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Future of liquid chocolate

Quebec entrepreneur aiming to sell his unique fondue flavours around the world

MARK CARDWELL
SPECIAL TO MONTREAL GAZETTE

Dominique Brown, shown at a Chocolats Favoris outlet in Quebec City in May, bought the company three years ago and decided to focus on the fondue market, developing a range of new flavours. *MATHIEU BELANGER/MONTREAL GAZETTE*

Is Dominique Brown the world's coolest dad? His kids must certainly think so.

A decade after he sold Beenox, a video-game development company he founded in 2000 at age 21, to multinational giant Activision for megabucks, the Quebec City entrepreneur is now investing his time and money in a unique chocolate-making company.

And like his video-game company, which churned out such world-class hits as Spider-Man and Prince of Persia, Brown hopes to turn Chocolats Favoris into a global sensation.

"I want to make it a brand that goes across borders," Brown told the Montreal Gazette in the days leading up to the launch of the latest Chocolats Favoris outlet in Terrebonne on May 9.

It is one of six new locations being opened in the coming weeks across Quebec, double the number of locations from just a year ago.

According to Brown, the company's next expansion target is the island of Montreal in 2016.

"I won't tell you how many stores we're going to open or where they'll be — we want to keep that a surprise," he said. "But with the huge success of our other locations, including Boucherville, there's no doubt in my mind that Montrealers will go crazy for Chocolats Favoris."

Founded in Levis in 1979 as a small family-owned business that produced high-end chocolate products for Easter, Chocolats Favoris became regionally famous for the dark liquid chocolate it made to dip cones at the three ice-cream counters it owned and operated in the Quebec City region.

A lifelong lover of the company's dipped cones, Brown decided to buy the business three years ago after learning it was for sale.

"I was looking for a company with an established brand that I thought I could develop," recalled Brown, who retired from Beenox in 2010 after a five-year, post-sale stint as the company's chief executive officer.

While doing research on chocolate, Brown said he realized most companies make it in solid form — but that liquid chocolate is what fires people's imaginations.

"Liquid chocolate is so expressive," he said. "People's eyes pop out of their heads when they see big vats of liquid chocolate."

He decided to focus on the fondue market, which he says features mostly low-quality brands of hard chocolate that require "very complex, annoying and troublesome" preparation processes.

In an effort to exploit what he calls Chocolats Favoris's "unique edge," Brown asked the company's chocolate makers to develop a new range of flavours.

The result was a dozen varieties, from classic dark and white chocolate to an orange flavour and a sparkling variety that crackles on the tongue like kids' candy.

The company also develops what he calls "surprise flavours" every few weeks.

"They are all very cool and delicious," said Brown, who taste-tests recipes with his three oldest children — 11 year-old twins and an 8-year-old (he also has a one-year-old boy).

Initially, he spent several hundred thousand dollars on a new manufacturing facility and a half-dozen retail outlets in and around Quebec City.

The new locations feature stylish counters for selling hard chocolates and ice-cream products, including dipped cones.

They also feature pipes that are designed to carry liquid chocolate from backroom vats to storefront valves that dispense the 12 varieties of liquid chocolate in full view of customers.

The chocolate is then poured into two choices of tin cans (a four-serving size and an individual size) that are then sealed on the spot and taken away by the customer.

"The chocolate stays liquid in the can for a few hours," Brown said. "If you want to have it later, you don't need to store it in the refrigerator. And when you want to have it, all you have to do is put the can in hot water for 20 minutes and, voila, you've got the best-quality fondue ever, whether you're at home or on a camping trip."

The cans of liquid fondue, which are made by a Quebec City company that employs mentally and physically disabled adults (a reflection, said Brown, of his company's socially inclusive philosophy), are also sold at IGA stores and other retailers across Quebec.

He said both counter and stores sales have increased fivefold over the past three years.

Similarly, the number of employees have increased from about 100 to more than 600.

"Our growth has really been explosive thanks to our branding efforts (and) development of the fondue," Brown said.

