



# The Growth of Tequila as a Global Beverage

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## **Abstract**

This explores the significant growth the tequila sector has experienced in recent years, highlighting how this traditional and cultural beverage has evolved into a crucial economic asset for Mexico. Additionally, the research seeks to understand the drivers of the global traction tequila has achieved, where it previously was considered, a low-end drink consumed for intoxication. The study examines how changing perceptions, influenced by globalization and increased quality standards, have transformed tequila's reputation from a harsh, unappealing spirit to a refined beverage enjoyed by connoisseurs worldwide.

Through a combination of surveys, interviews, and market analysis, this research provides a comprehensive overview of the factors driving tequila's rise in popularity. It investigates the role of branding, marketing strategies, and celebrity endorsements in shaping consumer preferences. The study also discusses the economic benefits of the tequila industry, including its contribution to job creation and export revenues in Mexico.

Furthermore, the cultural significance of tequila and its impact on Mexican identity, both domestically and internationally, are examined. We assess the industry's efforts towards sustainability and ethical practices, highlighting the challenges and opportunities in maintaining traditional production methods while meeting global demand. Ultimately, this thesis aims to provide insights into the evolution of the tequila market and its future prospects in the global beverage industry.

**KeyWords:** Tequila, Tequila Industry, Beverage Industry, Alcohol Beverages, Global Market, Market Expansion.

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## **Resumo**

Isto explora o crescimento significativo que o sector da tequila tem experimentado nos últimos anos, destacando como esta bebida tradicional e cultural evoluiu para um activo económico crucial para o México. Além disso, a pesquisa busca compreender os impulsionadores da tração global que a tequila alcançou, onde antes era considerada, uma bebida de baixo custo consumida por intoxicação. O estudo examina como as mudanças nas percepções, influenciadas pela globalização e pelos crescentes padrões de qualidade, transformaram a reputação da tequila de uma bebida espirituosa dura e pouco atraente para uma bebida refinada apreciada por conhecedores de todo o mundo.

Através de uma combinação de pesquisas, entrevistas e análises de mercado, esta pesquisa fornece uma visão abrangente dos fatores que impulsionam o aumento da popularidade da tequila. Ele investiga o papel da marca, das estratégias de marketing e do endosso de celebridades na formação das preferências do consumidor. O estudo também discute os benefícios económicos da indústria da tequila, incluindo a sua contribuição para a criação de empregos e receitas de exportação no México.

Além disso, são examinados o significado cultural da tequila e o seu impacto na identidade mexicana, tanto a nível nacional como internacional. Avaliamos os esforços da indústria em direção à sustentabilidade e às práticas éticas, destacando os desafios e oportunidades na manutenção dos métodos de produção tradicionais e, ao mesmo tempo, atendendo à demanda global. Em última análise, esta tese visa fornecer insights sobre a evolução do mercado de tequila e suas perspectivas futuras na indústria global de bebidas.

**Palavras-Chave:** Tequila, Indústria da Tequila, Indústria de Bebidas, Bebidas Alcoólicas, Mercado Global, Expansão de Mercado.

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To my parents, words cannot express how thankful I am for their endless support throughout my academic journey. Without their sacrifices and encouragement, the dream of studying abroad would have remained just that—a dream. I owe them everything, and I hope to make them proud with my achievements.

To all the amazing people I've met during my time abroad, thank you. From the late nights in the library to sharing the stress of our master's program together, to the shared laughter and cultural exchanges, you've made this journey unforgettable. Your friendship and support have been a lifeline, especially during the times when being away from home felt particularly tough. Meeting each of you has been a blessing, and I'm grateful for the memories we've created together. Thank you for your kindness, guidance, and unwavering support. You'll always have a special place in my heart. You know who you are.

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## **1. Introduction**

The tequila sector, a hallmark of Mexican culture and tradition, has experienced significant growth and transformation in recent years. As one of Mexico's most iconic exports, tequila has garnered global recognition and demand, leading to increased production, innovation, and market expansion. This thesis explores the drivers that brought about tequila's rise to prominence and explores emerging trends, opportunities, and challenges shaping its future trajectory.

This thesis aims to answer the following **Research Question:**

What are the drivers of tequila shedding its reputation as a cheap party drink thereby gaining market share as a sophisticated spirit in the beverage market?

## **2. Literature review**

### **2.1. Historical Background**

The presence of economic regions is a fundamental aspect of national economies worldwide. In the case of Mexico, with its diverse climate and extensive range of productions, various economic regions have emerged. Some of these regions have deep historical roots, dating back to the colonial era when Spain held political, territorial, and economic control over Mexico. One such region is the area known for maguey and tequila production in the western part of Mexico, encompassing present-day Jalisco and the southern part of Nayarit. (Camelo & Rodríguez, 2018).

When the Spanish arrived in Mexico in 1519, pulque was the only known alcoholic drink. The introduction of the distillation process led to the creation of high-alcohol beverages derived from agave, initially termed "agave wine" or "mezcal wine." This process eventually gave rise to tequila. Historical records indicate that around 1750, the people of Amatitán,

Jalisco 15 kilometers from Tequila, Jalisco began cooking maguey pineapples, grinding them, fermenting the juice, and distilling it in pots. This produced a high-alcohol drink called mezcal, which means "cooked maguey" in Nahuatl. In Tequila, Jalisco, the same beverage was distilled using stills, creating the tequila we know today. For a distilled drink made from blue agave to be classified as tequila, it must be produced within a defined geographic region, similar to Champagne and Cognac. On October 13, 1977, the Official Gazette of the Federation decreed that only distilleries in the state of Jalisco could label their product as tequila. Today, this designation has been extended to include 44 municipalities in the states of Guanajuato, Nayarit, and Michoacán (Bautista et al, 2001).

The City of Tequila is located 60 kilometers west of Guadalajara, the capital of the state of Jalisco and one of the most important cities in Mexico. It covers an area of 1,233 square kilometers and is situated at an altitude of 1,189 meters above sea level. Its climate is semi-warm and semi-humid. (IIEG, 2020). The area has a rich historical background in crafting a beverage from a plant resembling today's maguey or agave, with slight variations in size and specific features. This tradition dates back to pre-Hispanic times (Rodríguez, 2007).

The beverage, derived from the agave plant, undergoes a distillation process in its production, known by the names "hot water" and "mezcal." (Camelo & Rodríguez, 2018). The region of Tequila, named after a pre-Hispanic settlement and a nearby volcano, boasted a distinctive landscape characterized by its rolling blue hills and plains, owing to the hue of the local agave leaves. (Rodríguez, 2007).

During the colonial era, the Tequila region gained renown for its unique mezcal production, which melded indigenous fermentation techniques with Spanish distillation methods. The burgeoning demand for alcoholic beverages in New Spain, coupled with limited access to European wines, spurred the emergence of local spirits like Tequila. Cultivating blue agave, the primary ingredient in Tequila, required minimal upkeep and flourished in the region's arid soil conditions. (Rodríguez, 2007).

By the late 17th century, Tequila had risen as a prominent hub for mezcal production, outstripping local consumption and expanding its reach to neighboring territories. The establishment of taverns and distilleries in Tequila and surrounding haciendas further solidified the region's reputation as a focal point of mezcal production. Despite periods of prohibition and regulation, Tequila's popularity continued to soar, fueled by its association with regional identity and economic significance. (Rodríguez, 2007).

Throughout the 19th century, Tequila became synonymous with the city and region of its origin, undergoing technological advancements and quality enhancements. Its export market flourished, with shipments reaching destinations as far as the United States, Canada, Europe, and Central America. By the dawn of the 20th century, Tequila had evolved into a cultural ambassador for Mexico abroad, rivalling imported liquors in prestige and popularity. (Rodríguez, 2007).

The ascent of Tequila as a global commodity mirrored broader societal and economic transformations in Mexico, including shifts in consumption patterns and the consolidation of the liberal state. Despite its humble beginnings, Tequila emerged as a symbol of national pride and entrepreneurial achievement, contributing significantly to Jalisco's internal revenue and international trade. (Rodríguez, 2007).

In essence, the historical trajectory of Tequila encapsulates the intricate interplay of indigenous traditions, Spanish colonization, and global market dynamics, highlighting its dual significance as both a cultural emblem and a thriving industry. (Rodríguez, 2007).

## **2.2 The Agave**

According to the National Chamber of The Tequila Industry (n.d). The designated variety for Tequila production, as per regulations, is the Agave Tequilana Weber blue variety. These agaves must be cultivated within the protected territory of the Denomination of Origin and be listed in a plantation registry managed by the Tequila Regulatory Council. Although Mexico boasts over two hundred varieties of agave, none are as suitable for Tequila

production as the one classified by German botanist Franz Weber in 1905, from whom this variety derives its name.

The agave plant typically takes between 5 to 8 years to reach optimal sugar concentrations. Throughout their growth cycle, the plants need the trimming of leaf tips to encourage pineapple growth. All aspects of agave cultivation and maintenance are carried out manually, employing traditional techniques passed down through generations (CNIT, n.d).

## **2.3 Varieties of Tequila**

To meet the standards set by the **Tequila Regulatory Council** and thus be categorized as Tequila, with its diverse array of categories and varieties, the spirit must possess the following defining characteristics.

### **2.3.1 Categories:**

**100% Agave:** This is the item that cannot be enriched with sugars from sources other than the Tequilana Weber blue variety agave cultivated within the designated territory. To qualify as "100% Agave Tequila," it must be bottled at the bottling plant controlled by the Authorized Producer within this territory. It must be labeled using one of the following phrases: "100% agave", "100% pure agave", "100% agave", "100% pure agave".

**Tequila:** It is a beverage that allows for the enrichment and blending of musts with other sugars prior to fermentation, up to a maximum of 49% of total reducing sugars expressed in mass units. However, this additional sugar content cannot be sourced from any other agave species except the Agave tequilana Weber blue variety cultivated within the designated territory. Bottling of tequila must occur within facilities located within this territory unless specific conditions outlined in the NOM are met.

### **2.3.2 Varieties**

Tequila is categorized based on the characteristics it develops during post-distillation processes, including:

**1. Blanco (Silver):** Beverage whose alcoholic strength for commercial purposes may need to be modified with the addition of water for dilution, if necessary.

**2. Joven u Oro (Gold):** This is a product that can be tailored to specific preferences. If needed, its commercial alcohol content can be adjusted using dilution water. When white Tequila is blended with reposado, aged, and/or extra aged Tequilas, the resulting product is categorized as young or gold Tequila.

**3. Reposado (Aged):** This product is versatile, allowing for customization by adjusting its alcohol content with dilution water. Blending white Tequila with reposado, aged, or extra aged Tequilas creates young or gold Tequila. Maturation occurs for a minimum of two months in oak containers, enhancing its sensory profile. Reposado Tequila undergoes this maturation process, while mixing it with aged or extra aged Tequilas maintains its reposado classification.

**4. Añejo (Extra Aged):** A pourable product undergoes maturation for at least one year in oak or oak wood containers with a maximum capacity of 600 liters. Its commercial alcohol content may be adjusted with water. Blending aged Tequila with extra aged Tequila results in aged Tequila.

**5. Extra Añejo (Ultra Aged):** A pourable product, undergoing maturation for at least three years, does not specify the maturation time on the label, being directly in contact with oak wood containers with a maximum capacity of 600 liters. Its commercial alcohol content may be adjusted with dilution water as needed.

To be categorized as a Tequila, it most follows the Official Mexican Standard (NOM is the acronym in Spanish). Therefore, it is called as NOM-006-SCFI-2012 (Williams, 2015), it establishes the characteristics and specifications that alcoholic beverages, including tequila, produced, packaged, and labeled in Mexico must comply with to ensure their quality and safety for consumers.

In the following photo, we can observe the difference in colors depending on the maturation of the tequila.



Another important factor when it comes to the origin of tequila is that the **Tequila Denomination of Origin (DOT)** was the inaugural designation issued in Mexico. Records date back to 1943, evidencing regional industrialists endeavors to safeguard the name "Tequila" and secure its exclusive usage rights. Following Mexico's accession to the "Lisbon Agreement" on Denominations of Origin protection in 1959, **the National Chamber of the Tequila Industry (CNIT)** was established in October of the same year, driven by the collective interest of Tequila companies to collaborate in addressing sector challenges (CNIT, n.d).

During the 1960s, some countries produced spirits labeled as "Tequila," prompting a formal request to the **Secretariat of Industry and Commerce (SIC)** for the issuance of the General Declaration of Protection of the Denomination of Origin Tequila. This request was granted in 1974. Therefore, the Denomination of Origin for Tequila provides consumers with assurance regarding the authenticity of products bearing this designation, underpinned by the Official Mexican Standard (NOM-006-SCFI-2012). (CNIT, n.d).

With the global popularity of tequila rising, nations such as Spain and Japan ventured into the production of agave-based spirits, which they labeled as tequila. This development underscored the necessity for standardizing its production and establishing an entity dedicated to ensuring quality, promotion, verification, and certification of this beverage. **The Tequila Regulatory Council (CRT)** which was established to oversee global tequila production, ensuring quality, and protecting Mexican producers from unfair trade practices. Additionally, the CRT promotes the cultural significance and esteemed reputation of Mexico's national beverage (Inveragave, 2021).

The tequila industry comprises two principal bodies: the National Chamber of Tequila Makers, tasked with advocating for the beverage both domestically and globally, and the Tequila Regulatory Council (CRT), established by the Chamber in 1994. Although privately operated, the CRT has been entrusted by the Mexican government to oversee and enforce the regulations outlined in the NOM concerning tequila production, bottling, and labeling (Williams, 2015).

Over nearly three decades, the CRT has expanded tequila's presence to 120 countries, with significant production and export volumes. The council monitors various aspects of production, including water quality, aging processes, and agave sourcing, while also addressing legal barriers and environmental concerns. Through its efforts, the CRT has secured recognition for tequila as a distinctive Mexican product in over 50 countries, controlling a significant portion of the global market (Inveragave, 2021).

### **2.3.3 The Production Process**

According to the brand Jose Cuervo (2021) there are 8 steps that must be followed in order to get the famous drink Tequila, the process involves growing, harvesting, baking, grinding, fermenting, distilling, aging, and bottling. However, it entails much more than mere steps. Crafting artisanal 100% blue agave tequila demands adherence to a stringent process to ensure its distinctive flavor.

