



Market Watch

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Tequila

Takes On The Recession

Despite the on-premise downturn, the category appears to be riding out the recession in reasonably good shape

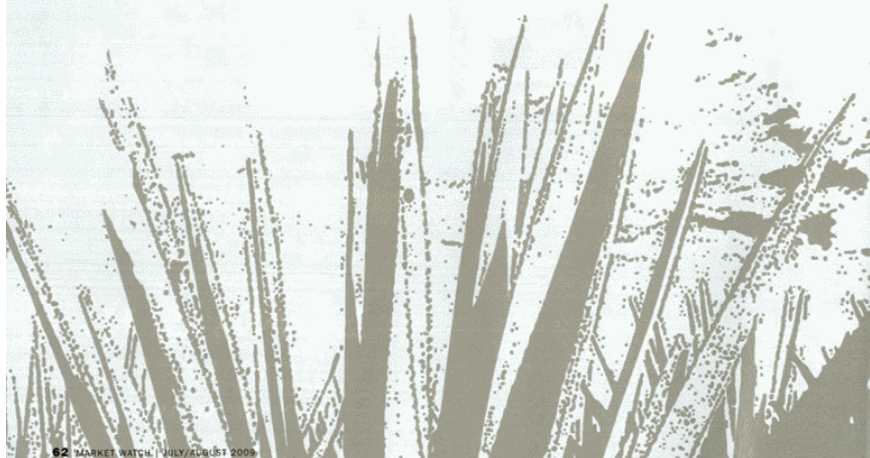
BY CURTISS GIBSON

Over the past decade, Tequila's evolution from simple Margarita ingredient to high-end bar call has been integral to the spirits industry's upscale climb. In 2000, 100-percent agave Tequilas accounted for only 13.8 percent of the category globally. Last year, 100-percent agave Tequilas comprised more than half the total global market.

As the recession began to take hold late last year, Tequila's high-end attributes became a cause for concern as on-premise sales and premium products took a hit. Other categories—

particularly vodka—have reached ultra-premium heights, but provide wider options for consumers who are trading down. Even lower-priced Tequilas still retail in the premium range, largely due to the cost and duration of agave production, which makes cash-strapped drinkers' off-premise decisions more difficult. Luxco's Juárez Tequila, the sixth largest Tequila in the United States at 471,000 nine-liter cases, retails for roughly \$12 a 1-liter bottle and is a mixto designed for making cocktails; but consumers seeking a sub-premium-priced 100-percent agave Tequila are out of luck.

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Texas-based Iron Cactus Mexican Grill and Margarita Bar serves a variety of Tequila flights, ranging from trios of silver offerings to ultra-premium pours. The chain's menu also includes 11 specialty Margaritas, three frozen drinks and a slew of signature Tequila cocktails.

However, trading down should remain relative to the category. "In the last 10 years, there has been tremendous growth on the high-end ultra-premium side of Tequila," says Marina Borsini, global brand director for Jose Cuervo at Diageo. "In this economy we see consumers trading down from the ultra-premium to the premium category. We haven't seen a decrease in the category as a whole."

Patrón's Starring Role

Undoubtedly the most important phenomenon in Tequila's recent history has been the rise of Patrón and its positioning as a status symbol in American culture. "Patrón has been able to transcend the category because we've always marketed it as an ultra-premium white spirit," says brand director Jennifer Long. Patrón continued its ascent last year, growing 6 percent to 1.67 million cases. While the brand grew by volume, its value has been the defining influence on the category. In 2008, Patrón's global sales broke the billion-dollar mark, making it the world's 19th most valuable spirit, one spot behind Jose Cuervo, which sells more than four times Patrón's volume. Patrón is committed to expanding its current appeal by pushing mixability through off-premise advertising and value-added retail packs.

Both the Partida and Milagro Tequila brands are taking advantage of the agave plant's by-product, agave nectar, by selling branded bottles of the sweetener. A natural alternative to simple syrup, the nectar is useful for customers looking to

mix drinks at home. "In the off-premise, we did a value-added pack with Milagro agave nectar," says Adam Gam, group marketing director for mixable spirits at William Grant & Sons. "We're trying to drive home the concept of making the world's freshest Margarita, and we're providing the tools for customers to do that."

