

Producers of Mezcal of Guerrero, “El Tecuán”

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by

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Mr. Rios said goodbye to Don Adolfo and began the drive back to Chilpancingo. He liked driving at night on the road... accompanied by the soft music while he reflected on the events from the day. As Manager of “El Tecuán” SRL, a cooperative of Mezcal producers, he was responsible for analyzing the implications of decisions before putting them into action. This time, the decision was not easy. At the beginning, decisions were easier... it had been very simple to present recommendations to the members, who would come to an agreement and go to work! Now the situation was much more complex. Next Saturday was the Annual Assembly and all the members of the cooperative would attend. This would be the first report of the Administrative Council with Don Adolfo as President. It was inevitable that the people would compare the accounts of today with those delivered by Don Fili last year (see Exhibit 1 for a financial summary of the Cooperative).

Mezcal Production

Mezcal is an authentic Mexican distilled spirit that originated from the Aztec Nahuatl word for "cooked pineapple." Mezcal is derived from the Agave plant which has thick, pulpy leaves that end in hard spines that stem from a central trunk (Herzeg, Rund and Lee) (Exhibit 2) . Mezcal is not the same as Tequila, though both are distilled from the Agave plant. Mezcal is distilled from the Espadin variety of the plant, unlike tequila which is distilled from the Agave tequilana weber plant. The Agave plant was a central part of the lives of the Aztec in Mexico with both sacramental and medicinal values. Modern Mezcal production differs only slightly from the original method, due largely to the fact that the Zapotec Indians are still the primary producers (Herzeg, Rund and Lee).

Mezcal and tequila together comprise 2.4% of the global spirits market (Exhibit 3). Tequila originates from the northern state of Jalisco, and Mezcal originates in the South, in and around the state of Oaxaca. Commercial Mezcal can officially be produced in the states of Oaxaca, Guerrero, Durango, San Luis Potosi and Zacatecas. While Tequila can be bottled in another country, Mezcal must be bottled in Mexico.

As opposed to the Jalisco and Oaxaca states, where support from private companies and the government had been received, in Guerrero the production and commercialization of Mezcal had not achieved the recognition that some believed it deserved for its economic, social, cultural, and environmental importance. Even traditional sources of statistical information did not capture the character of the Guerrerense industry of Mezcal. Exhibits 4a – 4d provide a picture of Mexican production of Mezcal and tequila. Hectares planted and harvested are shown for the country, and for Jalisco and Oaxaca states to demonstrate the percent of the total production located in these two states. In Guerrero, it was estimated that in 2003, 4 million maguey plants were planted on 2,000 hectares for a total production of 1.5 million liters of mezcal. Of the total production, 27,000 liters was exported to the United States. Exports to Australia started in 2004 for an estimated value at the end of the year of approximately 300,000 USD, according to Miguel Malpica, officer of the Minister of Economics in the Guerrero State (Notimex June 2004).

Beginning in April 2005, free tariff trade with Japan for certain products will benefit mezcal exports to that country (Reforma Negocios, November 2004). Mezcal producers would have to adjust their production forecasts in case they were able to compete for those new markets.

One problem with the Guerrerense industry of Mezcal production was that adulteration of the product and forgery of bottles, labels and trademarks had gone unpunished for many years, leaving the reputation of Mezcal in general, and that produced from Guerrero in particular, tremendously damaged. For no apparent physical reason, Mezcal was considered inferior to Tequila, and in a similar manner, Mezcal from Guerrero was considered inferior to that from Oaxaca, the leading state on Mezcal production. Official regulations beginning in October 2004 will include certification on bottling, labeling, and distribution, may alleviate the mezcal black market problem.

Another problem mezcal producers believe they face is the high level of taxes they must pay. Mezcal producers have to pay the same level of taxes that tequila producers do, even when mezcal is a not a premium product as opposed to tequila, as stated by Mr. Jacob López director of the *Mexican Council for Quality Regulation of Mezcal* (Mural May 2004).

El Tecuán

The members of the Cooperative of producers of Mezcal El Tecuán were peasants and although the majority were mestizos and spoke Spanish, others only spoke nahuatl. Almost all of the members were over the age of 50 and the majority had difficulty reading large documents or understanding matters that were complicated when it was a matter of writing – but all knew how to take care of their accounts and money very well.

To make a living, the peasant families of the central zone and mountainous state of Guerrero diversified their activities between subsistence agriculture, small scale livestock production, production of handicrafts and selling labor. With each generation, more men and women had to look for work in other parts of the country, and beyond that, in the United States. The “fabriqueros”, as owners of the Mezcal plants were known as, were the small fortunate ones who did not need to emigrate to maintain their families.