#### **Step 1: Harvesting**

Cultivating the Tequilana Weber agave, also known as blue agave, is subject to the regulations of designation of origin (DOT), which stipulate that certain foods can only be produced in specific regions of the world. In this regard, the inherent magic of this beverage lies in the fact that it can only be crafted using blue agaves harvested from any of the five states in Mexico with designation of origin status. Therefore, the remarkable characteristics of this formidable plant that truly contribute to its distinctive flavor profile. This exceptional

sweetness, discernible in every drop of the golden elixir, is attributed to the abundant nutrients found in the volcanic soil where the agaves thrive.

### **Step 2: Agave**

Once the agave reaches maturity, it's time to prepare it for the transformation into exceptional tequila. Employing age-old techniques honed over centuries, the jimadores<sup>1</sup>, entrusted with this task, apply methods that enhance the flavor of the agave. Their process involves carefully selecting mature agaves, meticulously removing all the leaves, known as pencas, and cutting the agaves into sizable pieces for baking upon arrival at the distillery.

### **Step 3: Baking the Agaves**

This stage stands out as particularly pivotal in the entire process, as even a minor error could jeopardize the entire day's harvest. The timeframe from agave harvesting to baking must not exceed a few hours to prevent the tequila from acquiring a bitter taste and losing its distinctive flavor notes.

### **Step 4: The Grinding**

Once the agave pineapples undergo caramelization, they proceed through remarkable mills where the mead is extracted, extracting the juice from the plant's sugars. This liquid is then stored in sizable tanks, where it undergoes fermentation at a controlled temperature, awaiting the distillation process.

### **Step 5: Fermentation**

The fermentation process of tequila production involves converting simple sugars into ethanol and carbon dioxide through the action of yeast. This anaerobic biological transformation occurs in carefully controlled conditions within fermentation tanks. The process relies on natural yeast, such as *Saccharomyces cerevisiae*, cultivated and propagated for optimal performance. Maintaining temperature between 30 to 34°C is crucial for yeast

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<sup>1</sup>The jimador is a type of farmer originally from Mexico who is dedicated to harvesting agave plants, mainly for the production of tequila (Radio Formula, 2022).

activity, with stainless steel tanks ensuring cleanliness and sealed environments enhancing aromatic qualities. The result is fermented juice, or agave wine, containing up to 12-14° of alcohol.

### **Step 6: Distillation**

Following fermentation, the liquid is transferred to the distillation apparatus, where water is separated from the alcohol, intensifying its concentration. It's noteworthy that all tequilas undergo two rounds of distillation, ensuring a final product that is nearly pure alcohol.

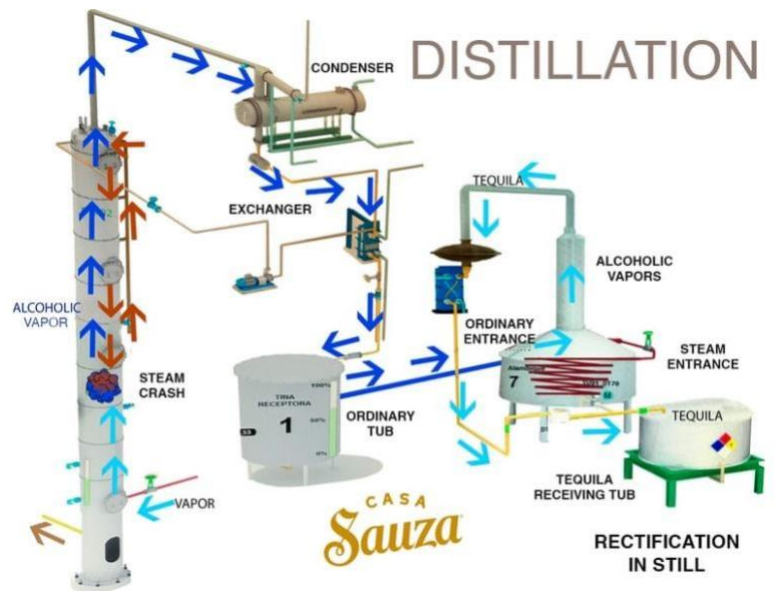
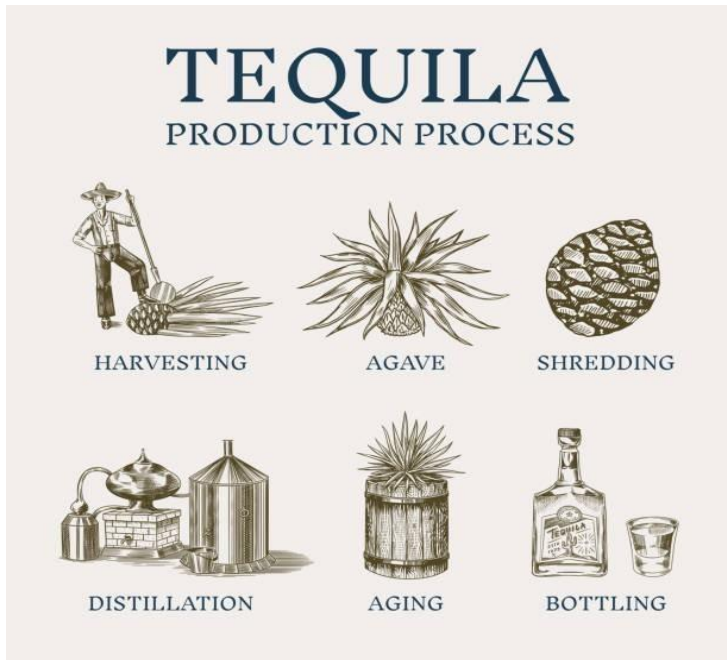
### **Step 7: Maturation**

Once the tequila achieves a clear consistency, it is transferred into large white oak barrels to imbue it with its distinctive woody flavor. The duration of aging determines the type of tequila produced, which can range from Blanco and Reposado to Añejo and Extra Añejo varieties.

### **Step 8: Bottling**

Once the maturation period is complete, it's time to proceed with bottling the tequila.

To enhance the understanding of the process, we have included an image illustrating the sequential steps involved and the distillation process from Casa Sauza, a tequila company.



**Why is Tequila Served in a Distinctive Glass Known as a “Caballito”?**

The term "caballito" refers to the tequila glass, which translated means “little horse” typically made of glass and characterized by a cylindrical shape with a slight angle that widens towards the mouth. The origin of this term can be traced back to the era of landowners who owned agave fields and would ride on horseback to oversee work in the fields. These landowners would often carry two containers—a gourd filled with water and another with tequila. Additionally, they would wear a hollowed-out bovine horn around their necks, which they used to drink tequila in a single shot, reflecting the drinking customs of that time (Villalobos, 2006).

**What is the rationale behind the tradition of consuming tequila alongside lemon and salt?**

The practice of drinking tequila with salt and lemon originated from its early days due to its strong alcohol content. Salt increased salivation, reducing the drink's impact, while lemon alleviated the burning sensation in the throat. In the 1930s, during a flu epidemic in

Monterrey, a doctor who regularly consumed tequila with lemon and salt attributed his resistance to the illness to this habit and prescribed it to his patients, resulting in a decrease in sickness within the community (Villalobos, 2006).

Moreover, in addition to lemon and salt, tequila is commonly enjoyed alongside sangrita, a popular beverage that serves as its primary accompaniment. Nowadays, in Mexico and various parts of the world, it is a tradition to drink tequila accompanied by sangrita and lemon to reduce the strong alcoholic flavor of the tequila, creating a balance between the flavors. The ingredients of Sangrita consists of Tomato Juice, Orange Juice and Lemon, Chile, and water. (Villegas et al., 2015). Additionally, this mix is also called as shot “Bandera” that translated to “Flag”.



Sangrita, lemon, and tequila represent the colors of the Mexican flag.

## **2.4 Market Trends and Growth Drivers**

### **2.4.1 Market Trends**

The evolution of the tequila market industry has been significantly influenced by changing consumer preferences and market dynamics, as highlighted in recent analyses. One notable trend is the rapid premiumization of tequila, driven by emerging gaps in the higher end of the market and a shift towards more sophisticated alternatives (ISWR, n.d).

Expensive tequilas have effectively repositioned themselves as premium spirits, attracting a sophisticated customer base interested in high-quality and authentic products. This shift has

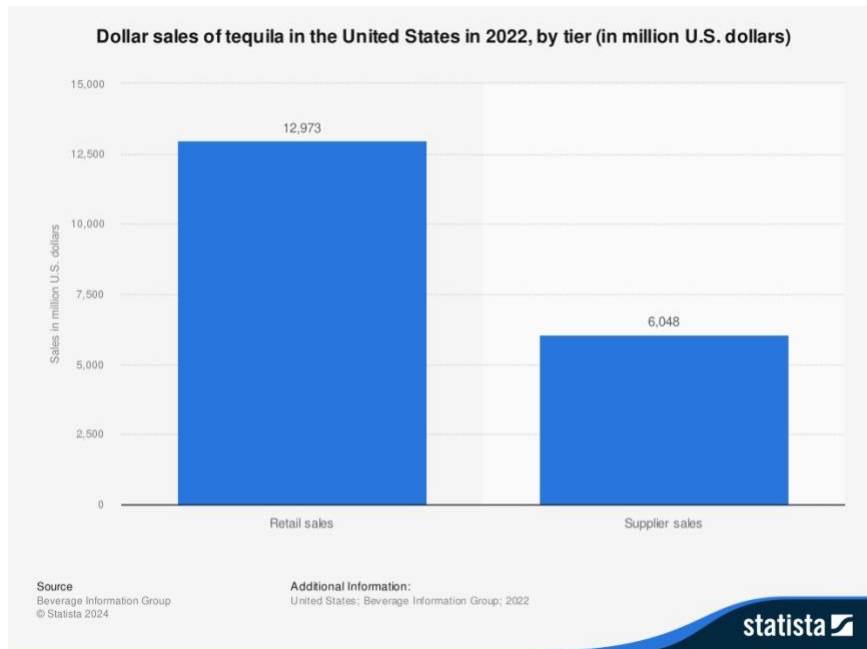
spurred a surge in new product launches and advancements within the tequila sector. By outperforming whiskey in retail sales in 2021, tequila secured its position as the second best-selling spirit after vodka (Conway, 2024).

Changing consumer demographics and lifestyle trends, particularly among younger generations, have contributed to the expansion of the tequila market. Millennials and Gen Z consumers in particular, are drawn to tequila's perceived authenticity, versatility, and cultural cachet, fueling demand for innovative products and brand experiences (Fortune Business Insights, 2022). This transformation has been attributed to the pioneering role of brands like Patrón Tequila, which have elevated the status of tequila and inspired the development of top-tier products, mirroring the success of similar strategies in other spirit categories (ISWR, n.d).

## **US Market**

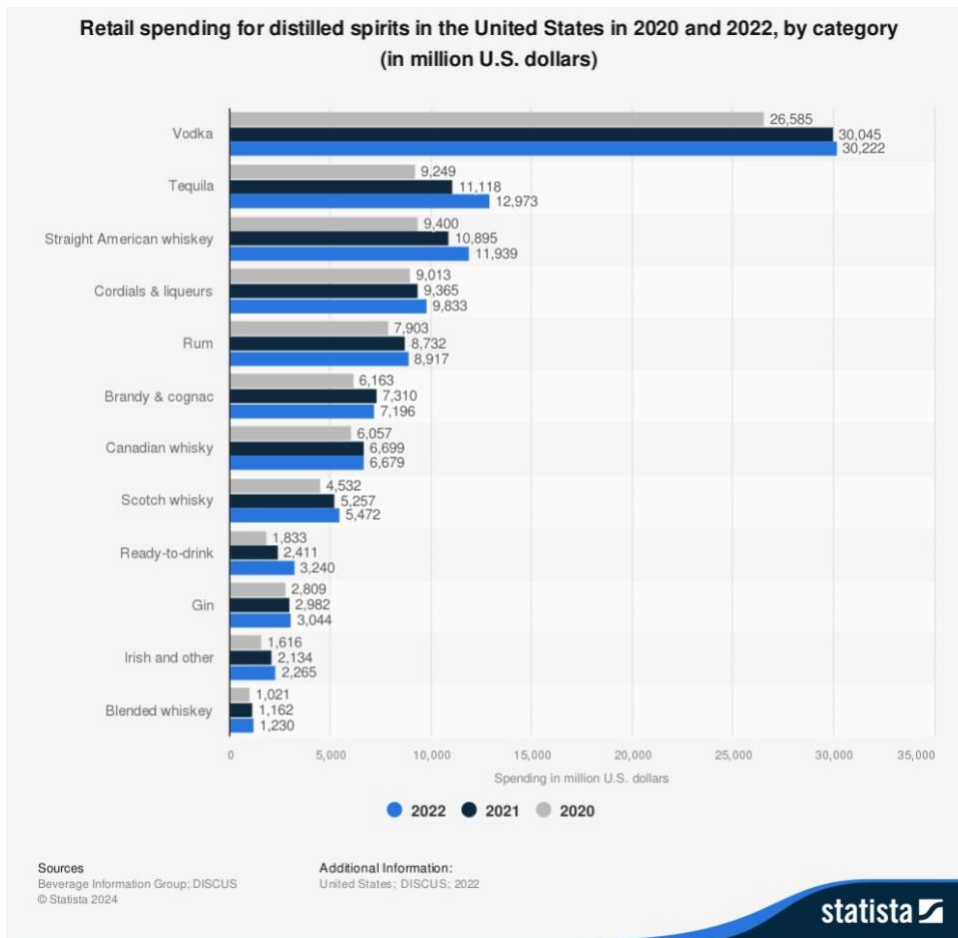
The United States stands as the foremost economically of the tequila sector. In 2022, it served as the leading global destination for Mexican tequila exports. Throughout that year, the neighboring nation imported over 330 million liters of this alcoholic beverage, marking a volume 30 times greater than that received by Germany, the second most significant export market for the product (Statista, 2022).

Dollar sales of tequila in the United States in 2022 by tier in million U.S dollars from retail sales with \$12,973 and for supplier sales with \$6.048. Furthermore, the sales volume from 2004 to 2023 (measured in 1,000 9-liter cases) increased from \$8,640 in 2004 to \$31,561 in 2023, marking it as the year with the highest growth (Statista, 2022).



