



## Market Watch

July/August 2010

New York, NY

Circulation: 52,538 monthly



# Tequila Redefined

*Having repositioned itself as an upscale spirit more than a decade ago, Tequila continues to evolve with a slew of new brands and upscale portfolio extensions*

BY JEAN DEITZ SEXTON

The Tres Agaves Tequila lounges in San Francisco and Roseville, California, stock upwards of 135 Tequila selections along their back bars. Brands include small-batch artisanal Tequilas like Siete Leguas, El Tesoro, PaQuí and Fortaleza, which their patrons crave. "Artisanal Tequilas don't have the money and the marketing dollars, but they add to the growing feeling that Tequila is special," says Tres Agave beverage director Ashley Miller. "And they create more interest and depth in the category."

Artisanal Tequila aficionados are illustrative of the spirit's long evolution from a volume-based, lower-priced category to one in which customers don't blink at paying \$125 for a 750-ml. bottle of Don Julio 1942 Añejo, aged for two and a half years in white American oak barrels. While Jose Cuervo continues to hold the No.-1 position in category sales, the market is becoming more diversified, and Jose Cuervo itself is introducing new higher-end products to capture the upward trend.

Upscale, 100-percent agave Tequilas are sweeping far beyond the standard Margarita-and-shot culture, turning up in hand-crafted, artisanal cocktails. "We've always positioned our brand as an ultra-premium white spirit," explains Jennifer Long, brand director at Patrón Spirits Co. "We've focused on it as an aspirational product and not just another Tequila." According to Long, the brand owns 80 percent of the ultra-premium Tequila market.

"Tequila is our No.-2 spirits category behind vodka, but it has evolved from slushy Margaritas to a premium on-the-rocks drink," says Brian Bowden, vice president of spirits, beer and tobacco at the retail store Beverages & more! (Bevmo), which operates 101 stores in California and Arizona. Bevmo offers 140 Tequilas (\$7.99 to more than \$300 a 750-ml. bottle). Patrón Silver (\$40) is the dollar volume leader, while Jose Cuervo is the leader in average cost per unit and Jose Cuervo Gold (\$21) is a top-seller. Bevmo's Patrón Silver sales skew toward 25- to 40-year-olds "who take it home to make their own Margaritas," Bowden says. Artisanal Tequilas selling well include Bon Fulano Reposado (\$60 to \$70) and Rey Sol Extra Añejo (\$199).

Major retail chains have also rolled out their own upmarket Tequila brands, such as Costco, which offers its Kirkland Signature Añejo Tequila (\$23.99 a 1-liter package). "Since developing our Kirkland Signature vodka in 2006, Tequila wasn't far behind as the next spirits category," explains Annette Alvarez-Peters, Costco's assistant general merchandise manager of wine, spirits and beer. "Our goal was to develop a high-end Tequila at a tremendous value that is flavorful and has hints of sweet spice with a long smooth finish. Extended aging in Bourbon barrels helped us achieve the profile." California and Alaska are Costco's top Tequila markets, she says. This year, Costco launched Kirkland Signature Margarita Mix (\$6.99 a two-pack of 1.75-liter bottles) and Kirkland Signature Golden Margarita Ready-to-Drink Cocktail (\$10.99 a 1.75-liter bottle). "Initial sales are looking to be very strong," Alvarez-Peters adds.

