

# Economics of tequila

[Economics](#)



Final Course Project Current Economic Conditions (from RI) Provide an assessment of the current economic conditions and explain how they might affect the sale or production of your product/service. We are currently in economic expansion. Demand (First Draft Project) Identify the most important determinants of demand for your product/service. Number of Buyers Tequila is made in Mexico and is prevalent in the Mexican culture. As such, the Hispanic population represents a large part of the consumer base in the United States. Hispanic population growth accounts for half of the estimated 27. Mm population growth since 2000. Taste Consumer taste for tequila increased significantly during the last 15 years, spurred in great part by the popularity of luxury brand Patron, introduced and heavily marketed in the late eighties and nineties. Patron was the first luxury tequila brand mass marketed and had the most market share at first; other brands such as Heraldry, Don Eduardo, Legend Gaul Blanch followed quickly. Patron has a loyal following in the hip-hop/rap music subculture. Tequila producers across the board have increased field-marketing efforts in the US in attempt to influence consumer taste.

Often this takes the form of educating consumers about the myriad types of tequila and ways it can be consumed (sipped like scotch, etc. ). Marketing tequila has shifted subtly away from lifestyle advertising to emphasizing tradition, heritage, and quality. Income of the consumer The alcoholic beverage industry is, in general, recession-resistant. However, depending on the economic climate, consumers purchase different types or grades of alcohol. Growth of premium/luxury alcohol brands outpaced the general

market last year (up 10% vs.. The overall market which was only up 4%).

Tequila growth follows

Economics of Tequila By regionalism percent since 2003. During this seven-year period, sales for tequila brands in the higher price brackets grew by even larger rates. Provide evidence on the price elasticity of demand for your product/service. Tequila in the United States is inelastic. Meaning, as the price of tequila changes consumption stays pretty much the same. What shifts are the types of tequila purchased; in times of hardship consumers shift to lower quality, cheaper brands, as discussed above. As the recession lifts, premium/luxury brands continue to thrive. Production and Costs

(Second Draft Project)

Identify the major fixed and variable costs associated with your product/service. Major fixed costs: Land for cultivation of the agave plant  
Plants & Equipment for farming distillation, bottling, and transportation  
Government fees for the use of the Tequila name Government fees for Quality Control Major variable costs: Labor Approximate the length of the short run for a firm that produces your product/ service. Sample calculations of short-run (actual data not available): If a producer buys land and begins farming from seed, the short run is as follows: Plant maturation = 8- 10 years  
T<sub>1</sub> Harvest, Production, Bottling = . Years or less Distribution = . 5 years or less Anticipated Short Run length = 9- 11 years. If a producer leases land containing already-mature plants) Harvest, Production, Bottling = . 5 years  
Distribution = . 5 years Anticipated Short Run length = 1 year or less Market

Structure (Third Draft Project) Identify the type of market structure your product/service operates in and summarize the market conditions of the

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number of firms (using the concentration ratio or HI), degree of product differentiation, ease of entry/exit, use of advertising, and the type

The tequila market is an oligopoly. There are five major producers that claim 70% of the market (Jose Cuervo, Patrón, Sauza, 1800, and Quartz). Data on the smaller players are more difficult to find, but assuming there are between 15 and 20 small players in the market, the HI calculates into the following ranges: 1. HI index for 2010: 1300 - 1350 2. HI index for 2011: 1400- 1450

This market is approaching what the US Department of Justice would categorize as moderately concentrated (1 500 or above).

It is very difficult to enter the tequila industry given the following barriers to entry: **Land** - Tequila can only be called "tequila" if it comes from a certain region in Mexico, primarily in the area surrounding the city of Tequila, 65 kilometers (40 m') northwest of Quadrangular, and in the highlands (Los Altos) of the western Mexican state of Jalisco. **Facilities** - Distillation and distribution facilities are very expensive **Intellectual capital** around harvesting and production techniques - The tequila plant is still largely harvested by hand according to ancient methods passed down through generations.