Moreover, the per capita consumption of tequila in the United States in 2022, by state (measured in 9-liter cases per 1,000 adults), was highest in Nevada at 271.3, followed by California at 186.8, Colorado at 175.9, Arizona at 173.8, and Texas at 154.4, among others. Conversely, the state with the lowest consumption of tequila was West Virginia, with 40.6 liters per capita (Statista, 2024).

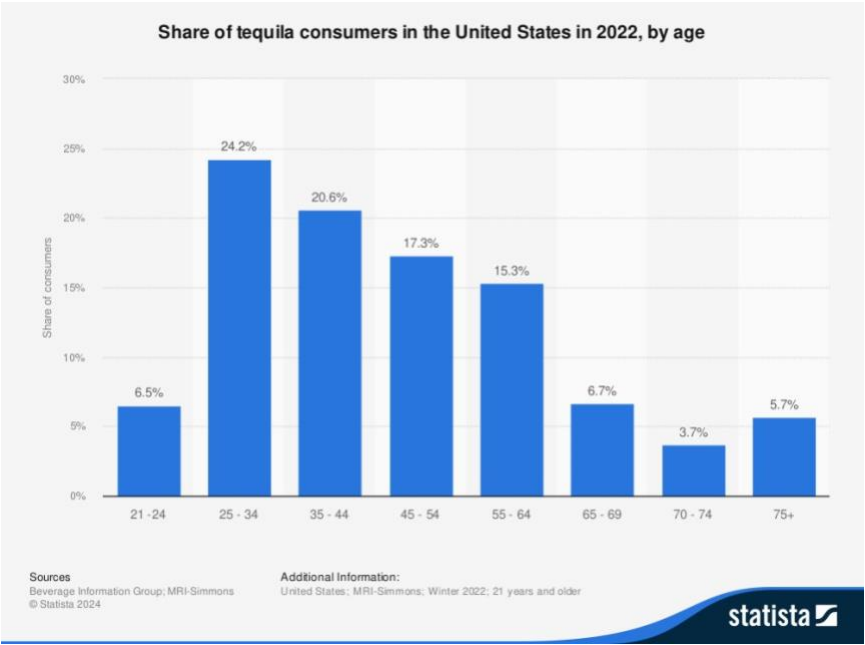
Regarding the Retail spending for distilled spirits in the United States in 2020 and 2022, by category (in million U.S. dollars). As seen in the graph, the data illustrates that in 2020, vodka dominated spirit purchases with earnings of \$26,585. Straight American whiskey followed as the second most popular choice, earning \$9,400, while tequila lagged behind at \$9,249 for the same period. However, by 2022, vodka sales surged to \$30,222, with tequila showing significant growth to \$12,973 and American whiskey to \$11,939, placing tequila in second position. Despite tequila's popularity in the United States, vodka maintains prevalent dominance, evident in the substantial difference of \$17,336 in 2020 and \$17,249 in 2022 compared to tequila's earnings (Statista, 2022).



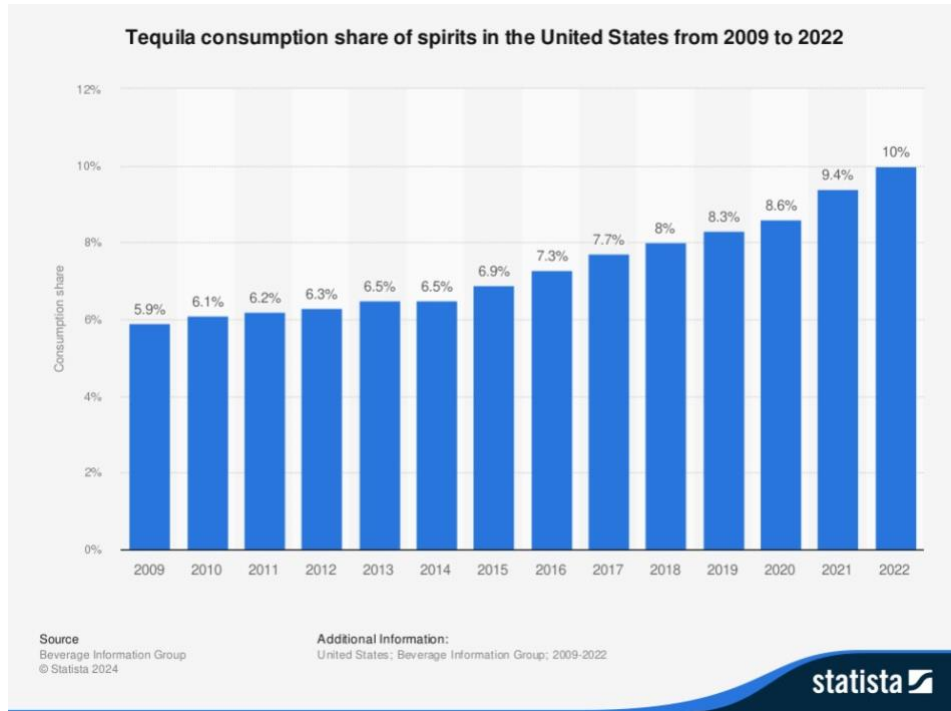
With information of United States: Beverage Information Group (2022) within the tequila market in the United States, there was a notable disparity between the dollar sales figures attributed to retail sales and those associated with supplier sales. The data reveals that retail sales, encompassing transactions made through various retail channels such as supermarkets, liquor stores, and online platforms, significantly outpaced supplier sales. Specifically, retail sales amounted to an impressive \$12,973 million, showcasing the robust demand for tequila among consumers across the country. On the other hand, supplier sales, which represent direct transactions between tequila producers or distributors and retailers, accounted for a comparatively lower figure of \$6,048 million. This disparity underscores the pivotal role played by retail channels in driving the overall dollar sales of tequila in the U.S. market, reflecting consumer preferences, purchasing behaviors, and the distribution dynamics within the industry. It's noteworthy to mention that the United States stands as our main economic

partner in the tequila industry, emphasizing the significance of the market's performance and dynamics within the country for our overall industry outlook and strategy.

Another important factor is the age in tequila consumers in United States, in the year 2022, the 24.2% share was from people between 25-34, the second largest of 20.6% was the age between 35-44 (Statista, 2024). Individuals between the ages of 25 and 34 demonstrate a higher propensity for tequila consumption compared to other age demographics. This age group represents a significant portion of tequila consumers, indicating a particular preference or affinity for the spirit within this demographic cohort.

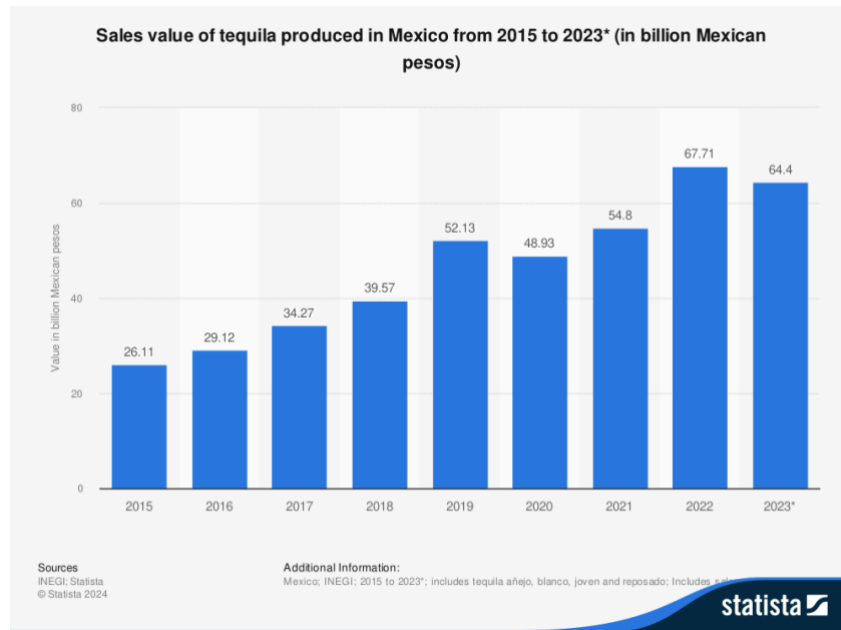


The graphic above illustrates the trend of tequila consumption share among spirits in the United States from 2009 to 2022. Over this period, there has been a notable increase in tequila's market share, reaching its peak in 2022. The analysis focuses on understanding the factors driving this upward trend, as well as its implications for the spirits industry as a whole. Through a comprehensive examination of the data, valuable insights can be gained regarding tequila's evolving popularity and its competitive position within the market (Statista, 2024).



## Mexican Market

The trajectory of tequila sales in Mexico over the period from 2015 to 2023 reveals an intriguing pattern of growth and fluctuations, influenced by various economic and external factors. Commencing at \$26.11 billion Mexican pesos in 2015, the sales value displayed consistent annual growth, indicative of the steady expansion and resilience of the tequila industry within the Mexican market. By 2019, the sales value had surged to \$52.13 billion Mexican pesos, reflecting a significant doubling within a relatively short span of time. However, the onset of the COVID-19 pandemic in 2020 precipitated a downturn, resulting in a slight decline to \$48.93 billion Mexican pesos, as restrictive measures and economic uncertainties impacted consumer behavior and market dynamics.



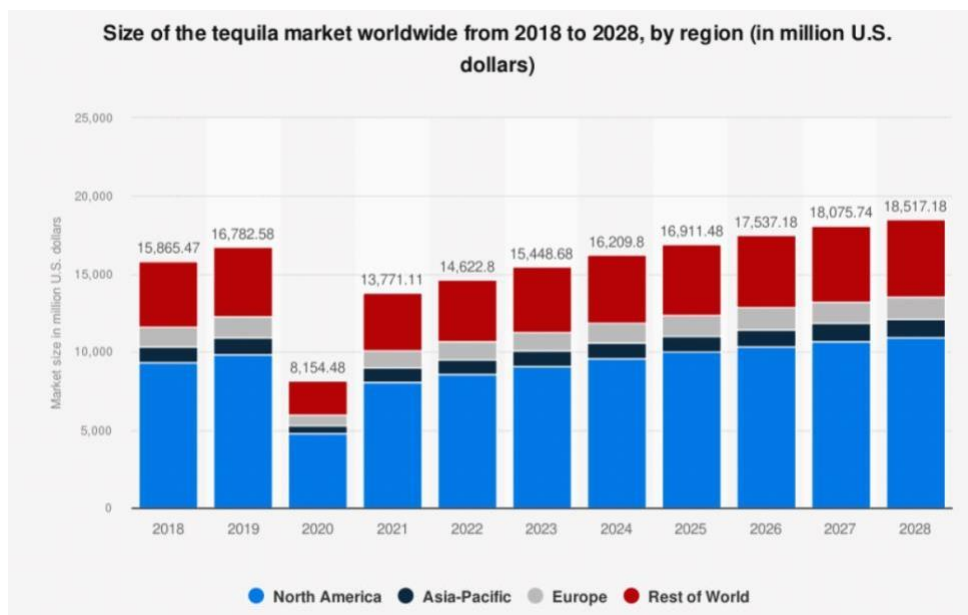
Despite the challenges posed by the pandemic, the tequila industry demonstrated remarkable resilience, rebounding swiftly to attain its highest sales value yet in 2022, reaching an impressive \$67.71 billion Mexican pesos. This milestone underscores the enduring popularity and demand for tequila both domestically and internationally, as well as the industry's adaptability in navigating turbulent market conditions. Nevertheless, in 2023, there was a slight decrease in sales value, with figures totaling \$64.4 billion Mexican pesos, signaling a potential stabilization or adjustment following the peak achieved in the previous year (Statista, 2023).

In 2022, Mexico's tequila industry achieved a significant milestone, reaching a production peak of 651 million liters, the highest in 25 years. This surge reflects growing global demand for Mexican tequila, with 419 million liters exported that year. Ranking second only to beer in Mexico's exports. With an annual growth rate of 34%, tequila has become a key contributor to Mexico's economy, attracting demand from international markets. The United States stands out as the primary destination, importing \$338 million worth of tequila, followed by key European markets like Germany, Spain, and France. Australia and Japan are the lowest importers, all these partners play notable roles in Mexico's tequila exports, showcasing its widespread popularity worldwide (Solís, 2023).

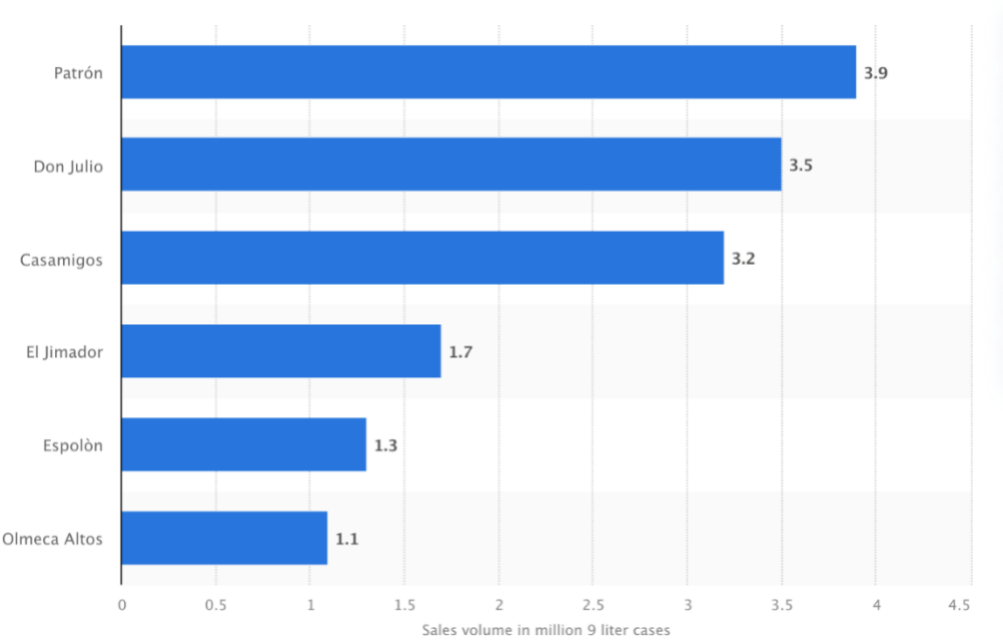
## Global Tequila Market

Key factors driving the growth of the global tequila market include product innovations and the increasing demand for premium tequila. With consumers seeking new and unique flavors, companies are diversifying their product lines to cater to evolving tastes. For example, Dulce Vida Spirits expanded its portfolio by introducing flavored tequilas, including lime and grapefruit variants. Similarly, in 2020, Jose Cuervo introduced tequila-based seltzer drinks in lime and grapefruit flavors, reflecting proactive efforts to meet consumer preferences. Additionally, the growing popularity of premium tequila, perceived as a healthier option, further contributes to market expansion. These trends underscore the dynamic nature of the tequila industry and its potential for sustained growth (Inkwood Research, 2020).