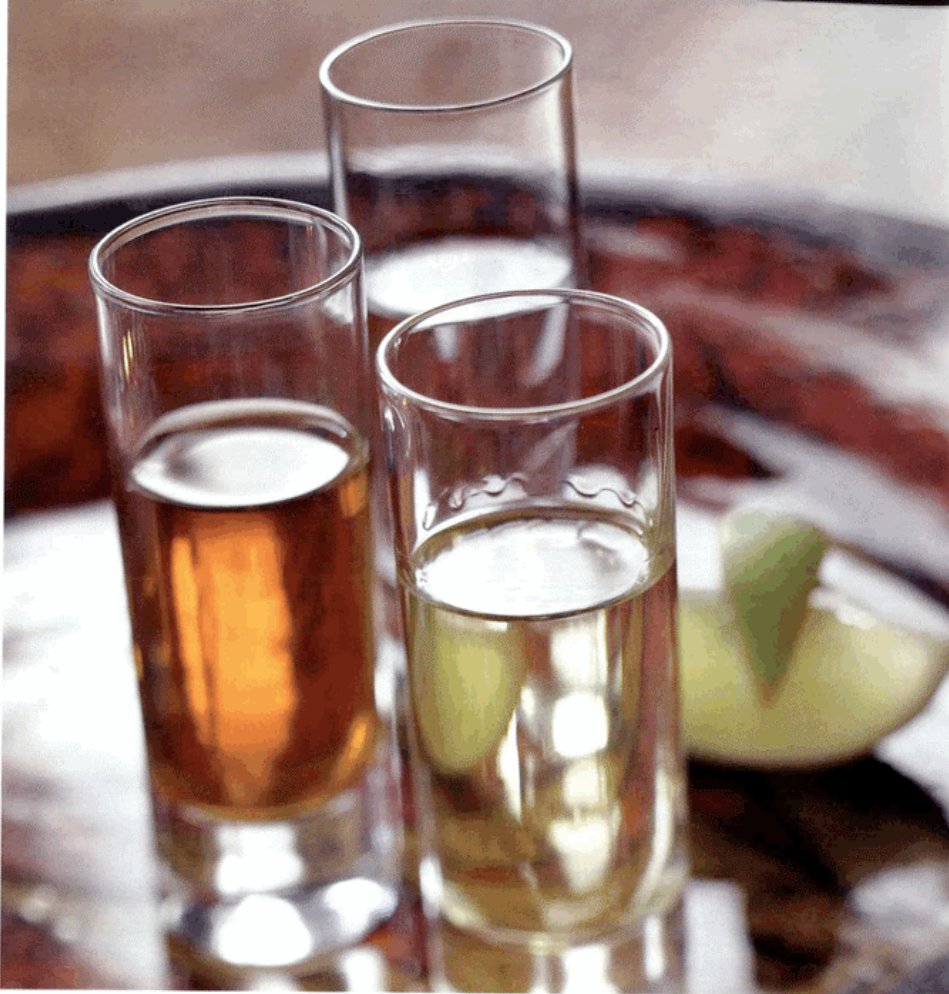
Overall, Costco is seeing single-digit increases in Tequila sales. In Gold expressions, Jose Cuervo and Sauza are leading brands, while Patrón, Don Julio and Cazadores are at the forefront in the high-end segment. Also popular is Herencia, which boasts an Old World, traditional-style bottle, and Hijos de Villa, which has limited-edition package designs. Tequila price points at Costco range from \$19.99 for a 1.75-liter bottle of Jose Cuervo Gold to \$97.99 for a 1.75-liter bottle of Patrón Añejo.

### Economic Disconnect

Even amid recession, consumers have been willing to pay more for high-end Tequila on- and off- premise. Toughest it out and staying consistent—protecting a brand's positioning—appears to be the key. "At Costco, we've elected not to trade down to sub-premium brands during these times," Alvarez-Peters says. "We continue to sell premium to super-premium brands, and as a result our spirits business remains healthy, showing a 5-percent increase."

For Patrón, which launched in 1989, consistency is paramount. "Patrón has always been made in a small-batch process," Long says. "Consumers understand that we've never compromised on quality. We do not discount or do coupons. We're very





*As 100-percent blue agave Tequilas become more widespread, American consumers are moving beyond the shot-and-Margarita culture that once surrounded the spirit to embrace Tequila as an upscale offering that can be sipped neat.*

consistent in our pricing because we don't want to erode equity or image. We carefully manage the brand. All the consumer touch points are as high-quality as the brand itself."

Bevmo's Bowden agrees that consumers seek consistency even if that means spending more. "There are baby boomers who still have disposable income," he says. "Plus, people latch on to things they're comfortable with, and Patrón is doing a lot of marketing." For the major brands, Bowden sees continued growth in Sauza, Patrón and Don Julio.

Likewise, consistency is a key factor in Don Julio's success over the last five years, says senior brand manager Alefiyah Sarma. "We still use all of the production processes originally

developed by Don Julio," she says. "It costs more, since our agave is aged longer and we exceed the añejo and reposado aging laws. We also have a great water supply. That is what makes us special."

