

IWSR: What's next for tequila?

While the US market will continue to dominate global consumption in the years ahead, IWSR forecasts highlight a bright future for smaller tequila markets, including the UK, Spain and Australia, according to a new report published by IWSR Drinks Market Analysis.

As the tequila category continues to expand, the most rapid growth will be focused on super-premium-and-above price points, and higher-value product segments such as 100% agave tequilas and cristalinos – aged tequilas stripped of their color by charcoal filtration.

According to the new report, IWSR projections indicate that global spirits volumes are set to grow at a CAGR of +2% between 2021 and 2026 but tequila is predicted to exceed this comfortably, expanding at a CAGR of +7% over the same timescale. This growth will be dominated by continued gains in higher price bands.

In 2016, standard tequila products accounted for more than half of global tequila volumes, and almost half of global value – compared to super-premium-and-above's 13% volume and 33% value shares. By 2026, however, super-premium-plus products are forecast by IWSR to take a 55% slice of tequila's global value, and to account for almost 40% of category volumes.

“Over the years, tequila has evolved from being a low-price shot to a more premium option used in cocktails and high-end sipping,” says Brandy Rand, Chief Strategy Officer, IWSR. “The category has grown alongside consumer awareness to offer experimentation across blanco, reposado, añejo and cristalino.”

She adds, “Tequila's connection to Mexican heritage and authenticity provides consumers with a sense of place, while also reflecting the growing Hispanic population in the US. Tequila has an association as an affordable luxury, and many brands are aligned with celebrities, leading to lifestyle-oriented marketing.”

The US market continues to spearhead the growth of the category. Tequila is poised to overtake vodka in terms of dollar value in the country within the next two years and volumes remain heavily focused on North America.

“Tequila's top three markets – the US, Mexico and Canada – accounted for more than 88% of global volumes in 2021,” says Rand. “This indicates that a significant export opportunity exists for the category in markets outside North America.”

In countries such as the UK, Colombia, Australia, Japan and Spain, growth will be driven by a host of positive consumer trends, including celebrity involvement in the category, consumer migration to 100% agave products, rising cocktail consumption and growing interest in Mexican food and drink.

Despite tequila's likely expansion worldwide, the US market is set to consolidate its dominance of category volumes. The market accounts for more than two-thirds of global tequila consumption.

“In the US, household penetration continues to grow, especially among expanding demographic groups,” says Mariana Fletcher, Head of US Insights, IWSR.

“Relatively new product segments, such as cristalino, flavored tequilas, tequila-based RTDs, and innovative distillation and maturation techniques including the use of red wine barrels, offer a rising number of touchpoints with the consumer and fresh growth opportunities for brand owners.”

According to IWSR figures, 100% agave and cristalino tequilas are driving global category expansion. Cristalino achieved the highest volume growth of all tequila product segments between 2016 and 2021, albeit from a lower volume base.

Julka Villa, Group Marketing Director at Campari (owner of tequila brands Espolòn and Cabo Wabo), adds that cristalino is one of the most dynamic and fastest-growing spirits categories, with “massive” potential globally.

She notes, “This is a dynamic offering in the sense that it appeals to both connoisseurs and advanced palates, but it also delivers on a flavor profile that is approachable for the drinker that is new to the category.”

Celebrity associations also aid this democratization of tequila’s higher price points. Since Diageo’s high-profile US\$1bn acquisition of Casamigos (co-founded by actor George Clooney) in 2017, a host of famous faces have invested in the category, fueling consumer awareness through social media, especially during Covid-19 lockdowns.

According to IWSR figures, celebrity tequilas grew at a volume CAGR of +50% between 2016 and 2021, bringing US\$1.9bn in global revenues during 2021 alone. The celebrity factor is not only influential in the US - it also helps to elevate tequila’s image in smaller but potentially lucrative future markets, such as the UK.