According to data from Statista, the global Tequila Market experienced substantial growth from \$8.11 billion in 2018 to \$20.66 billion in 2023. Projections suggest a further increase to \$30.06 billion by 2028. As depicted in Figure X, North America dominates the market with the largest market size, surpassing the comparatively smaller market shares of Asia-Pacific and Europe. The leading tequila brands worldwide in 2022, based on sales volume (in million 9-liter cases) as seen are Patrón, Don Julio, Casamigos, El Jimador, Espolón, and Olmeca Altos (Conway, 2024).



The leading tequila brands worldwide in 2022, based on sales volume (in million 9-liter cases) are Patrón, Don Julio, Casamigos, El Jimador, Espolón, and Olmeca Altos (Conway, 2024).



### Impact on Global Tequila Market

As described by Goula (2024), the Agave tequilana weber serves as the primary raw material for tequila production. Over the past year, its price has depreciated by 87%, primarily due to overproduction in the tequila industry, global demand fluctuations, and the historically high prices of agave plants that prompted many individuals to enter the production sector. It is important to note that there is no standard price for agave, as it is governed by supply and demand. Previously, agave was priced at 30 pesos per kilogram, but some producers report offers as low as 4 pesos per kilogram.

Another factor highlighting the industry's current state is that approximately 100 million agave plants are required annually to produce tequila, yet there are now around 1.3 billion plants in existence. As a response, producers intend to reduce agave planting and urge companies to pay fair prices. Additionally, the Consejo Regulador del Tequila advocates for

the Certificación de Agave Responsable Ambiental (ARA) to enable traditional agave growers to sell their plants at higher prices.

A significant observation is that agave prices have decreased exponentially, reaching levels from a decade ago. However, the market price of finished tequila has remained consistent.

### **2.4.2 Growth Drivers**

In accordance with the Market Research Report from Inkwood (2020). The Tequila market is undergoing a notable evolution in distribution channels, with online retailing emerging as the fastest-growing segment. Consumer preferences lean significantly towards premium and super-premium tequila varieties, underscoring a discernible demand for top-tier spirits. Moreover, the market is witnessing a surge in innovation, notably marked by the introduction of novel flavors such as lime, grapefruit, cinnamon orange, and watermelon. These developments reflect a proactive response to evolving consumer palates and preferences within the industry.

### **Tequila Cocktails Market**

As per the Market Research Report of Virtue (2023) the Tequila Cocktails Market, valued at USD 9.89 billion in 2022, is forecasted to grow to USD 13.28 billion by 2030, with a projected compound annual growth rate (CAGR) of 5.89%. The market is segmented into Value, Premium, High-end Premium, and Super Premium grades, with premium varieties expected to dominate due to consumer preferences for craft spirits. Distribution channels include On-trade and Off-trade segments, with on-trade sales driven by quick servings and immersive experiences, while off-trade channels see growth through the accessibility of alcohol in supermarkets and online platforms.

The report also states that regionally, North America leads the market, fueled by a surge in tequila consumption in the United States. Europe is experiencing significant expansion, supported by tequila's protected status, and increasing demand for craft spirits. The Asia

Pacific region shows promise with rising imports and a preference for quality over quantity, particularly among millennials. Latin America sees growth driven by increasing alcohol consumption rates, while the Middle East and Africa observe a trend towards premiumization and innovation in white spirits.

## **2.5 Technological Innovation and Sustainability**

### **2.5.1 Technological innovation**

The COVID-19 pandemic has undeniably brought unprecedented challenges to various industries, and it revolutionized the whole world including the tequila industry. However, amidst the adversity, it has also catalyzed significant innovation and transformation within the tequila sector. The tequila global market experienced a substantial growth rate of 6.4% in 2020. (Aceves Spirits, 2021).

During the pandemic and subsequent lockdowns, people sought innovative ways to stave off boredom. One notable trend was the rise of virtual parties via video calls with family and friends, aimed at recreating real-life social experiences. According to the brand Aceves Spirits, this shift towards virtual socializing led to an increase in alcohol consumption, creating a new target demographic for the beverage industry. Expanding the market for ready-made cocktails emerges as a viable business strategy in response to this evolving consumer behavior.

One of the most notable changes spurred by the pandemic was accelerated adoption of digital technologies and e-commerce platforms by tequila producers and distributors. With lockdowns and social distancing measures in place, traditional sales channels such as bars, restaurants, and retail stores faced disruptions.

In response, many tequila brands swiftly pivoted towards online sales channels, leveraging digital marketing strategies and e-commerce platforms to reach consumers directly. This shift not only enabled tequila producers to adapt to changing consumer behavior but also opened up new avenues for market expansion and brand visibility.

Furthermore, COVID-19 stimulated innovation in product diversification and marketing strategies within the tequila industry. With consumers spending more time at home and seeking novel experiences, there has been a surge in demand for premium and artisanal tequilas, as well as innovative flavor profiles and cocktail recipes. Tequila brands have responded by launching new product lines, experimenting with unique aging techniques, and collaborating with mixologists and influencers to create engaging content and experiences for consumers.

Moreover, the pandemic has prompted tequila companies to prioritize sustainability and environmental responsibility in their production processes. As supply chain disruptions and logistical challenges highlighted vulnerabilities in traditional production methods, there has been a growing emphasis on implementing sustainable practices, reducing carbon footprints, and promoting eco-friendly packaging within the industry. From agave cultivation to distillation and bottling, tequila producers are increasingly investing in sustainable technologies and practices to minimize environmental impact and ensure long-term resilience.

Advancements in production techniques, agricultural practices, and sustainability initiatives are also shaping the future of the tequila industry. Distilleries are investing in modern equipment and processes to improve efficiency, consistency, and product quality while minimizing environmental impact. Additionally, efforts to promote sustainable agave cultivation and biodiversity conservation are gaining traction, driven by growing awareness of environmental issues and consumer demand for ethically sourced products.

### **2.5.2 Sustainability**

In 2006, the agave landscape was designated a World Cultural Heritage Site due to its cultural, social, and historical significance. However, the increasing demand for tequila over

the past decade has led to the expansion of monoculture areas, exacerbating the climate crisis (Forbes, 2023).

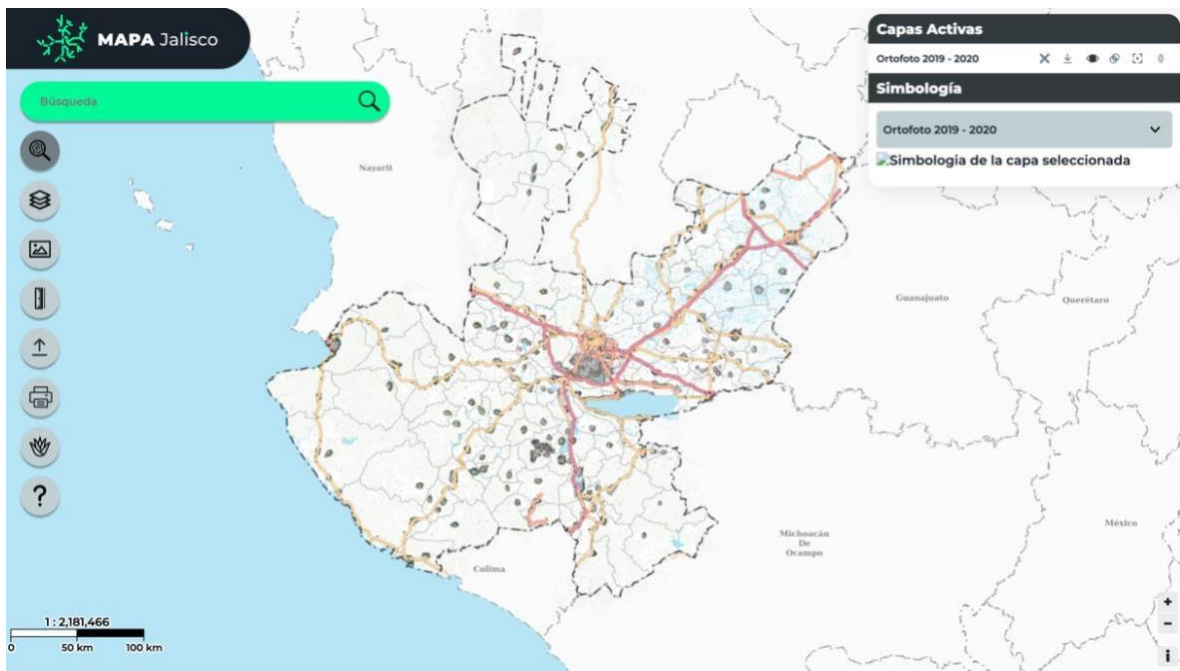
Several Mexican companies have embraced sustainability as a key goal, developing ambitious strategies and plans to enhance their environmental performance. The Agave-Tequila production chain is following suit by incorporating sustainability as a pivotal element of its development strategy. (Tequila, Estrategia de sustentabilidad de la Cadena Agave-Tequila , 2016). Later in June of the same year, the states of Jalisco, Guanajuato, and the Tequila Regulatory Council (TRC) entered into a collaborative agreement aimed at ensuring the sustainability of the tequila industry. Together, these two states account for 87 percent of all agave cultivation within the DOT (Government of Jalisco, 2022).

According to the Tequila Regulatory Council, the sustainability strategy for the agave tequila productive chain encompasses several components aimed at ensuring long-term environmental and social responsibility within the tequila industry. These components include the decarbonization of the industry, which focuses on reducing greenhouse gas emissions throughout the production process. Additionally, the strategy emphasizes the efficient use of water, promoting conservation and sustainable management of water resources. Sustainable agricultural practices are also a key focus, encouraging methods that protect and enhance the natural environment. The commitment to zero deforestation tequila aims to ensure that agave cultivation does not contribute to the loss of natural forests. Waste treatment initiatives are being implemented to manage and reduce the environmental impact of production byproducts. Moreover, the strategy includes strengthening social programs to support the communities involved in tequila production and fostering the economic development of the region to create sustainable growth opportunities.

By 2027, the supply of Agave Tequilana Weber blue variety for tequila production aims to ensure it has not caused deforestation of natural areas, based on 2016 levels. As part of this sustainability effort, the CRT and the government of Jalisco developed the ARA Certification (Environmental Responsible Agave). This certification guarantees that tequila is made from agave grown on properties that did not experience deforestation, using 2016 as the

benchmark year. The ARA Certification has helped prevent the deforestation of more than 13,000 hectares (Tequila Regulatory Council, n.d.).

The map identifies suitable soil areas for agave plantations, with the aim of preventing further deforestation in Jalisco. The eligible area encompasses nearly 3 million hectares in Jalisco, excluding parcels with forest vegetation since 2016. The Environmental Responsible Agave Certification prevented deforestation of 7,000 hectares in Jalisco until the end of 2023, through this program. In accordance with the Sustainability Strategy of the agave-tequila production chain, ERA's objective is that by 2027, all Azul Tequilana Weber agave destined for tequila production is certified as free of deforestation (Romo, 2024).



The sustainability strategy of the Mexican Government regarding agave cultivation came up with an action plan of 13 years (2017-2030) that involves maximizing various aspects to ensure long-term viability. One key aspect is conducting a comprehensive national inventory of agave to understand the available resources fully. This inventory will help in planning and managing agave cultivation more effectively. Another crucial element is promoting contractual linkages based on contract agriculture. This approach aims to establish

sustainable production practices by fostering partnerships between agave producers and other stakeholders.

As well as addressing unfair competition through the revision of regulatory standards, such as NOM 006, is another priority. By ensuring fair competition, the government aims to create a level playing field for agave producers. The strategy involves incentivizing actions such as promoting research and technological development initiatives to support agave cultivation. Additionally, efforts are underway to encourage the development of methodological tools for collecting and systematizing agroecological information related to agave cultivation. (SAGARPA, 2017).

### **3. Globalization and Market Expansion**

The internationalization of Mexican tequila, backed by its globally recognized designation of origin, provides a competitive advantage to all actors involved in its production chain. The production of tequila grew by 526% in nearly three decades, while exports increased by 541% (Forbes, Forbes, 2023). During the year 2020, Mexico exported a total of 308.6 million liters of tequila, demonstrating that the vast majority of production is destined for consumption in other countries, with approximately eight out of every ten liters produced directed to the international market. Although Mexican tequila is present in more than 101 countries, close to 90 percent of the exports made in 2020 were destined for the U.S. market, which acquired a total of 277.8 million liters of this beverage (Servicio de Información Agroalimentaria y Pesquera, 2022).

The growth of tequila exports has been constant, showing an upward trend. It is estimated that in the year 2020, the value of exports of this beverage reached the figure of 2.355 billion dollars, consolidating it as the second most important agro-industrial product in terms of exports, surpassed only by beer (Servicio de Información Agroalimentaria y Pesquera, 2022).

According to the CRT, in 2022, 651.5 million liters of the Mexican beverage were produced, representing a 23.6% increase compared to 2021. Out of this total, 416.8 million liters were

exported to other countries, marking a notable 23.3% growth in exports from the previous year. The top 10 countries importing tequila are spearheaded by the United States, which dominates with 81.2% of the total exported volume in liters. Following closely are Germany, Spain, France, England, Canada, Colombia, Italy, Australia, and Japan (Forbes, Forbes, 2023).

The tequila sector has seen significant expansion in recent years, evolving from a party favorite to a sophisticated spirit for sipping and mixing. Market reports show robust growth, with the global market size expected to reach USD\$15.57 billion by 2029. Premiumization is a key driver, with consumers increasingly seeking higher quality and premium-branded products like Patron, Don Julio, Clase Azul, and Casamigos. (Tomasso, 2023).