### Cocktail Culture

The most powerful driver in Tequila's growth is the cocktail culture and the rise of the artisanal mixologist. Tequila is now a base for many hand-crafted cocktails at higher price points. "Beer and burger joints now have great mixologists," says Jay Law, beverage director for The One Group restaurant and hospitality company. "Customers are more educated now and have a trained





Tequila has benefited from the mixology movement and is being used in drinks other than the Margarita, like the Paloma (above).

palate. They trust mixologists, so they come in and ask, "What can you make me?" Law notes that customers like to "show off" by ordering expensive brands in the company's nightlife venues, which tend to cater to celebrities and sports figures. High-profile patrons have been known to order \$900 bottles of Patrón Platinum or drop \$75 for a 2-ounce pour of Herradura Selección. "The true Tequila drinkers tend to have it neat and will order a Herradura Añejo (\$12 to \$16 a 2-ounce pour)," Law says.

In Margaritas, Law likes the fresh blue agave flavor of Patrón and El Tesoro. Well brand Margaritas at The One Group venues range from \$7 to \$11, while Patrón-based Margaritas are \$11 to \$14. Up-and-coming brands, says Law, include Deleón Blanco (\$35 a 2-ounce pour) and the Tanteo flavored Tequilas, which are infused with jalapeño, chocolate spice or tropical fruit. The Tanteo infusions are being served in cocktails or on the rocks for \$15 a 2-ounce pour.

At Mesa Grill in Manhattan, beverage director and partner Laurence Kretchmer embraces customers' love of Margaritas, and makes them in a high-end, artisanal fashion. "Most of our Tequila still goes into Margaritas, but we preserve integrity by using only fresh lime juice, a little simple syrup and Montezuma triple sec," he says of the classic Mesa Margarita (\$11). The New York restaurant sells 4,000 Margaritas a month, and roughly half of them are the Mesa Margarita. In April, Kretchmer was using El Jimador as his well brand. Other popular Tequilas for Margaritas at the restaurant include Patrón (\$14), Don Julio (\$14), El Tesoro (\$13), Siete Leguas (\$13), Hornitos (\$11) and Herradura (\$11).

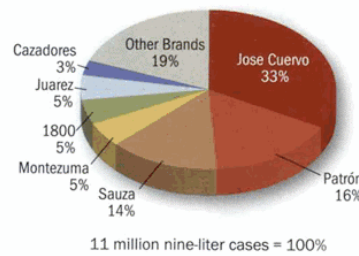
"I don't get wrapped up in the Tequila of the moment," says Kretchmer. "I look for Tequilas that have dollars going into the value of the spirit and not marketing." Kretchmer's artisanal

favorites include Charbay (\$13 a 2-ounce pour) and Casa Dragones (\$30). Charbay makes a clean, pure Tequila that tastes like agave, Kretchmer says, and Casa Dragones blends blanco and extra añejo in small batches to create a smooth sipping spirit.

More interesting ingredients in Tequila cocktails are helping to grow sales as mixologists look beyond tried and true recipes and experiment, much to the satisfaction of their customers. Tres Agaves mixologists work with agave nectar, which the lounge and restaurant venues also sell at retail. Diluted slightly with water, the honey-like ingredient is used in their house Margaritas, combined with fresh-squeezed lime juice. Margaritas at Tres Agaves range from \$7 for one made with an Arette Blanco to \$20 for a drink featuring Jose Cuervo Reserva de la Familia.

Tres Agaves lounges also offer Tequila flights of three 1-ounce pours, from \$16 for a Blanco flight that features Patrón, Siete Leguas and Don Julio to \$55 for the Valley of Tequila Muy Añejo flight, boasting pours of Partida Elegante, Gran Centenario Leyenda and Herradura Selección Suprema.

#### LEADING TEQUILA BRANDS IN THE UNITED STATES (share of 2009E depletions)



Source: IMPACT DATABANK ©2010

At the Roseville, California, location, assistant general manager Sarah Rodarte says she caters to regulars who come in to talk about and taste Tequilas. "Patrón is responsible for making Tequila what it is in the United States," she adds.

Tres Agaves customers also enjoy the notoriety that comes with ordering ultra-exclusive, luxury brands. For \$350, patrons can sip a 2-ounce pour of 1800 Colección, which is aged for up to 20 years. Those who buy the Tequila get their name printed on a permanent display above the back bar.

At a more attainable price point, Partida Tequila is making moves in the mixology segment. Tres Agaves beverage director Ashley Miller describes the brand as an up-and-comer and features it in the restaurants' Sofia's Margarita (\$11.50). At the San Francisco Tres Agaves unit, located one block from Major League Baseball's Giants stadium, Siete Leguas is attracting attention from young local business professionals.