The Union of Producers of Mezcal of Guerrero “El Tecuán” SPR de RL was started in 1994 with 102 members from five cities of the central zone of the state. The first Administrative Council elected by the assembly consisted of Don Fili, Don Adolfo, and Don Jesús. This council began the uphill job of planning the future direction of the cooperative, developing cohesion amongst the members, consolidating the organization, obtaining respect and help from the authorities, developing and accrediting their products, and to learning how to do business. In 1995, formal operations began. The members of “El Tecuán” received help from the federal government to replant the Maguey Papalote¹ (*Agave cupreata*) on land in their community as the plant retains water that can nourish streams and flowers and help the regeneration of the base organic material.

After that date, year after year, the members of El Tecuán collected the seeds of the wild magueyes and cultivated the seeds in three nurseries established for that purpose, and then replant them to their natural habitat: mountainous terrain – not suitable for agriculture and in the majority of the cases deforested and eroded lands. The members of “El Tecuán” argued that due to the way they planted the magueyes in a natural (wild) and organic manner without destroying the forest, they were performing a sustainable work, which was completely different from that of the “tequila model” in the State of Jalisco. Tequila producers in Jalisco dispossessed the land of the natural vegetable covering to plant the blue magueyes (*Agave tequilana weber*), replicating the cultivation model for crops such as corn.

¹ Maguey with wide rose leaves, also known in the region by the name Macho o Criollo.

When Don Fili was President of the Cooperative of Tecuán, he complained to Mr. Ríos, then a government officer from the Mexican Rural Development office:

“Surely you have realized. There is not a city nor parrish in the entire state of Guerrero where they don’t consume Mezcal. Even in the most humble house, Mezcal accompanies weddings, baptisms, and birthdays. All enjoy a good Mezcal. But we, the Mezcaleros, are always in trouble. Everybody hounds us – alcohol inspectors, tax collectors, ecology officers... ! When they don’t receive sufficient money, they destroy the fermentation jars, spill the product of our work on the ground, seize the cooking pots, and so on. It is unfair to be treated as delinquents, and you in the Ministry of Agriculture do nothing for us.”

The words of Don Fili cut deeply. Mr. Rios then became a great protector of the Mezcaleros. As a public servant, he helped them as far as his powers permitted.

By 1996, the Union obtained political support and guarantees that the associates of “El Tecuán” could obtain their registration before the sanitary (SSA) and tax (SHCP) authorities. In this manner they achieved the ability “to claim ancient cultural values and to dignify their honest work” –said Mr. Alejandro, former Governor of the state of Guerrero whose support was fundamental for the process. Through the work of many persons and many actions, the pioneers of “El Tecuán” achieved their goal that the producers of Mezcal of Guerrero could work in the public light and enjoy the guarantees offered by the law.

In 1997, the Union took another great leap. Mr. Rios left his employment with the federal government and accepted an invitation to join the producers of Mezcal as the manager. The associates, with diverse support of the state and federal governments, built an assembly of buildings to form the headquarters of “El Tecuán”. Since 1998 the operations of the Union of Producers of Mezcal of Guerrero “El Tecuán” SPR de RL undertook three lines of business:

- Bottling of the Mezcal
- A store
- A restaurant and “Mezcalería”

The bottling of Mezcal constituted the principal business for the Cooperative. The sales and wholesale trade were the most important source of income (Exhibit 5). The store was originally conceived as a retail point of sale of Mezcal for the Cooperative, but little by little some members and other organizations of Guerrero’s artisans were taking their products to be exhibited. All the crafts were received to consignment for sale and no charge was placed on the producers – the members of El Tecuán considered this to be a service for the community.

Despite the fact that the location of the restaurant turned out to be excellent, such that it could welcome travelers coming to Chilpancingo and crossing through to go to Acapulco, it went bankrupt in the hands of the associates. In 2000, it was agreed to hand over the sales to a private individual, for the operation to be successful. The individual would pay the Cooperative a fixed monthly payment and a portion of the sales.

Don Adolfo took over as President in 2002. His background was not very different from the rest of the members of the cooperative. He learned to make Mezcal with his father after turning twelve. As the oldest of his brothers, he inherited his father’s factory and the commitment to preserve his family’s tradition. He was a fifth generation Mezcalero (producer of Mezcal) and was “very proud to be a member of El Tecuán”.

Brands of El Tecuán

In náhuatl Tecuán means Jaguar. For time immemorial, Tecuán has been the main character of the fiestas of all the communities of central Guerrero: Chilpancingo, Tixtla,

Zumpango, Tierra Colorada, etc. With the establishment of the Cooperative, El Tecuán also became the emblem of the cooperative of Mezcaleros. Indeed, the first brand of Mezcal bottled for the Cooperative was named El Tecuán in honor of this tradition.