To sustain that growth, the company also announced in early May a $3.5-million investment in a new facility in a Quebec City industrial park. The 32,000-square-foot facility will regroup production, administration, distribution and research and development activities under one roof. Many of those activities are currently spread out in a half-dozen locations across the provincial capital region.

"It's completely ridiculous," Brown said. "But that's what happens sometimes when you have rapid growth like we've had. You have to react fast and meet demand — but then you end up like this."

Though he initially intended to open only corporate stores, Brown has been working with a single group of four franchisors who are rolling out the half-dozen new stores.

But the Montreal stores, he added, will be his alone.

"We want to ensure the concept is respected (and) to try some new and cool things that will really catch the attention of Montrealers," he said.

Once that's done, Brown plans to continue expanding to other locations in Ontario and beyond.

"I want to open and operate a chain of these stores," he said. "I see them across Canada and eventually around the world."

info@markcardwell.ca

Mutual fund expenses can significantly reduce returns

PAUL DELEAN
On Taxes

The cost of mutual funds and the potential complications of owning U.S. assets were among the topics raised in the latest batch of reader letters. Here's what they wanted to know.

Q: We are investors close to retirement and most of our funds are in mutual funds with one company, The average MER (management expense ratio) is about 2.3 to 2.5 per cent, so we're paying about $25,000-$30,000 a year in fees. We've considered shifting the mutual funds to ETFs to cut the fees by more than half, but our portfolio manager tells us we'll be sacrificing yield by doing so. Should we just hold our nose, liquidate all non-registered funds, and jump into four pretty good ETFs?

A: That is a large amount to be paying annually in fees on a portfolio worth, by extrapolation, around $1 million. In private wealth management, fee percentages generally start going down once the assets under management reach $500,000. You don't seem to be getting any sort of break from the mutual-fund company, so you'd better be getting exceptional service from the adviser. It's understandable that he or she is cool to the idea of you switching to lower-cost ETFs — part of what you're being charged now (through the funds' MER) is going back to them in trailer fees. But the reality is that you can get an ETF equivalent for pretty much every sort of mutual fund these days, and the lower fees can significantly benefit long-term performance. If you feel comfortable enough to manage all (or part) of your own affairs, you could set up an ETF portfolio on your own. It doesn't have to be complicated to be diversified. If you'd rather have professional oversight, you should be able to find a wealth manager willing to do it at a lesser cost than you're paying (invisibly) now.

Q: I have recently been advised that the long arm of the IRS (Internal Revenue Service) may extend farther than commonly known. If a Canadian resident owns shares of U.S.-listed companies, even if they're held by a Canadian brokerage house, would the estate be liable for U.S. taxes if he or she dies? At what point does the IRS get involved in a Canadian resident's estate?

A: Nick Moraitis, a partner at accounting firm Fuller Landau, says a Canadian who dies owning U.S. assets can be subject to U.S. estate tax. Assets include U.S. real estate, shares of American corporations, tangible personal property located in the U.S. (such as a car) and debt owed by U.S. citizens. If those assets amount to less than $60,000 at the time of death, no need to worry, you're exempt. Ditto if your total worldwide estate (including insurance proceeds) is less than $1.2 million and you have no U.S. real estate. Still, you'll need to file a U.S. estate tax return to claim the "small estate" exemption. For everyone else, it gets more complicated. You still may end up paying no estate tax, but it's not assured, and there will be paperwork to file. Since the tax bite can go as high as 40 per cent, it's not something to take lightly, Moraitis said. "Readers who think there is exposure to U.S. estate tax need to speak to a tax professional to explore avenues to mitigate the tax."

The Montreal Gazette invites reader questions on tax, investment and personal-finance matters. If you have a query you'd like addressed, please send it to Paul Delean, Montreal Gazette Business Section, Suite 200, 1010 Ste-Catherine St. W., Montreal, QC, H3B 5L1, or by email to pdelean@montrealgazette.com