard to move if new vintages are produced, released and sold while there is still a good supply of previous vin-

tages on hand. Savvy wine consumers tend to look to purchase wine from highly rated vintages. Whether a vintage, or the year a wine is produced is considered good or not is generally determined by several factors, most notably by the wine press that follow the region. Recent ‘great’ vintages in the Niagara region include 2007, 2010 and 2012. Challenging vintages have occurred in 2008 and 2014 while the remaining vintages during the Crispino’s time at Foreign Affair have been considered ‘good’. Although Foreign Affair has been able to move the majority of the wine they’ve produced with annual case sales averaging approximately 3500 the store rooms in the back of the winery are filling up with unsold cases of wine from lesser vintages.

The winery is also a hub of activity for special events. The Crispino’s host several large dinners, pig roasts or movie nights a year at their winery. These events are usually centered on a new release of wine or a special guest speaker and can attract 50 – 75 of their most valued customers. Tickets for these events will range in price from \$50-\$100. Marisa uses several local caterers to provide the food for the events and after paying for rental chairs, glasses and tables she is lucky to break even. The winery has also hosted several corporate receptions and it is not uncommon to find Marisa and Len welcoming a large group of restaurateurs or tour groups to their winery. Marisa will often provide sandwiches and salads for these groups served in the wineries kitchen or in the recently converted barrel room which has been overhauled to accommodate groups of up to 20 people.

After seeing positive sales growth in the company’s first five years of operation things had recently leveled off. Retail sales at the winery were still good but down slightly as a result of people spending less per visit. The average purchase per person had dropped to \$78 in 2014, down from a high of \$94 in 2010. In speaking to fellow winery owners Crispino had heard similar stories about people spending less. The decline in retail sales had recently been propped up by increased LCBO sales and the new export business to China. Sales to restaurants have remained relatively constant since opening.

Table 1

Inventory Levels

Vintage	Vintage Rating out of 4 stars	Cases Produced	Cases Sold	Cases on hand
2014	**	5000	0	5000
2013	***	5400	1000	4400
2012	****	4600	2100	2500
2011	***	4200	2400	1800
2010	****	5900	4500	1400
2009	***	4200	3700	500
2008	**	4500	4200	300
2007	****	3000	3000	0

Table 2**Wine Sales by Channel of Distribution**

	2008	2009	2010	2011	2012	2013
Retail Winery Sales	80000	293000	822600	822000	720000	710000
Restaurant Sales	4000	100000	120000	173000	201000	167000
L.C.B.O. Sales	0	30	50	97000	93000	120000
Export Sales	0	0	0	0	100000	128000
Total Sales	84000	423000	942650	1092000	1114000	1125000

Location, Location, Location: The Vineland Research Station

The Vineland Research and Innovation Center (further referred to as 'the center') consists of 35 buildings on 218 acres of land in the town of Vineland in Niagara Region. The center's history traces back to 1906 and it has become an internationally recognized facility for horticultural research and innovation. Current tenants of the property include the Ontario Ministry of Agriculture, Food and Rural Affairs, and Agriculture and Agri-Food Canada. There are approximately 300 full-time employees that work at the center and there is currently no food and beverage supplier at the property. Though the center is not actively seeking commercial growth the idea of a restaurant on the property is of interest to them. The winery has helped increase awareness of the center and it is thought that a successful restaurant could do the same while adding the convenience of having a restaurant on the property.

The approximately five thousand square foot vacant building is slightly older than the one adjacent that houses the winery. Its most recent use was by the University of Guelph as a horticultural laboratory until the mid 1990's. The building has remained empty since that time. The rent of the property would be negotiated between \$20 and \$25 a square foot per year which is the prevailing market rate in both Vineland and St. Catherine's which is the closest major center of business. Although transforming this abandoned building provides an opportunity to increase awareness for the winery and generate foot traffic, Crispino can't help but think there is significant risk in such an undertaking.

Trying to increase sales in the retail store at the winery had become a preoccupation for Crispino. He has no formal sales and marketing training and feels he lacks the resources to hire a full time person to help in this area. He and Marisa had looked at best practices of other wineries and had decided to follow suit by holding events. "Most wineries seem to be trying to create experiences at their winery to attract visitors" was Crispino's answer when asked why they held events.

Paul Wagner, the Vineland Research Center's Development Officer had the following to say about the potential location being used as a

restaurant; "A restaurant would be a logical use of that space, there would be cross pollination with the winery for sure. A restaurant on the property has a lot of potential with the number of wedding requests the center attracts because of the beautiful grounds. We also host a lot of business events during the year that a restaurant could cater and 202,000 cars go by our doorsteps on the Queen Elizabeth Way every day"

Len Crispino's view of the location is generally optimistic. He feels the traffic patterns are strong and thinks the aesthetics of the grounds around the building are a real positive. When asked his final thoughts on opening a restaurant at his winery Crispino stated: "It would be very exciting to get into the restaurant business. We would have to do something different however, like we did with wine. And to work with the Foreign Affair brand we'd have to serve genuine food....and of course it would have to have some aspect of Italian to it!"