To conform with the Mexican official norm², Tecuán was a young Mezcal, 100% from the agave plant, originally bottled, with 40° G.L. It possessed an aroma and had the characteristic flavor of good Mezcal, which was consumed as an aperitif or in combination with cocktails. The first boxes with the brand name Tecuán were sold at the end of 1997. Tecuán was sold by specialized merchants and restaurants in the main cities of central Guerrero. This was the main source of income for the company (Exhibit 6).

The second mark registered for the Cooperative has the name of Don Fili, who led the Mezcaleros of Guerrero to break with their ties and proposed the production of a rested Mezcal following the steps of tequila producers from Jalisco and Mezcal producers from Oaxaca. “Don Fili” was produced in limited quantities, under the supervision of Don Fili himself. Sales began in 1999, and the majority of the product was distributed through one distributor in Mexico City, with the remaining small portion distributed to Chicago.

Recognizing the fact that for decades Mezcal had been considered the next best beverage (to tequila), Mr. Ríos proposed to the board of directors of the cooperative the production of a new product early in 2000. The new product was Mezcal mixed with Damiana³. He did not find immediate consensus, but they finally agreed to produce the new product. “Tecuán Damiana” became the third brand name of the cooperative. The new product was a mixture of “young” Mezcal with Damiana. With very attractive properties and bouquet, Mezcal Damiana rapidly became an important source of revenue for the cooperative.

² NOM-070-SCFI-1994 published June 12, 1997, establishes the specifications that should be followed to produce and market Mezcal under the protection of the Federal Executive for the denomination of origin of the Mezcal, according to the resolution published November 28, 1994. In this arrangement, it is established that this alcoholic beverage only can be native of the states of Durango, Guerrero, Oaxaca, San Luis Potosí and Zacatecas. Subsequently the Mexican Institute of the Industrial Property (IMPI) offers the denomination to some municipalities of Guanajuato and Tamaulipas.

³ Damiana (*Turnera difusa aphrodisiaca wild*). This plant grows in a non-domesticated way in the High portion of the Guerrero State. Since ancient it had been used fro health purposes. It had also been recognized to have digestive properties.



Marketing and Sales

To promote sales, the associates of the cooperative helped with distribution of the product in their towns and surrounding areas, especially during fiesta times. Since 1998, Mr. Ríos and members of the Administration Council participated in all the expos they could attend, in the tourist market called “tianguis,” and had meetings with restaurant owners from Acapulco. They also attended the “non traditional product” exposition organized by the Mexican Department of Agriculture (SAGARPA).

The Cooperative was helped by the Mexican Bank of International Trade, Bancomex, through the bank offices and in the Mexican embassies in countries where “El Tecuán” product were distributed. As part of the promotion and public relations, members of “Tecuán” attended food exhibition shows like the Food Marketing Institute show in Chicago, the “Francia SIAL” show, and the International Food & Beverage Exhibition “Foodex” in Tokyo.

In 2002, the Council for the Mezcal of Guerrero, including distillers from Chilpancingo, Zihuatanejo, Chilapa, Teloloapan and Taxco was created. Don Fili, leader of “Tecuán” was unanimously elected President of the Council. One of the first challenges of the newly created council was to find information regarding production and sales in the State, since no official statistics existed. Further, on October 9, 2003 the Mexican Council for the Regulation of Mezcal Quality (COMERCAN) was created by the government and included distillers and bottling members from Guerrero, Oaxaca, San Luis Potosí, Durango, and Zacatecas. The elected president was a Mezcalero from Oaxaca, the State with the largest tradition in the production of Mezcal and the headquarters were also established in Oaxaca. Don Fili was elected a member of the board of directors.

Mezcal Fighting Tequila

2003 and part of 2004 had been difficult times for the tequila industry. Domestic prices of tequila were depressed due to an excess of production (exhibit 4b) and to the increase of alternative lower price rival beverages, such as mezcal (El Economista, March 2005). *Tequila Cazadores*, a leading company in México had already started to redefine its marketing strategy introducing a new low price product, “4 vientos”, to compete with tequilas in a different niche and with other spirit beverages such as mezcal. Another important company, Bacardí, announced a change in its portfolio of product to start depending less on tequila as it had in the past (El Economista, March 2005).

During the first quarter of 2004, sales of mezcal grew by 41%. According to a VP of Tequila Cazadores, this impressive growth could be attributed to low prices and distribution of mezcal in stores like WalMart (Infosel News, May 2004). Tequila companies were responding to protect their industry, which comprised 38.9% market share of the nearly 12 billion peso (approximately 1 billion U.S. dollars) market (Infosel News, May 2004).

The Evening of the Assembly

Mr. Ríos, in preparation for the annual assembly recognized that things were not all good. “Tecuán” had been able to pay dividends but sales were below expectations, the domestic market was depressed, and sales of “Don Fili” were not meeting expectations. Mr. Ríos wondered how should he explain the situation, and what to propose to increase sales. He also wondered if consumer acceptance of the product as shown by sales was the real problem of the company, or if other issues were the cause of the lower than expected sales volumes.