Bacardi's Cazadores, the seventh largest Tequila in the United States at just less than 300,000 cases, expanded its marketing efforts over the past year by becoming the official spirits sponsor for the Ultimate Fighting Championship. The UFC represents one of the most established forums for mixed martial arts competition, a sport that continues to grow in popularity.

Tequila stalwart Jose Cuervo experienced a 2.3-percent decline in 2008, following years of steady increases from its large volume base. Diageo has unveiled many new products during the past few years to solidify Cuervo's presence in the Tequila realm. RTD Jose Cuervo Golden Margarita exploded onto the scene in 2005, netting more than 760,000 cases in the United States in only four years. Diageo is hoping for similar success with the launch of Jose Cuervo Especial Silver, the first extension to its flagship brand Cuervo Especial Gold. Promoted as Tequila that's best served as an ice-cold shot, Silver retails for \$17.99 a 750-ml. bottle.

Beam Global has tailored its approach to match the array of Tequilas in its Sauza portfolio, which includes Sauza, Hornitos and the Tres Generaciones line. "We're working around the

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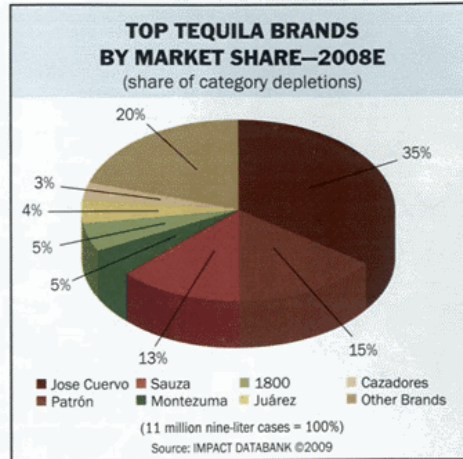
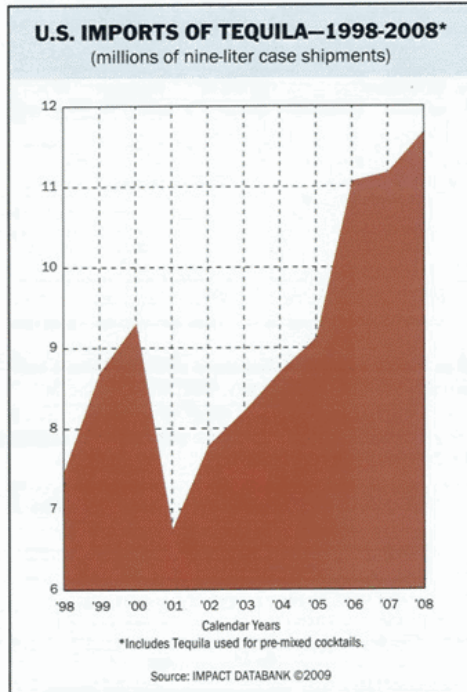


shot and the Margarita, while encouraging drinkers to make traditional drinks like a Cosmo or Mojito with our brands. We're also working on new RTDs and a new 1.75-liter box Tequila," says Antonio Portillo, senior brand manager for Beam's Tequilas in the United States. Tres Generaciones was relaunched in new packaging in January, and the Sauza Margarita-in-a-Box became available in May for \$17.99 a 1.75-liter box.

Working With Flavors

Flavor extensions, which have been so successful in the vodka category, have carried over to Tequila and provided bartenders and restaurateurs with an ever-growing array of options for planning menus. Proximo Spirits debuted Gran Centenario Rosangel in February, a reposado Tequila infused with hibiscus extract. Geared toward the burgeoning mixology scene, Rosangel retails for \$36.99 a 750-ml. bottle. Proximo also helped push the ultra-premium trend upward with the limited release of Maestro Dobel Diamond last August. The blended silver Tequila retails for \$74.99 a 750-ml. bottle.

Kentucky-based Heaven Hill Distilleries has developed its own flavored Tequila with Tabasco brand Spicy Tequila. Launched last September, it retails for \$21.99 a 750-ml. bottle. The product is the result of a collaboration with Tabasco brand owner the McIlhenny family and is supported by Heaven Hill's "Heat up the Night" campaign.