The Building Itself

Len Crispino has some 'good connections' and he used these to find the names of several key leaders in the field of restaurant design and architecture in Ontario. In fact, Len had already met with both Matt Chong of Moody Design and Wasim Mechandri of WTM Mechanical. Both men had come out to have a look at the building to get an idea of what sort of work and capital investment may be needed if Len was indeed to take 'the plunge' and convert the building to a restaurant.

Although the building had been left abandoned for many years, the plumbing and electrical components of the building were still in very good condition. Very little work would need to be done to the exterior of the building with the exception of cosmetic additions such as signage. One concern that Crispino had with the design of the building was the fact that it was two stories with lots of walls from the original design which was all office and lab space. Both Chong and Mechandri had looked at the buildings plan and upon visiting the location assured Crispino that knocking out of walls was easily done.

Over a lunch at a local restaurant, Chong and Mechandri put forth their estimate to Crispino for the cost of the project. To take the approximately 5000 sq. feet and convert it into a structural shell that could house

a functional restaurant would require approximately \$600k. Chong felt that the design and build costs to create a restaurant on top of this including a fully functional kitchen with equipment would be \$300k

The Restaurant Business

Known as a difficult industry to achieve success in, the restaurant business does share some similarities to operating a winery. Both industries are perceived as 'exciting' and at the higher end of the marketplace provide enjoyment to their customers and exude passion in their products. This being said, there are probably more differences than similarities between the two, including labor intensity, management structure, perishability of product and government regulation.

Although the independent restaurant sector in Canada has not seen dramatic change in the last 20 years, it seems to be constantly facing new challenges. Some of the issues include attracting and retaining good staff, public and government focus on areas of health and safety, and the ever increasing cost of labor. The industry has also seen some positive momentum in recent years as more people are eating out more often. This increased demand however has also led to an increase in supply negating any advantage for restaurateurs. The popularity of the Food Network and other food driven programming has also played a role in the creation of a more savvy and educated restaurant consumer.

Asked about apprehensions he has towards the restaurant business, Crispino stated: "The wine business was new to us but we have figured it out...for the most part. I want to see some numbers crunched for a restaurant but you have to be careful not to overanalyze an issue. Sometimes a little judicious naivety is beneficial"

The ownership and operating model of a restaurant can take many forms and the Crispino's feel they have several options in this regard. The most obvious sees Len and Marisa owning and operating the venture. This would allow for control over the restaurant concept but take an immense amount of time and energy both in start-up and operation. Crispino does worry about this option as he and Marissa are already busy running the winery and they currently have little 'extra time' to put towards managing the day to day affairs of a restaurant. They could also take a step back and own the restaurant but hire a General Manager with experience and expertise to run it for them. This would allow for the Crispino's to maintain the creative direction without having to get involved in the day to day operation. Crispino has also mentioned he is not opposed to eventually offering 'equity' in the restaurant to a person like this if they prove themselves as a loyal and effective employee.

When asked about these options Len responded: "Given that we are so attached to what we have created, we'd definitely want to have as much say in things as possible." This being said I think the financial projections would have a lot of impact on the management and ownership structure of the venture. We also have to question the stage we are at in our lives, many people our age would be contemplating retirement."

Culinary Tourism in the Niagara Region

The term 'culinary tourism' has come into prominence in the last decade as Canadian's appreciation for food, wine has grown and they are now travelling to enjoy it. The Niagara region is one of Canada's largest culinary destinations with over one hundred wineries, hotels and B&B's, dozens of chef inspired restaurants and many other food artisans such as cheesemakers and butchers. The area also has a draw of the Shaw theatre festival, Niagara Falls, bike trails and a casino. It is an easy commute from the Greater Toronto Area (GTA) so day trips are common.

The prominence of food in the region grew in the early to mid 1990's when several wineries such as Cave Springs and Hillebrand opened chef driven restaurants on their grounds. Growth has been steady for the region since the late 1980's and many people now compare the region to a less expensive version of California's Napa Valley.

Final Thoughts

Len Crispino sat at a table in the kitchen of the winery, enjoying an espresso, making his final preparations for the strategy meeting he was to have with his team. To date the Foreign Affair Winery had been a huge success. Len had introduced quality appassimento wines to the region that had been received well by both consumers and critics. The winery had enjoyed financial success to date but sales had stalled. Retail sales from the winery store were down having to be propped up by new channels of distribution such as the L.C.B.O. and a new export market in China. Len was worried about the consistency of these new channels and felt he needed to increase his winery retail sales to ensure the success of the business.

Len had never thought of opening and running a restaurant until he had been approached by his landlord the Vineland Research Center to do so with the empty building adjacent to his winery. Len knew that a restaurant would draw more people to his winery and increase sales of his wine but he wondered at what cost? Len had called his team together to determine if this was in fact the best course of action or if they should instead come up with a strategy to build winery sales some other way.