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Exhibit 1b –Net Income “El Tecuán”. Common-Size and Trends (base year 1999)

	1997	1998	1999	2000	2001	2002
Sales Revenue	100%	100%	100%	100%	100%	100%
Cost of Goods Sold Expense	168%	64%	23%	47%	55%	56%
Gross Margin	-68%	36%	77%	53%	45%	44%
SG&A	800%	126%	42%	37%	43%	38%
Operating Income	-868%	-91%	35%	16%	2%	5%
Income Tax Expense	0%	0%	13%	6%	1%	2%
Net Income	-868%	-91%	22%	10%	1%	3%

	1999	2000	2001	2002
Sales Revenue	100%	154%	113%	131%
Cost of Goods Sold Expense	100%	316%	273%	325%
Gross Margin	100%	106%	65%	74%
SG&A	100%	135%	114%	119%
Operating Income	100%	72%	6%	20%
Income Tax Expense	100%	72%	6%	20%
Net Income	100%	72%	6%	20%

Exhibit 2. Mezcal Production



In the time of the dry season, the manufacturers select the field where the magueys have reached maturity, known as “capones” or “velillas”.



The “heads” are arranged on an open courtyard on a pile of heated stones. They are then buried and roasted for four to five days. When they have been chilled, they are crumbled with mallets or mechanical mills.



The “broth” is distilled in traditional copper pot stills called allambiques ; the resulting Mezcal is 35 percent alcohol. After distilling the Mezcal it is embellished for quality, the Mezcal is refined such that it obtains a level of 65 or 75 percent alcohol content.



If completed within the parameters of quality, it was passed onto the process of homogenization – according to the standards of its marks – and then bottled.



The “heads” (or “piñas” in Jalisco) are moved to the Mezcal factory.



The pulp is introduced in tubs of oak wood where it ferments with natural yeasts for ten to twelve days. Once it has reached the appropriate point of alcohol content, the fermented juice is strained into “broth”.



The members of “El Tecuán” carried their product to a quality control plant located in Chilpancingo.



Exhibit 2: Global Spirits Market Segmentation: % Share, by Value, 2003

Products	% Share
Whisky	23.5%
Specialty Spirits	23.0%
Vodka	17.1%
Liqueurs	10.5%
Brandy	9.2%
Rum	8.3%
Gin and genever	6.1%
Tequila and Mezcal	2.4%
Total	100%

Source: Datamonitor. ISIS Securities Emerging Markets

Exhibit 4a – Agave for Mezcal- Aggregated Data Total Country Mexico

	20001	2002	2003
Planted Area (has)	10,464	13,438	7,261
Harvested Area (has)	3,661	3,961	4,720
Volume (ton)	225,860	249,710	302,060
Average price (Mex Pesos/Ton)	3,153	3,272	3,164

Source: Adapted by authors of the case from SIAP / SAGARPA, Mexican Department of Agriculture

Exhibit 4b – Agave for Tequila- Aggregated Data Total Country Mexico

	20001	2002	2003
Planted Area (has)	79,602	91,267	101,687
Harvested Area (has)	3,332	2,310	3,943
Volume (ton)	351,221	235,218	435,779
Average price (Mex Pesos/Ton)	10,801	11,547	7,468

Source: Adapted by authors of the case from SIAP / SAGARPA, Mexican Department of Agriculture

Exhibit 4c – Agave for Mezcal- Planted and Harvested Areas by Region and for the Oaxaca State

	20001	2002	2003
Planted Area (has)			
Mid-West	1,364	228	461
Southeast	9,100	13,210	6,800
Ttl Country	10,464	13,438	7,261
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Oaxaca State	9,100	13,210	6,800
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Harvested Area (has)			
Mid-West	61	61	20
Southeast	3,600	3900	4700
Ttl Country	3,661	3,961	4,720
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Oaxaca State	3,600	3900	4700

Source: Adapted by authors of the case from SIAP / SAGARPA, Mexican Department of Agriculture

Exhibit 4d – Agave for Tequila - Planted and Harvested Areas by Region and for the Jalisco State

	20001	2002	2003
Planted Area (has)			
Mid-West	79,602	90,572	100,993
Center		695	694
Ttl Country	79,602	91,267	101,687
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Jalisco State	72,549	78,895	84,261
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Harvested Area (has)			
Mid-West	3,332	2297	3930
Center		13	13
Ttl Country	3,332	2,310	3,943
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Jalisco State	2,998	2082	3815

Source: Adapted by authors of the case from SIAP / SAGARPA, Mexican Department of Agriculture