Advertising also plays a big role in this industry tequila advertisements tend to be edgy, and tout "the good life" and experiences associated with drinking this beverage. This is especially true of the premium brands. Like many liquor producers, on-premise promotions are common. Reps from the companies will hold events and generate hype for the products at restaurants and bars. Is there much product differentiation in the industry?

The large tequila producers market very similar products. However, there are several grades and types of tequila, and producers choose different areas of focus. . Types: blanch, ROR, reposed, or reserve 4. Purities: based on percentage purity of agave 5. Grades: Premium vs.. On-premium (prestige), based on aging and production techniques. One company, Heraldry, differentiates itself through its sustainable production techniques. Other companies, such as Jose Curve, choose to sell complementary products such as margarita mixes and salts. What type of advertising and non-price promotional activities occur? Most successful at the creating brandloyalty have created a culture around their products. One example is Patron, a " luxury' tequila.

Patron has aligned itself with famous rappers and hip-hop artists. As a result, Patron has a large loyal following within hip-hop culture. Another strong example is Jose Curve, which has a strong following within the Florida/Jimmy Buffet/" Parroted" subculture. To see evidence, you need look no further than the Jimmy Buffet Song " Marriageable". What is the level of profit (zero, positive or negative)? Since the large tequila players operate within an oligopoly, they use their power to set pricing that creates a positive profit situation. Does the firm have a diversification strategy? While most tequila companies only sell tequila (vs.. Also selling other spirits such as vodka or whiskey), they diversify by selling several types or brands. An example is Souza, whose multiple product offerings are below: Souza blanch Souza extra gold Souza blue silver Souza Reposed Souza Commemorative Horniest plat Horniest Reposed Horniest Annex Tree generations plat Tree generations reposed Tree generations annex Some companies also sell

complementary products such as margarita mix or special salt with which to garnish tequila drinks.

Externalities (From RE) Evaluate the negative and positive externalities associated with the production (or delivery) of the product. Positive Negative

- 1 . Wastewater runoff affects streams which includes fishing and other water sports
2. Affect of wastewater on soil
3. Discuss the private sector or public sector corrective measures that are in place to correct for these spillovers (externalities). Suggest some additional private sector or public sector corrective measures.

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Newtechnologyfor managing waste Human Capital Suggest how the firm can attract and retain qualified employees.

1. Employees are hourly factory workers. The field laborers are highly specialized in their harvesting skills but the market in the five state Tequila region currently has glut of talent due to the over growth of blue agave. Retention of employees is relatively easy as the population is dependent upon the tequila industry for Jobs.
2. Production process Discuss the role of outsourcing for your product/service.

1.

Tequila production cannot be outsourced. To be called tequila the product must be made in the tequila region of Mexico.

2. The bottling process and production of bottles could be outsourced. The Mexican government attempted to change the rules around bottling of tequila in Mexico the Mexican authorities tried to pass a law that said all Tequila must also be titled in Mexico to be called Tequila. As much of the tequila that is consumed outside of Mexico is bottled in the US this would have been a loss to the US economy and bottling facilities.

The law did not pass. 3. Sources: 4. [Http://www. Tequilas. Com/blob/](http://www.Tequilas.Com/blob/) 5. [Http://www. Micrometers. Net/businessmen/ 1 1 \\_tequilabusinessstinktwice. PH](http://www.Micrometers.Net/businessmen/11_tequilabusinessstinktwice.PH) 6. [Http://howl . American. Du/Ted/tequila. HTML](http://howl.American.Du/Ted/tequila.HTML) 7. [Http://www. Economist. Com/node/21543212](http://www.Economist.Com/node/21543212) 8. [Http://inhabitant. Com/case-heraldry- makes-tequila-employs-renewable-energy- and-wastewater-reuse-to-make- its-blends/](http://inhabitant.Com/case-heraldry-makes-tequila-employs-renewable-energy- and-wastewater-reuse-to-make-its-blends/) 9. [Http://www. Poltergeist's. Net/ deed. HTML](http://www.Poltergeist's.Net/deed.HTML) 10. 11.