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How Tequila Dumped Its Frat-Boy Image, Became a Tony Tipple

Marketing Confers Cachet On Same Old Ingredients, And Top Price Hits $1,000

Test for Ninjas and Demigods

By JONATHAN FRIEDLAND
Staff Reporter of THE WALL STREET JOURNAL

GUADALAJARA, Mexico — Forty ounces of undiluted juice from the blue agave plant cost about 10 cents on the open market in these parts. Last year, Nieman Marcus was charging $1,000 for about 25 ounces of the distilled variety, a k a tequila.

A $1,000 bottle of tequila? Even with a "limited edition" tag and a pewter-and-crystal decanter, isn't this still a drink more usually quaffed in frat houses rather than sipped in fancy hotels? What happened to the salt shakers and lemon smiles of yesteryear?

Blame it on an Austrian entrepreneur named Martin Grassl who saw the potential in 1991 for another vodka-in-the-freezer fad. Blame it on Jose Cuervo, the Mexican tequila maker, which started a high-end price war four years ago with a $75 bottle that doubled the top price, and then placed that grand decanter in Nieman Marcus. Or blame it on Tommy's Mexican Restaurant in San Francisco, which boasts 110 brands and an army of aficionados who proselytize for agave juice world-wide.

What It's Worth

Tales of excess are legion in *fin de siecle* America. But few products boast as big a gap between the cost of production and the cost to consumer as high-end tequila, the fastest-growing spirits cate- [illegible]in the U.S. The drink known in [illegible]o as the tipple of soldiers and drunks has not only captured the imagination of many north of the border; it also has "shown the world just how foolish people can really be," says Jose Maria Muria, a renowned historian of Mexico's national drink and rector at the Colegio de Jalisco here.

"No tequila is worth more than $34 a bottle," Mr. Muria says flatly. "And that's for the very best stuff."

Most of the world's big liquor conglomerates, Diageo PLC, Allied Domecq PLC, Brown-Forman Co. and Seagram Co., have gotten into the premium-tequila business. So have a range of smaller players, including personalities like rock star Sammy Hagar and celebrity hairdresser John Paul Mitchell. The number of tequila brands on the market has soared to 450 from around 200 five years ago.

U.S. Sales Climb

The proliferation of brands and the marketing muscle behind them have helped propel U.S. sales of the drink upward, although tequila still accounts for only 3% of the country's retail spirits market of $34 billion. While dollar figures aren't available, unit sales of tequila grew by 7% last year and nearly that amount the year before, while sales of most other spirits dropped, according to Adam's Business Media, New York. Some pricey brands, like those made by family-owned Tequila Herradura SA, have posted sales growth in the U.S. of 40% to 60% in each of the past three years.

"Tequila sales are on the upswing and everything indicates the phenomenon has legs," says David Frieser, owner of the Beekman Liquors store in Manhattan. "People are drinking less but they are also drinking better. They're getting away from margaritas and treating tequila more like a single-malt scotch."

That's quite a change from just a decade ago, when tequila was drunk mainly by college kids in the U.S. and poor folks in Mexico. In those days, many distillers wanted the Mexican government to lower its standards by reducing the percentage of agave needed for the drink to be called tequila.

Shrugging Off Seagram

An exception was Herradura's owner, Guillermo Romo. He attained legendary status within the industry when he refused a buyout offer in the early 1990s from Seagram, which wanted to dilute his spirit, crank up volume and make Herradura a global brand. Most tequila drunk in the U.S., including market leader Jose Cuervo Gold, retails for around $15 and is made from 51% agave sugar and 49% cane sugar.

At Herradura's Hacienda San Jose del Refugio in the highlands of Jalisco state, tequila is made from 100% blue-agave juice. The method is pretty much the same as when the sprawling distillery opened in 1870. Workers harvest the core, or *pina*, of the agave, a spiky member of the lily family, and pick only plants that are 10 years old. The *pinas* are shoveled into large clay-and-brick ovens and steamed for 24 hours. After cooling, they are run through a shredder and the juice is extracted and left in huge tanks to ferment naturally before being distilled twice in copper-pipe stills. When the sugar completes its transformation to alcohol, the tequila is bottled or aged.

Elsewhere, the traditional approach has been updated or simplified. The world's second-largest producer, Tequila Sauza SA, a unit of Allied Domecq, harvests younger pinas and uses a conveyer belt to steam and squeeze them in a modern factory environment. Smaller players process farm-bought pinas in a

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cheaper version of the Sauza operation, and some factories simply buy agave juice—10 cents for a liter, or 40 ounces—to distill and age. Agave juice is cheap because the plants are plentiful and field workers make less than $3 a day. Jaime Alvarez de la Cuadra, an industrial process specialist at Universidad de Guadalajara, says many of the smaller factories use yeast to speed fermentation and then add antibiotics to kill the unwanted microbes that sometimes result.

"It is one thing to use the best ingredients in a slow-burning oven and another to use frozen ingredients and slap it into the microwave," says Ramon Valdes, Herradura's marketing director.

But even Mr. Valdes is hard-pressed to explain exactly why Herradura's finest, at $275 a bottle, is so much more costly than its other offerings. He says the distillation is "done by the maestro and no one else," one out of every three liters of fermented agave is lost during the process and it's barrel-aged for five years, at least two more than most other aged tequilas. But mainly, he talks about the specially designed bottle, the specially designed case for the bottle and the fact that each bottle produced is numbered.