According to reports from Fortune Business Insights, the global tequila market is expected to grow at a Compound Average Growth Rate (CAGR) of 5.89% from 2022 to 2029. In Canada, the market is projected to grow at a CAGR of 6.68% from 2023 to 2028 (Market Research's Canada Tequila Market Research Report, 2028).

Nevertheless, an emerging trend involves celebrities establishing their own Tequila brands, a phenomenon observed with figures such as George Clooney, Kendall Jenner, Dwayne "The Rock" Johnson, and LeBron James. Beyond yielding substantial profits for these individuals, their ventures have significantly bolstered the expansion of premium and luxury Tequila brands (Tomasso, 2023).

According to Jonathan Luna, the Head of Marketing of Hiatus Tequila (mentioned in media interviews, 2024), celebrities endorsing tequila have significantly amplified its marketing efforts, increased its visibility and enabled consumers to explore various types and brands, including those from smaller producers. This association has also improved tequila's image by dispelling negative stereotypes. However, the surge in celebrity-owned tequila brands has saturated the market, making it challenging for smaller brands to compete. Celebrity brands often have larger marketing budgets, potentially overshadowing smaller competitors and raising concerns about quality compromise due to cost-cutting measures.

### **3.1 Market Expansion**

Another important aspect for the Market Expansion is the International Trade Agreements. In 2021, a significant change occurred in the NAFTA trade agreement, that was created by United States, Canada, and Mexico. Leading to the inception of the USMCA, focusing on enhancing the integration of produced goods to benefit producers across the country partners. Lasting 16 years, the USMCA undergoes review every 6 years, with potential extensions for additional 16-year terms. USMCA ensures a tariff-free market for qualifying "origin" products and maintains a prohibition on imposing export tariffs, thus safeguarding the continuity of Tequila protection. Through Geographical Indications (GI), which denote the origin of products, USMCA protects Tequila's quality and reputation, bolstering its status as a distinctive product. Tequila, recognized as an economic driver, experiences significant exportation, with approximately 8 out of 10 bottles destined for the United States (Ramírez, 2021).

In addition to Mexico's success in the tequila industry stemmed from a 2013 trade agreement with France, Spain, and Italy, which facilitated exports without high tariffs. This led to a notable sales increase of nearly 40%. The government's initiatives, including streamlined regulations and funding support, further boosted the industry's growth. Entrepreneurs capitalized on Mexico's climate and invested in technology to enhance product quality, emphasizing innovation and continual improvement (Baldenebro, 2023).

#### **3.1.2 Tequila Tourism**

Tourism in Tequila has experienced exponential growth in recent years, offering a wide variety of unique tourist activities that provide a range of opportunities for visitors to immerse themselves in the world of Tequila. It is for this reason that the Tequila Route was created. According to Tequila Regulatory Council website, the Tequila Route initiative, launched in 2006, aimed to boost tourism in the Tequila region, renowned for its cultural significance and natural beauty. Recognized as a "Magical Town" in 2003, Tequila, along with neighboring areas, earned UNESCO World Cultural Heritage status in 2006. Supported by

funding from the Inter-American Development Bank and the José Cuervo Foundation, the project aimed to develop sustainable tourism offerings while preserving the area's cultural and environmental heritage.

The Tequila Route in Jalisco, Mexico, is an emblematic tourist destination that offers an immersion into Mexican culture and traditions. Recognized at both regional and national levels, it has become an icon of Mexican identity and a must-visit for tequila enthusiasts. This route provides a variety of tourist experiences centered around tequila production, from visits to agave fields to tastings and pairings. It is a unique opportunity to learn about the process of making this famous beverage and enjoy culinary pairings with seafood, chocolate, and more. With between one and 1.4 million visitors annually, the Tequila Route is a versatile destination that attracts diverse segments of tourists, from couples to groups of friends, with activities tailored to different interests and preferences (Ortega, 2023).

According to the website of José Cuervo, one of Mexico's and the world's most iconic tequilas offers a unique experience through the "José Cuervo Express," a train that departs from the city of Guadalajara. This exclusive journey takes passengers to the charming Magical Town of Tequila aboard the only antique train in all of Mexico. The train features several cars, from the most accessible, called the Express, to Premium Plus, Diamond, and a new Elite section, each offering various amenities for travelers. During the ride, passengers can indulge in exclusive Mexican cocktails and snacks while enjoying the view. Each experience includes a visit to the historic La Rojeña Factory, the oldest distillery in Latin America. Trip prices vary depending on the chosen car, ranging from \$182.03 to \$259.82, with an approximate duration of 11 hours, including the train journey, distillery tour, entertainment with mariachis, food, and more.

In addition to visiting the Magical Town's distilleries, witnessing the tequila-making process, traveling on the Jose Cuervo Express train, as well as embarking on the Tequila Route, something else that catches tourists' attention: a hotel shaped like tequila barrels called Matices Hotel of Barricas. It is the only hotel in the world located on the grounds of a tequila factory. It is a 5-star hotel, with a nightly rate of around \$300 USD.



## 4. Management Theory

### **The Resource-Based View and Dynamic Capabilities**

Utami and Alamanos (2023) highlight the **Resource-Based View (RBV)** theory's emphasis on a firm's unique resources and capabilities as crucial for achieving sustainable competitive advantage. While traditional RBV from Barney (1991) underscores the significance of internal resources and capabilities in determining profitability, it falls short in explaining how firms can thrive in rapidly changing environments. The broader perspective suggests that firms can cultivate new capabilities over time, not solely by leveraging existing assets but also through learning and skill acquisition. Key to sustaining competitive advantage are valuable, rare, and inimitable resources, which firms can leverage to outperform competitors. Resources encompass diverse assets, including physical, human, and organizational capital, obtained internally and externally.

Additionally, capabilities, a subset of resources, focus on enhancing productivity and creating value. Dynamic capabilities are processes whereby firms adapt to external and internal proficiencies to fast-transforming environments (Teece et al., 1997). Barreto (2010) describes them as “the firm's potential to systematically solve problems, formed by its

propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base”. Thus, firms can continuously expand and enhance their asset base, thereby strengthening their competitive position. Examples include alliance capabilities and product development practices, facilitating effective collaboration and value delivery to customers.

Although Dynamic Capabilities is a firm level theory, the aggregation of firms acting in this manner is pertinent to the tequila industry. We can see how tequila producers use Dynamic Capabilities to gain and maintain a competitive edge in the broader beverage market as well as how they compete against each other. In the tequila industry, where brands vie for consumer attention and loyalty, understanding the significance of internal resources and capabilities is indisputable. For tequila producers, this means recognizing the value of resources such as agave fields, distillation expertise, and brand reputation. Moreover, the concept of capabilities within the RBV framework holds particular relevance. Tequila producers must not only possess valuable resources but also possess the ability to effectively utilize and develop them over time.

For example, alliance capabilities can enable tequila producers to form strategic partnerships with agave growers or distribution networks, enhancing their reach and market presence. Similarly, investing in product development practices allows producers to introduce new variations or premium offerings that cater to evolving consumer tastes.

**Total Quality Management (TQM)** is a management approach that prioritizes ongoing improvement and involves all employees in striving for quality excellence. It cultivates a culture centered on quality, teamwork, proactive problem-solving, and a dedication to excellence, with the goal of eliminating defects, minimizing waste, and enhancing overall performance. TQM places emphasis on customer satisfaction, employee participation, process-oriented strategies, continuous improvement, data-driven decision-making, supplier relationships, and leadership commitment to instill a culture of quality excellence. Successful implementation of TQM requires unwavering leadership support, structured processes, and active engagement from employees (Investopedia, 2024).

To reinforce Total Quality Management (TQM) in the tequila industry, focusing on quality standards and consistency is crucial. This involves upholding high-quality standards throughout the production process, from agave harvesting to bottling, ensuring excellence at every stage. Additionally, prioritizing customer feedback and satisfaction is essential for consistently meeting expectations and elevating the customer experience. Conducting regular audits further guarantees adherence to quality standards, providing a robust foundation for superior product quality and long-term success in the industry.

### **First-mover and Second-mover Advantage**

In the tequila industry, a leading firm can achieve higher profits than competitors by committing to high production levels. Some experts argue that the leader gains higher profits when the leader and the follower act as strategic substitutes. On the other hand, others suggest the first-mover advantage can be negated if the leader's decisions are imperfectly observed. Strategic benefits come not just from being the first mover but also from investing in R&D, production capacity, certain capital structures, or delegating decisions to managers. These commitment strategies aim to influence competitors' future behavior and strengthen the firm's competitive position (Kopel & Löffler, 2008).

## **5. Methodology and Data collection**

### **5.1.1 Methodology**

#### **Research Design:**

This study based its conclusions on the secondary collection from the Literature Review, as well as from 8 expert interviews and a survey. These diverse experts and two other sources provided triangulated insight into the industry's multifaceted landscape. The data was analyzed accordingly.

## **5.2 Data Collection**

As mentioned above, semi-structured interviews were conducted with experts in the tequila industry. These interviews were designed to gather qualitative insights into various aspects of the tequila market, including consumer perceptions, industry trends, marketing strategies, and product innovation. By engaging with industry professionals, the study aimed to capture expert opinions and insights that could inform the analysis. The semi-structured nature of the interviews allowed for flexibility in questioning, enabling interviewees to elaborate on specific topics of interest and share their unique perspectives. A table was compiled outlining the key points derived from each interview. This tabular representation facilitated a comprehensive examination of the insights gleaned from the interviews, allowing for easy comparison and identification of recurring themes and significant findings. Topics covered in the interviews included consumer preferences, brand loyalty, market dynamics, and emerging trends. Through these in-depth discussions with industry experts, the study gained valuable insights into the underlying factors influencing tequila consumption behaviors.

In addition to the interviews, consumer surveys were conducted to gather quantitative data on tequila consumption preferences and emotional responses. The surveys were distributed to a diverse sample of tequila consumers, encompassing various demographics, geographical locations, and consumption habits. The surveys included questions designed to assess consumers' preferences for different types of tequila, preferred consumption methods (such as shots, mixed drinks, or cocktails), and the emotional impact of tequila consumption. By collecting quantitative data through surveys, the study aimed to complement the qualitative insights obtained from the interviews, providing a more comprehensive understanding of consumer behaviors and attitudes towards tequila.

Overall, the dual approach of conducting semi-structured interviews with industry experts and consumer surveys, in conjunction with the literature, enabled the study to triangulate data from multiple sources and perspectives.

## **Findings**

## Tequila Experts Interviews

### **Questions:**

#### **Background and Experience**

1. Can you tell me about your background and experience in the tequila industry?
2. How did you get started in the tequila business, and what has been your journey so far?
3. What roles have you held within the industry, and what are your areas of expertise?

#### **Industry Trends and Market Analysis**

4. What are the current trends shaping the tequila industry, both domestically and internationally?
5. How has the market for tequila evolved in recent years, and what factors have influenced these changes?
6. Can you identify any emerging markets or consumer preferences that are driving growth in the tequila industry?

#### **Marketing and Branding**

7. How do tequila brands differentiate themselves in a crowded market, and what marketing strategies have been most effective?
8. Can you discuss the importance of branding and storytelling in the tequila industry?
9. How do you see the role of social media and digital marketing evolving in the promotion of tequila brands?

#### **Future Outlook and Challenges**

10. What opportunities do you see for growth and innovation in the tequila industry in the coming years?

11. What are the biggest challenges or obstacles facing tequila producers today, and how are they addressing them?
12. How do you envision the future of the tequila industry, and what trends do you expect to shape its trajectory?

### Summary of Expert Opinions Tabulated

The experts had no problem being named.

Expert	Key Trends	Marketing Strategies	Challenges	Future Outlooks
Kyle Wade Tequila Entrepreneur based in Bermuda developing a new brand with a celebrity	<ul style="list-style-type: none"> <li>• Increased consumption during COVID-19.</li> <li>• Shift towards cleaner, premium image.</li> <li>• Growing preference among women.</li> </ul>	<ul style="list-style-type: none"> <li>• Social media and influencers.</li> <li>• Hosting cultural events.</li> <li>• Emphasizing quality and cultural appeal.</li> </ul>	<ul style="list-style-type: none"> <li>• Agave shortages and price increases.</li> <li>• Market differentiation.</li> <li>• Assembling capable teams.</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on product quality</li> <li>• Becoming a cultural icon.</li> <li>• Addressing agave supply and market differentiation.</li> </ul>
Nestor Hernández Has a tequila brand among his family called Distales and Phrases.	<ul style="list-style-type: none"> <li>• Celebrity-endorsed brands.</li> <li>• Flavored tequilas for novices.</li> <li>• Cultural significance.</li> </ul>	<ul style="list-style-type: none"> <li>• Technology and video content.</li> <li>• Emotional connections through storytelling.</li> </ul>	<ul style="list-style-type: none"> <li>• Operational inefficiencies.</li> <li>• Pricing strategies.</li> <li>• Industry cooperation.</li> </ul>	<ul style="list-style-type: none"> <li>• Innovation in tequila varieties.</li> <li>• Sustainable growth.</li> <li>• Preserving cultural heritage.</li> </ul>
Santiago Valverde A consultant specializing in tequila distillation	<ul style="list-style-type: none"> <li>• Shift towards premium tequilas.</li> <li>• U.S. as primary market.</li> <li>• Crystalline tequila trend.</li> <li>• Expansion in Asia.</li> </ul>	<ul style="list-style-type: none"> <li>• Differentiation for premium products.</li> <li>• Social media promotion.</li> <li>• Extensive advertising by large companies</li> </ul>	<ul style="list-style-type: none"> <li>• Agave supply fluctuations.</li> <li>• Overplanting risks.</li> <li>• Maintaining quality standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Growth in premium market.</li> <li>• Potential in China and India.</li> <li>• Sustainable practices to prevent overproduction.</li> </ul>
Gabriela Moncada	<ul style="list-style-type: none"> <li>• Rising U.S. popularity.</li> <li>• Storytelling in branding.</li> <li>• Surplus of agave.</li> <li>• Sophisticated image beyond traditional.</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasizing craftsmanship and tradition.</li> <li>• Innovative marketing for younger generations</li> </ul>	<ul style="list-style-type: none"> <li>• Agave price fluctuations.</li> <li>• Quality maintenance.</li> <li>• Balancing tradition with innovation.</li> </ul>	<ul style="list-style-type: none"> <li>• Incorporation of additives.</li> <li>• Streamlining production.</li> <li>• Innovations while preserving traditions.</li> </ul>