Voodoo Tiki Tequila, which maintains a craft distillery approach and seeks to capitalize on the revival of Tiki bar culture, currently has three flavor options—Desert Rose (prickly pear), Blue Dragon (kiwi) and Green Dragon (lime)—that each retail for \$24.99 a 750-ml. bottle. A mango version is expected to hit shelves later this year. Voodoo's core line includes Platinum Silver, Reposado and Añejo Tequilas that retail for \$49.99, \$54.99 and \$64.99, respectively.

While the largest Tequila brands account for the lion's share of the market—the top five brands comprise nearly 75 percent of the category—smaller brands help provide an innovative spark. Altamar Brand's Tequila Ocho is pushing the category's envelope as an artisanal product by adopting a distillation process that takes its cues from wine production. Ocho is made from single-estate agave, is vintage dated by the year the fruit is harvested and is packaged in hand-numbered bottles. The second vintage entered the U.S. market this year. Plata and Reposado offerings, currently available in eight markets, retail for \$60 and \$70 a 750-ml. bottle, respectively. Ocho's Añejo will join them in July and carry an \$80 price tag.

Other new products embrace the fun-loving mentality of the American vacation. Señor Frog's, a restaurant chain and bar that has become synonymous with Tequila shots and Spring Break, is looking to leverage its name by partnering with Batrachian Spirits to release Señor Frog's Tequila. While the party crowd may be its focal point, Señor Frog's understands the new American taste for premium Tequila and has produced its spirit with 100-percent agave. The brand is available in 11 states in Plata (\$26.99 a 750-ml. bottle) and Reposado (\$29.99) varieties.

Working The On-Premise

While Cabo Wabo, purchased by rapidly expanding Gruppo Campari in 2007 and marketed in the United States by Sky Spirits, retails at the super-premium level, beginning at \$45 for Blanco and reaching more than \$200 for Cabo Uno Añejo



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As consumers look for super-premium Tequilas, restaurants are increasingly stocking high-end brands. Rocco's Tacos and Tequila Bar (above) in West Palm Beach, Florida, offers more than 200 Tequilas and a few mezcals. The restaurant also has several specialty Margaritas.

Reserva, on-premise shots remain the key to growth, even during a struggling economy. "The shot is driving consumption for us. We're aiming for people who are going out to have a big night," says Cabo Wabo brand manager Alexis Pagis. "We're experimenting with shots and creating rituals to enhance the experience."

The popularity of Tequila and its natural alliance with Mexican food has also provided amazing venues for the spirit. Rocco's Tacos and Tequila Bar in West Palm Beach, Florida, serves more than 200 Tequilas and a couple mezcals, from Juárez or Don Diego Gold (\$6 a 2-ounce pour) to Patrón Gran Burdeos (\$85). Rocco's Margarita menu features eight variations (\$8.50 to \$13.50), in addition to its house specialty, which comes frozen or on the rocks in five flavors.

Iron Cactus Mexican Grill and Margarita Bar, with locations in Austin, San Antonio and Dallas, Texas, offers eight flights of three 1/2-ounce Tequila servings, which provide curious drinkers with an opportunity to sample a range of Tequilas. Offerings span five categories: Silver (\$8.75 to \$9.75), Reposado (\$9.75 to \$10.75), Añejo (\$10.75 to \$11.50), Luxury (\$28.50) and Ultimate (\$55). Three frozen and 11 specialty Margaritas (\$5.25 to \$16.25) are available. Iron Cactus also serves the

Cazeuela (\$17), a drink that incorporates Cazadores Reposado, Izzy grapefruit soda, and fresh lime and orange slices, served in a clay bowl.

As using 100-percent agave has become a standard practice for Tequila makers during the past eight years, one restaurant has always touted the value of Tequila in its truest form. San Francisco-based Tommy's Mexican Restaurant, founded in 1965, offers drinkers a mammoth Tequila list of nearly 300 selections, and each one is 100-percent agave. Staying true to the commitment of high-quality Tequilas, Tommy's serves the 100-percent agave Arette Reposado in its house Margarita (\$7 a glass; \$26 a pitcher); Herradura is also popular (\$8 in a Margarita).

As the remainder of 2009 appears to be serving up the same economic difficulties that marketers, retailers and bars faced in the first half of the year, the category is poised to hold steady as long as marketers stay focused on what has allowed the spirit to become so successful. "If anything, the economy forces us to be a lot more focused," says Cabo Wabo's Pagis. "We'll focus on our core strength and make sure we maintain our investment and support of the on-premise channel." **mw**

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