The importance of packaging wasn't lost on Martin Grassl, one of a handful of non-Mexican entrepreneurs who saw tequila's potential for the kind of market gains notched by high-end spirits in richer countries. Mr. Grassl arrived in Mexico in 1991 and invested $100,000 to start a company, called Destilleria Porfidio SA, to make small-lot, high-quality tequila. He contracted with a German bottle maker to produce elegant, tapered bottles with a glass cactus inside, and set about seeking distillers who would make tequila under his supervision.

'First World Techniques'

"The industry was around 40 years behind the U.S. and Europe in the way they did things," says Mr. Grassl, whose family was in the apple-brandy business in Austria. "My objective was to produce tequila using First World techniques."

Chief among them was marketing. Until last year, Mr. Grassl didn't have his own distillery. Now that he does, it's hundreds of miles from any agave farms in the beach resort of Puerto Vallarta. His marketing literature says his company was founded by "Don Ponciano Porfidio," whose "message to the world was that tequila—like love and coffee—is not for the tepid-hearted." Mr. Grassl, whose priciest offering retails for up to $800 a bottle in the U.S., says Ponciano Porfidio is his "pen name."

Further downstream in the marketing of fine tequilas are exporters, importers and distributors, all of whom add to the retail price. And, of course, there are the bars and restaurants where novices becomes acolytes and eventually perhaps apostles who spread the word: Coyote Cafe and Maria's New Mexican Kitchen in Santa Fe, N.M.; Mesa Grill in New York; Red Sage in Washington, D.C.; and the southwestern chain Left of Albuquerque.

At the epicenter may be Tommy's, where bartender and owner Julio Bermejo has set up a club that requires would-be members to pass a 70-question written test on the spirit's origins, manufacture and lore before they can be known as "doctors of tequila." The club has about 2,700 members, a number of them top chefs, restaurant owners, and wine-and-spirits makers, hailing from as far afield as Tokyo and Edinburgh. Those who accompany Mr. Bermejo to visit distilleries in Mexico rate a higher level of expertise, and become tequila ninjas. No one has yet achieved his highest ranking: tequila demigod.

The Oysters Comparison

Aficionados aren't all necessarily well-heeled. Standing at Tommy's bar is Guy Spinale, a burly fish butcher, who says he buys Porfidio at $45 a bottle and doesn't hesitate to spend big sums on a shot to check out the latest brands. "I like tequila for the same reason I like oysters," he says. "Some are smooth, some are tangy, all have different characteristics."

Sammy Hagar, the former lead singer of Van Halen who owns a Baja California nightclub called Cabo Wabo, has other reasons for being attracted to tequila. "When it is pure, it is a wonderful high," he explains.

Mr. Hagar is one of those who have tried, on a smaller scale, to copy Porfidio's success—with what might be dubbed vanity tequilas. He calls his brew Cabo Wabo, his Web site touts it as "Vitamin T," stores sell it for $34.99 a bottle, and Mr. Hagar promotes the heck out of it.

He and his band, the Waboritas, are about to embark on a national tour to flog the tequila as well as his new single, "Mas Tequila." So far, Mr. Hagar has done 135 radio interviews, appeared on a half-dozen national television programs, and played a 14-city tour at Hard Rock Cafes. He and his partners hope to sell 30,000 cases this year.

As with any trend, the question is when tequila will hit the saturation point—usually the point at which market forces begin to eliminate peripheral players. The demand side is hard to call, but some winnowing has begun on the supply side. "The big issue is consistency," says Enrique Fonseca, president of Tequilena SA, which is one of a half-dozen big distilleries that produce multiple brands under contract. "The great problem is that everyone wants to sell their tequila for a lot of money but few have the capacity to produce something of quality lot after lot."

Al Lucero, owner of Maria's New Mexican Kitchen and author of a guide to margarita preparation, says he is already seeing the problem. "Distributors will bring in a pallet of some new brand and before you can establish it as a favorite with your customers, it will disappear," he says. "There are just too many entrepreneurs out there trying to exploit the craze."

Long Haul Favors Size

That's why, over the long haul, the big

players like Jose Cuervo, part-owned by Diageo, and Sauza will probably have the upper hand. Both companies have inundated the market recently with new tequila brands, aiming to compete in niches where other, smaller companies have proven successful. Both companies have global marketing clout and gigantic tequila-making operations with sophisticated quality controls. And, finally,. both own vast agave plantations—in Cuervo's case about 40 million plants. That's important because, while plants are plentiful at the moment, crops have been sharply reduced in the recent past by disease and economic pressures.

"If a tequila maker doesn't own his own plants, he'll soon be in big trouble," says Tequilena's Mr. Fonseca, a fifth-generation agave grower. So far, though, a potential shortage isn't stanching the flow of new brands. Last year in the U.S., which accounts for 80% of global tequila sales, 17 new brands were introduced.

Enrique Legoretta, Jose Cuervo's operations director, ponders the situation over one of these new tequilas at a party celebrating the round-the-clock efforts of workers at the company's Guadalajara bottling plant. The party is in the garden of La Rojena, Cuervo's oldest distillery, where work is under way to increase capacity by 50%.

Taking a sip, Mr. Legoretta says he never thought he would see the day when a bottle of tequila would go for $1,725, as one did last year in a Chicago fine-wine auction. But he reckons that snob appeal has a lot to do with it. "It's like they say," he says, draining the glass. "You are what you drink and you drink what you are."