<p>Jayson Khaytin</p> <p>Diageo Associate whose portfolio is tequila</p>	<ul style="list-style-type: none"> <li>• Increased consumption in Canada.</li> <li>• Popularity of flavored tequilas.</li> <li>• COVID-19 impact.</li> <li>• Rise in premium brands</li> </ul>	<ul style="list-style-type: none"> <li>• Social media and influencers.</li> <li>• Storytelling and branding.</li> <li>• Ready-to-drink products.</li> </ul>	<ul style="list-style-type: none"> <li>• Supply constraints.</li> <li>• Consumer education.</li> <li>• Balancing convenience and quality.</li> <li>• Effective B2B marketing.</li> </ul>	<ul style="list-style-type: none"> <li>• Growth in ready-to-drink products.</li> <li>• Accessible quality bottles.</li> <li>• Shift from shots to refined experience.</li> </ul>
<p>Miguel Aguirre</p> <p>INAGRID associate focusing on sustainability technology in the tequila industry</p>	<ul style="list-style-type: none"> <li>• Demand for high-quality tequilas.</li> <li>• 100% agave preference.</li> <li>• Social media impact.</li> <li>• Challenges in agave cultivation</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting 100% agave quality.</li> <li>• Sustainability aspects.</li> <li>• Educational content.</li> </ul>	<ul style="list-style-type: none"> <li>• Agave cultivation challenges.</li> <li>• Stable agave prices.</li> <li>• Quality control and sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on sustainable practices.</li> <li>• Long-term stability in agave prices.</li> <li>• Quality and heritage preservation.</li> </ul>
<p>Rick Olivo</p> <p>Owner of "Ay que rico!" tequila brand in Austin Texas</p>	<ul style="list-style-type: none"> <li>• Celebrity influence.</li> <li>• Flavored tequilas and RTD cans.</li> <li>• Traditional flavor focus.</li> </ul>	<ul style="list-style-type: none"> <li>• Traditional production methods.</li> <li>• Cultural and historical roots.</li> <li>• Social media and cultural events.</li> </ul>	<ul style="list-style-type: none"> <li>• Agave price fluctuations.</li> <li>• Maintaining traditional methods while scaling.</li> <li>• Market differentiation.</li> <li>• Balancing cultural authenticity with modern marketing.</li> </ul>	<ul style="list-style-type: none"> <li>• Impact of RTD cans.</li> <li>• Innovation while preserving tradition.</li> <li>• Addressing additives.</li> <li>• Leveraging cultural events and social media.</li> </ul>
<p>Anthony Gargallo</p> <p>A consultant of his own company JS Spirits</p>	<ul style="list-style-type: none"> <li>• Premiumization of tequila</li> <li>• Importance of packaging and differentiation</li> </ul>	<ul style="list-style-type: none"> <li>• Role of social media and international events in promotion.</li> <li>• Innovations in production methods to impart unique flavors.</li> </ul>	<ul style="list-style-type: none"> <li>• Cyclical nature of agave prices and overproduction.</li> <li>• Challenge of maintaining agave cultivation</li> <li>• Need for significant marketing budget</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on sustainable cultivation.</li> <li>• Potential for novel aging methods.</li> <li>• Importance of maintaining industry standards and regulations.</li> </ul>

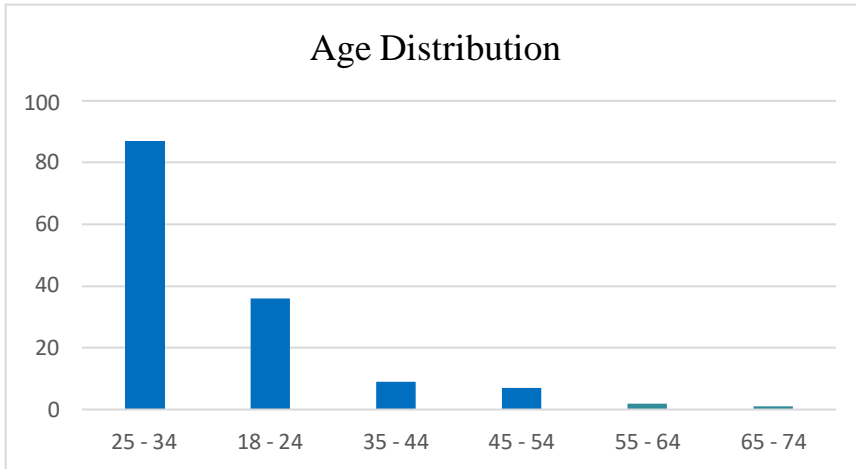
## **Analysis of Tequila Industry Interviews**

The tequila industry is seeing a surge in popularity, particularly in premium and 100% agave varieties, driven by increased at-home consumption during the COVID-19 pandemic and growing interest in international markets. Celebrity endorsements and the perception of tequila as a healthier alternative have also boosted its appeal. Marketing strategies are evolving, with a heavy reliance on social media and influencers to engage younger audiences. Brands are focusing on storytelling to highlight the cultural heritage and craftsmanship of tequila and using events and high-quality visual content to create engaging experiences.

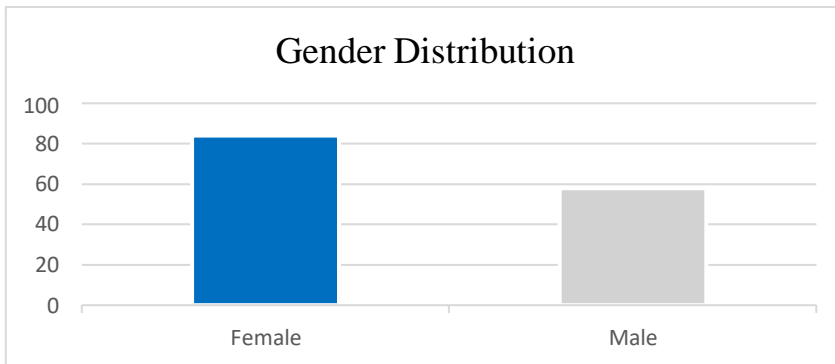
However, the industry faces significant challenges, including fluctuating agave supply and prices, the need for market differentiation, and ensuring sustainable cultivation practices. Consistent quality control amidst growing competition is also a critical issue. Looking ahead, the industry is focusing on sustainable practices and innovation in production methods, while continuing to expand into new markets. Preserving the cultural and historical significance of tequila remains crucial, even as brands modernize their approaches. Balancing tradition with contemporary marketing and production techniques will be key to sustaining growth and relevance in the competitive spirit's market.

## **Survey Analysis**

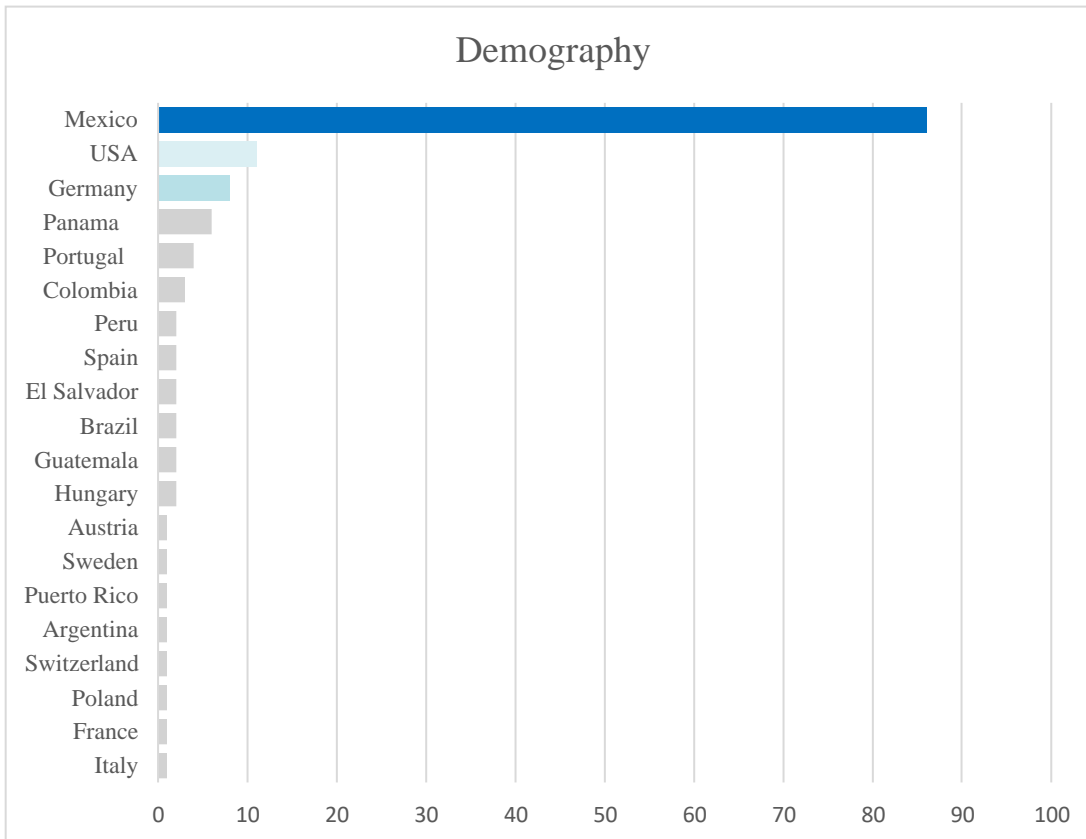
The survey, conducted among 176 individuals from various countries around the world, revealed several key demographic and behavioral insights. The largest age group among respondents was between 25 to 34 years old, comprising 105 individuals, which accounts for 60% of the total participants. The second-largest age group was 18 to 24 years old, with 49 respondents, making up 28% of the survey population. The remaining respondents were aged between 35 to 84 years old.



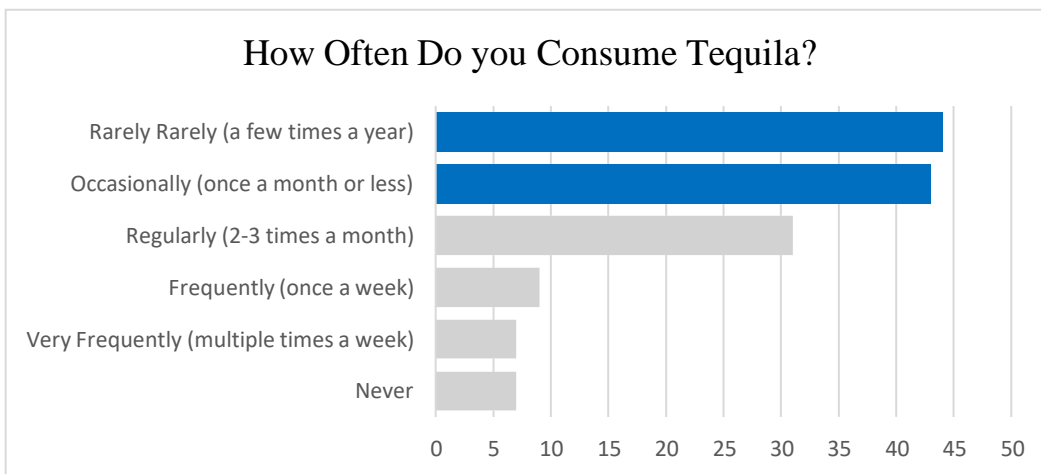
In terms of gender distribution, female respondents constituted 62% of the total, while male respondents made up 38%.



Geographically, the survey included participants from 20 different countries, with Mexico having the highest number of respondents, followed by the United States.



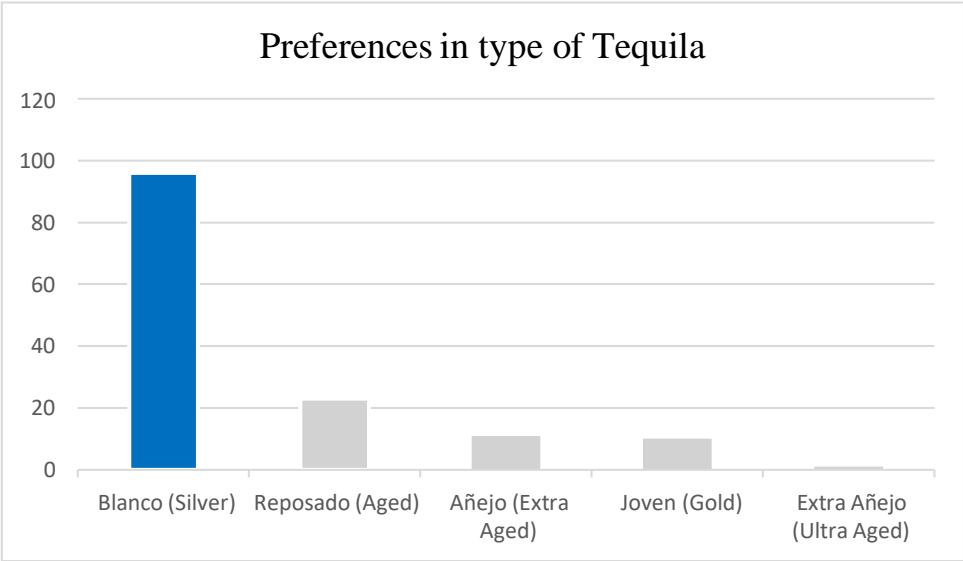
Regarding tequila consumption patterns, 32% of respondents reported consuming tequila occasionally, defined as once a month or less. Another 32% of respondents indicated they rarely consume tequila, which is defined as a few times a year. Additionally, 21% of the participants reported regular tequila consumption, defined as 2-3 times a month.



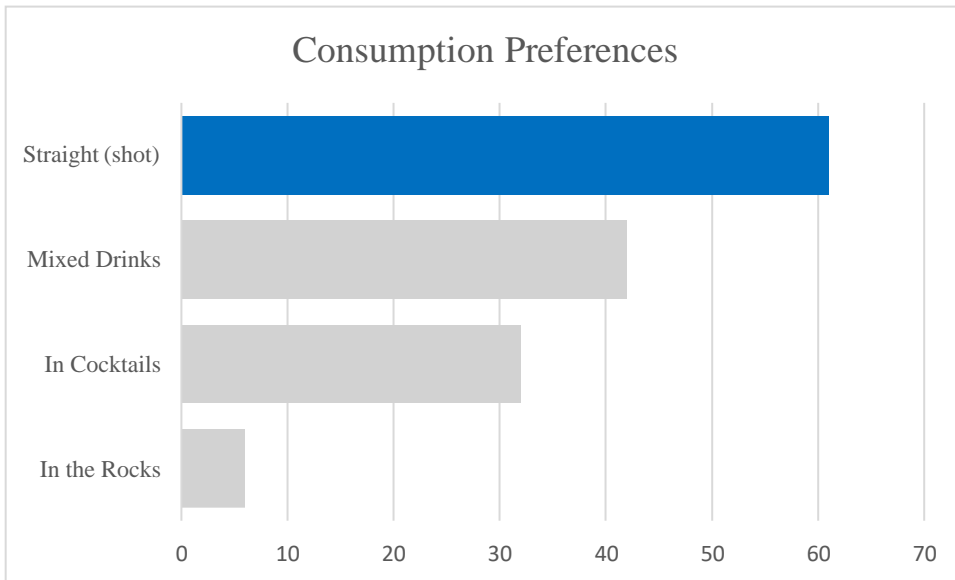
These insights provide a comprehensive understanding of the demographic characteristics and drinking habits of the survey respondents. The data show a significant inclination

towards occasional and rare consumption of tequila, with a relatively smaller portion consuming it regularly.

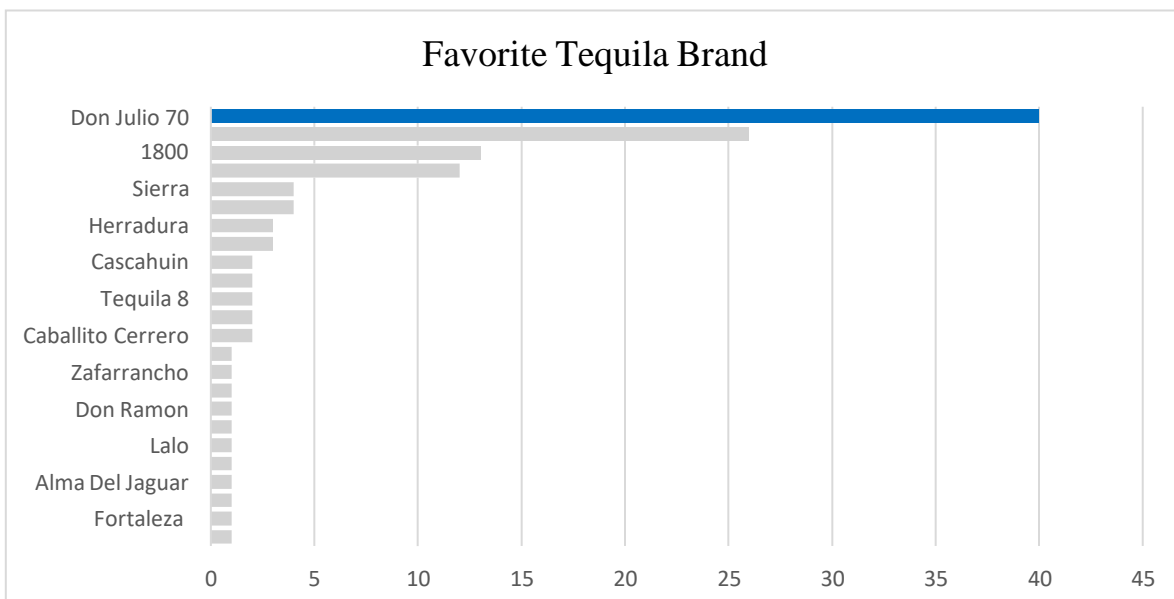
When asking about the consumption preferences in the type of tequila, Blanco (silver) was the most popular, with 68% of the survey respondents preferring it. The second most popular was Reposado (aged), preferred by 17% of respondents. Additionally, 41% of people chose to drink tequila as a shot, while 30% preferred it in mixed drinks.



The data on tequila consumption preferences reveals diverse ways consumers enjoy this beverage. A notable 41% prefer tequila as shots, highlighting its traditional and social aspects. Additionally, 30% favor mixed drinks, showing its versatility in cocktails like margaritas and palomas. Meanwhile, 23% prefer tequila in crafted cocktails, indicating an interest in mixology and sophisticated drink options.

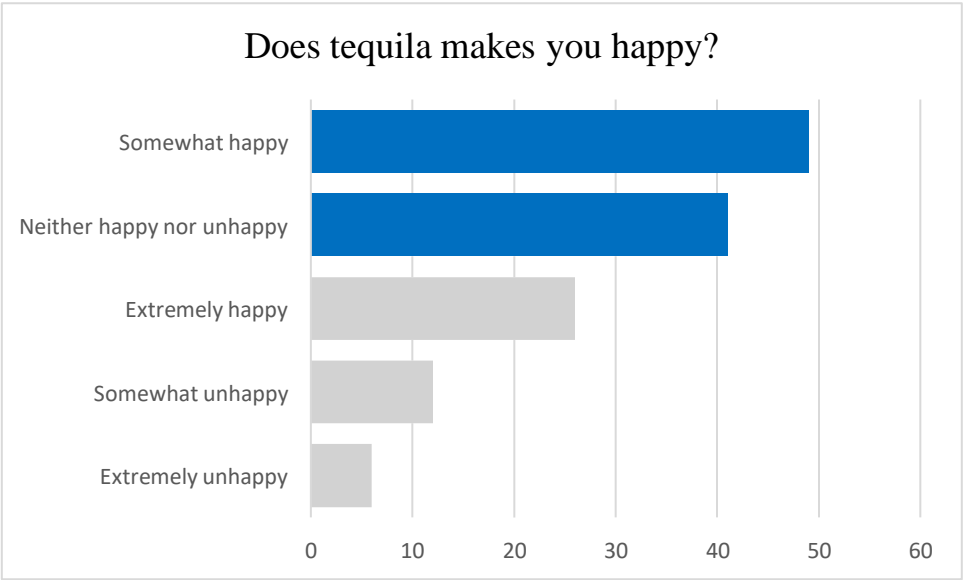


The main purpose of the question “What is your favorite tequila brand?” was to differentiate and understand the wide variety of brands that exist in the market today. The most interesting part is that respondents from Mexico and the USA stated their favorite brands, while those from European countries replied that they had no idea of brands. The most famous favorite brands mentioned were Don Julio, Maestro Dobel, 1800, José Cuervo, Herradura, among others.

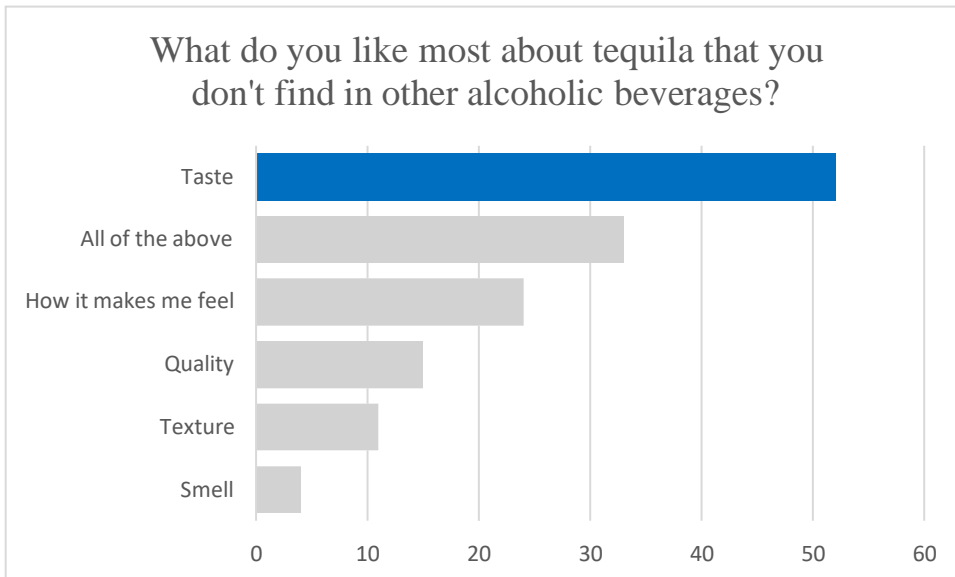


The responses to the question "Does tequila make you happy?" provide valuable insights into the emotional impact of tequila consumption among respondents. The data shows a range of sentiments: The largest segment, 36% of respondents, reported feeling somewhat happy when consuming tequila. This suggests that while tequila has a positive effect on their mood, it may not be overwhelmingly so. This moderate happiness could be associated with social drinking occasions where tequila is enjoyed among friends and in celebratory contexts.

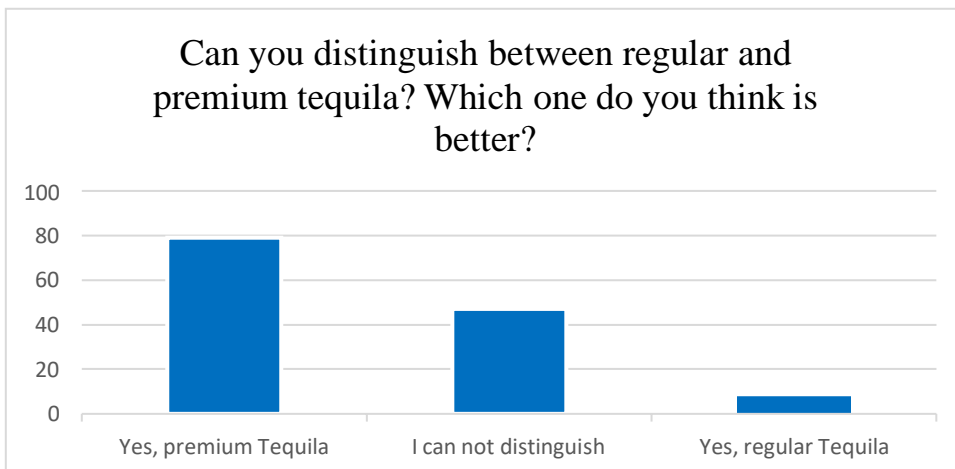
A significant portion, 30%, indicated they feel neither happy nor unhappy. This neutrality suggests that for nearly a third of the respondents, tequila consumption does not elicit strong emotional responses. These individuals might consume tequila for reasons other than emotional satisfaction, such as taste preference or social conformity. Meanwhile, 19% of respondents stated that tequila makes them extremely happy. This group represents those who have a strong positive emotional connection to tequila, potentially enjoying it for both its taste and the pleasant experiences associated with its consumption.



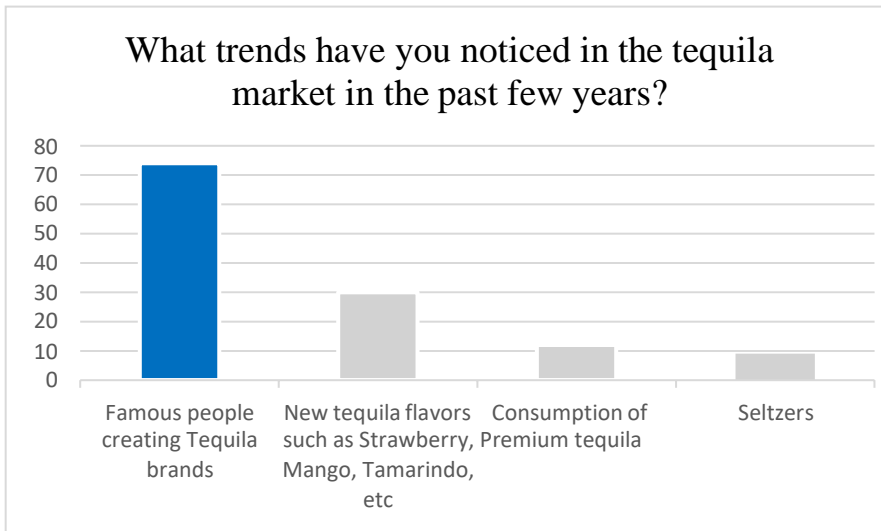
The factors influencing their choice of tequila brand were primarily taste, with 36% of participants also considering price, quality, and reputation as important. Taste was what they liked most about tequila, along with quality, smell, texture, and how it makes them feel.



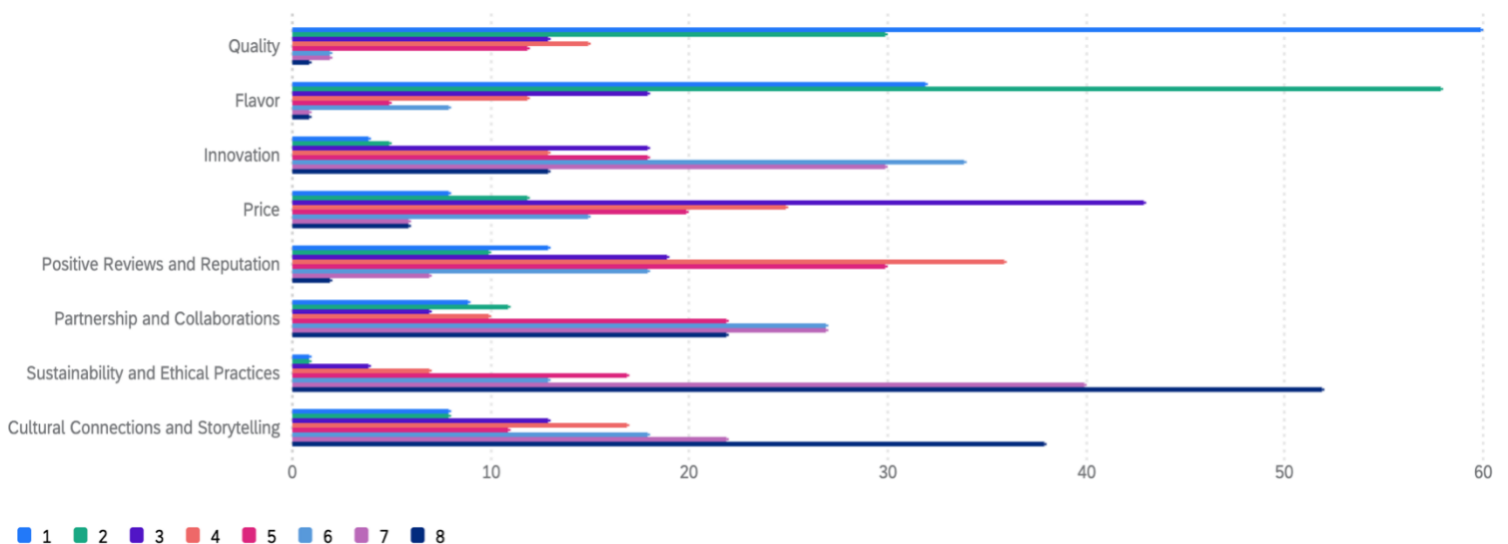
On average, 75% of respondents said that they liked tequila a great deal. The second most popular response was "like somewhat," followed by "neither like nor dislike." When asked if they can distinguish between regular tequila and premium tequila, 59% stated that they can distinguish between the two, while 36% said they cannot.



The survey also highlighted several trends in the tequila market. Famous people creating tequila brands and the introduction of new flavors, such as strawberry, mango, and tamarind, were seen as significant trends.



When asked what they think makes a tequila brand successful in the market, respondents ranked quality and flavor as the most important factors. Interestingly, sustainability and ethical practices were considered the least important.

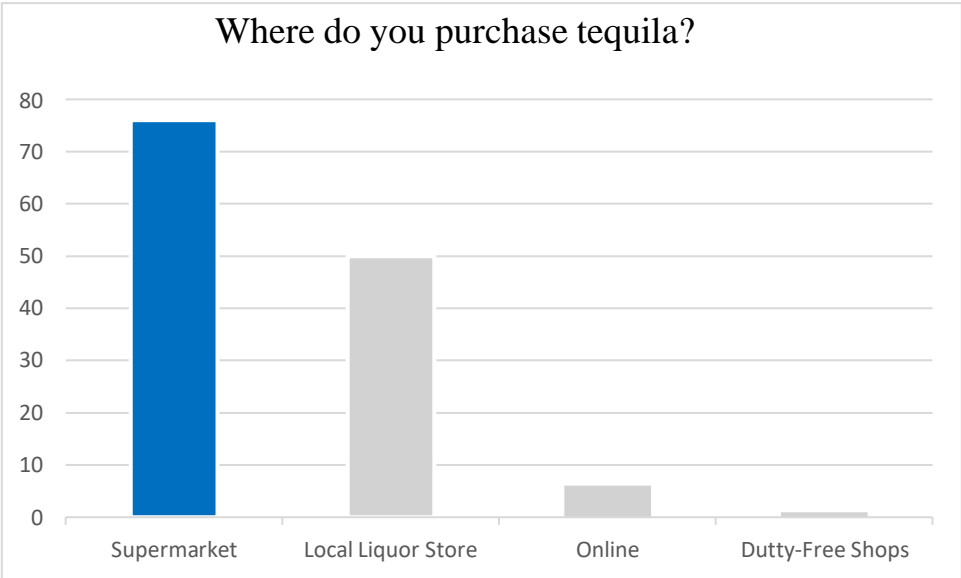


Regarding the importance of origin and authenticity, the most common response was that it is extremely important, with 34% of respondents choosing this option.

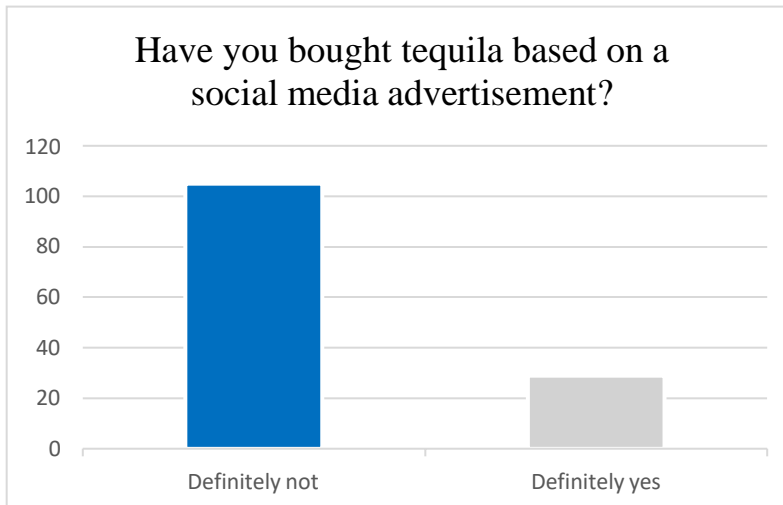
When asking participants if there were any liquors that they preferred to consume more than tequila the most popular answers were: Rum, Gin and Vodka. Rum because it is sweeter and

easy to tolerate and the hangover can be more tolerated, Gin because it is smoother, Vodka because it is lighter, and the flavor is not very strong.

In the purchase location the data indicates that the majority of participants 57% typically purchase tequila bottles from supermarkets, while 37% prefer liquor stores as their usual purchase location. This suggests a preference for convenience and accessibility, with supermarkets being the favored retail outlet for acquiring tequila.



Furthermore, a significant proportion 79% of respondents reported that they do not purchase tequila based on social media advertisements, highlighting that in this market, social media advertisement is not as strong as other marketing strategies.



When asked about their willingness to consume a tequila brand endorsed by a celebrity, responses varied. While 34% expressed a definite reluctance to do so and 27% were probably not inclined to consume such brands, only 17% indicated a willingness to consider consuming a tequila brand endorsed by a celebrity. This suggests that while celebrity endorsements may have some influence, they are not universally persuasive among consumers.

Regarding the question if promotions are considered important, the response highlights the varying perspectives among respondents regarding the importance of promotions in influencing their purchasing decisions for tequila. While 34% of participants indicated that promotions were moderately important, it is noted that there were differences in the responses, with some considering promotions as slightly important and others as very important. This variance in responses suggests that individuals may have differing attitudes towards promotional activities within the tequila market. The observation that discounts are not common in the spirits market may contribute to this divergence in opinions. Additionally, the mention that the absence of discounts could deter some individuals from purchasing tequila bottles independently implies that promotional strategies play a significant role in stimulating consumer interest and incentivizing purchases.

The responses to the question about desired innovations or new products in the tequila market provide valuable insights into consumer preferences and expectations. Some participants

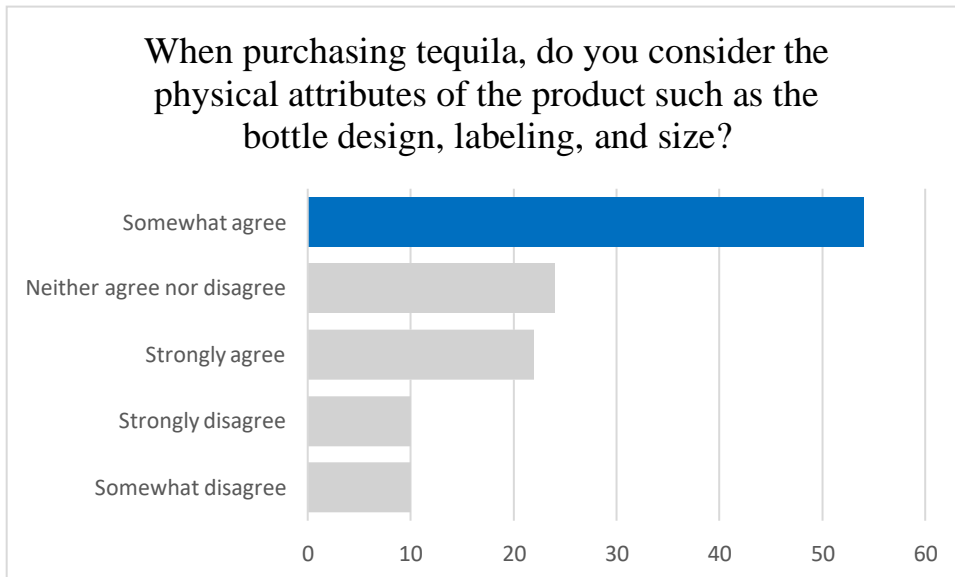
expressed interest in seeing new flavors introduced, with lemon specifically mentioned as a potential addition. This indicates a desire for flavor variety and experimentation to enhance the drinking experience.

Additionally, there was a notable sentiment among respondents regarding the need for tequila to have a better presence in other countries. This suggests an opportunity for market expansion and increased international distribution, reflecting the recognition of tequila's global potential. Furthermore, concerns about sustainability were raised, particularly regarding packaging and agave sourcing. Respondents emphasized the importance of adopting more sustainable practices in these areas, reflecting a growing consumer awareness and demand for environmentally friendly products.

The data reveals varying levels of importance that consumers place on the physical attributes of tequila products, such as bottle design, labeling, and size, when making purchasing decisions. A significant portion of respondents 43% somewhat agree that they consider these physical attributes. This suggests that while these attributes are important, they are not the primary factor driving purchase decisions for many consumers. Other aspects, such as taste, brand reputation, and price, may hold more weight in their decision-making process.

Notably, 20% of respondents neither agree nor disagree, indicating a level of indifference towards the physical attributes of the product. This group of consumers might prioritize other factors, such as the type of tequila, its origin, or recommendations from friends and family, over design and packaging.

Meanwhile, 18% of respondents strongly agree that they consider physical attributes when purchasing tequila. For this group, the aesthetic appeal and packaging details are likely crucial in their decision-making process, potentially influencing their perception of the product's quality and value.



The data on brand loyalty among tequila consumers reveals a spectrum of loyalty levels, indicating varying degrees of attachment to specific tequila brands. Only 18% of respondents indicated they are strongly loyal to specific tequila brands. This relatively small percentage suggests that there is a limited segment of highly brand-loyal consumers within the tequila market. These consumers are likely to consistently purchase and advocate for their preferred brands.

A significant portion, 36% of respondents, reported being neither loyal nor disloyal. This neutrality suggests that many consumers are open to trying different brands and are not particularly attached to any single one. This group represents an opportunity for brands to capture market share through effective marketing strategies, promotions, and product differentiation. Another substantial segment, 33% of respondents, indicated they are somewhat loyal to specific tequila brands. These consumers show a degree of preference but are not exclusively committed to one brand. They may be swayed by factors such as price, availability, or new product offerings.

## **Conclusion**

This thesis set out to explore the impact of tequila in the global beverage market, guided by the research question: "What are the drivers of tequila shedding its reputation as a cheap party

drink thereby gaining market share as a sophisticated spirit in the beverage market?" Through a comprehensive analysis of both qualitative and quantitative data, this study has provided valuable insights into the evolving dynamics of the tequila industry and its influence on consumer preferences and behaviors.

The data collection methodology consisted of semi-structured interviews with industry experts and consumer surveys. This methodological rigor allowed for a thorough exploration of the topic from multiple perspectives, yielding rich insights into the factors driving tequila's transformation from a party drink to a sophisticated beverage.

Interviews with industry experts revealed key insights into the challenges and opportunities facing the tequila market. Experts emphasized the importance of repositioning tequila as a cultural beverage, distinct from its traditional association with party culture. They highlighted efforts by tequila brands to enrich the cultural narrative and branding surrounding tequila, aiming to elevate its status and broaden its appeal beyond the shot culture. Consumer surveys provided quantitative data on tequila consumption preferences and emotional responses, complementing the qualitative insights from the interviews. The findings indicated a diverse range of consumer preferences, with a significant proportion expressing moderate to strong emotional connections to tequila.

In light of these findings, it is evident that tequila is making a significant impact in the global beverage market based upon the drivers articulated above. The rise in consumption and popularity, particularly during the Covid-19 pandemic, underscores tequila's growing appeal among consumers worldwide. Brands are actively working to reshape perceptions and promote tequila as a sophisticated spirit, diversifying its consumption occasions and expanding its market reach. We see evidence of firms deploying dynamic capabilities, adapting to external and internal proficiencies to fast-transforming environments (Teece et al., 1997) and solving problems to make timely and market-oriented decisions (Barreto, 2010), such as responses to Covid 19 alluded to above. The tequila sector has also demonstrated TQM and effectively been a second mover, developing significant market share in the spirits space developed by other beverages such as whiskey, vodka, rum and

cognac. Tequila's ascent from a party drink to a cultural icon reflects broader shifts in consumer preferences and industry dynamics. As tequila continues to gain traction in the beverage market, its influence is felt across the globe, with bottles now ubiquitous in bars, restaurants, and homes worldwide

## **Limitations and Further Research**

### **6.1.1 Limitations**

The research presented several limitations. The survey, conducted with 176 respondents, and the interviews both had limitations in sample size and diversity, potentially not fully representing the global population or the full spectrum of perspectives within the tequila industry. Responses were heavily weighted towards Mexico and the United States, potentially overlooking trends and challenges in other key regions such as Europe and Asia. Notably, most of the responses from Europe indicated a lack of knowledge about tequila, with many respondents having consumed it but finding it difficult to identify brands. Additionally, in Europe, tequila is often seen primarily as a beverage to get drunk at the club rather than something to enjoy like other spirits. Both methods relied on self-reported data and subjective responses, which can introduce bias and may not capture the full complexity of the industry. Additionally, both the survey and interviews reflected current trends and perceptions, which may change rapidly in the dynamic tequila market. While the survey provided valuable quantitative data, it lacked qualitative insights, and while the interviews provided rich qualitative data, they may lack the quantitative data necessary to support broad generalizations or robust statistical analysis. Access to information in both methods was limited by what respondents were willing or able to share, potentially omitting sensitive or proprietary details.

## **6.2 Further Research**

To address these limitations and gain a more comprehensive understanding of the tequila industry's impact on global beverage markets, further research is recommended. Expanding the sample size and diversity, particularly to include perspectives from key markets outside the U.S. and Mexico, such as Europe and Asia, will provide a more global view. Complementing qualitative insights from interviews with quantitative data analysis can offer a balanced perspective on industry trends, market size, and consumer behavior. Conducting follow-up studies to track changes over time can provide insights into the evolving trends and challenges within the industry. Including consumer insights through additional interviews or surveys can complement industry perspective.

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