

The rise of Texas' first micro distillery: A case study of Tito's Handmade Vodka

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ABSTRACT

This descriptive case study examines Austin, Texas-based Fifth Generation, Inc., producers of Tito's Handmade Vodka. Tito's is uniquely differentiated from the crowded vodka market as a world-renowned premium brand and has experienced phenomenal success in recent years, growing from \$150M in revenue in 2015 to \$300M in 2020. The founder of Fifth Generation, Bert "Tito" Beveridge, began his journey in distilled spirits by producing flavored vodkas but formed his company to make non-flavored vodka solely. The company has stayed true to its origins by exclusively creating a non-flavored product, Tito's. In today's distilled spirits industry, flavored vodkas of all varieties comprise 22% of all vodkas sold in the U.S. After evaluating the internal characteristics and external landscape of Fifth Generation, this case study suggests the inclusion of flavorful additives may increase market share for Tito's brand based on the increase in popularity of flavored vodkas, the trend of adopting a gluten-free lifestyle, and the reputation of Tito's as a premium product. This case also provides best-practices observed at Fifth Generation that may prove beneficial to organizational leaders in other industries.

Keywords: vodka, Tito's, micro distillery, flavored vodka

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INTRODUCTION

Vodka is a clear distilled alcoholic beverage composed primarily of water and ethanol originating in Poland, Sweden, and Russia. Vodka is frequently used in a variety of popular adult beverages, including cosmopolitans, Russians, screwdrivers, Moscow mules, and of course in a Bloody Mary or simply with tonic water. This descriptive case study examines Tito's Handmade Vodka, the primary product of locally owned Fifth Generation, Inc., which does business as Mockingbird Distillery and is based in Austin, Texas (Tito's Story, n.d). Flavored vodkas account for 22% of all vodkas sold in the U.S., generating \$1.28B in annual revenue (Distilled Spirits Council, 2014, 2016). Fifth Generation does not compete in this subcategory as they only sell one unflavored product, Tito's (Distilled Spirits Council, 2016). The Fifth Generation founder began with flavored vodkas, this case argues his company should consider flavorful additives to expand the Tito's brand, provided there is no dilution of the original product.

INDUSTRY

According to a 2014 report by the Distilled Spirits Council (2014), the distilled spirits industry directly accounted for or influenced 1.5M jobs, over \$36B in wages, \$150B in economic activity, and over \$20B in state and local tax revenue. The Distilled Spirits Council (2014) goes on to state the specific impact of vodka within the distilled spirits market, "vodka has become the backbone of the spirits industry, accounting for 32% of all volumes [sold]". In 2016, 69.8M 9-liter cases of vodka were sold in the U.S., generating \$5.8B in revenue for distillers (Distilled Spirits Council, 2016). "An important growth driver has been the continued popularity of flavored vodkas as they now account for around 22% of all vodkas sold" (Distilled Spirits Council, 2016). Therefore, per the Distilled Spirits Council's two separate publications, flavored vodka accounted for \$1.28B in revenue for distillers in 2016 alone (Distilled Spirits Council, 2014, 2016). The distinction of flavored vodka as a stimulus for growth by the Distilled Spirits Council is essential to consider within the industry landscape of Fifth Generation.

OVERVIEW OF FIFTH GENERATION

Bert "Tito" Beveridge founded Fifth Generation in Austin, Texas, the city where he still resides (Tito's Vodka, n.d.). He attended Vanderbilt University and the University of Texas at Austin, graduating with degrees in geology and geophysics ("Tito's Story," n.d.). Before embarking on his adventure into spirits, Tito dabbled in the oil and gas industry, as well as the mortgage industry ("Tito's Story," n.d.). The mortgage industry turned insolvent, forcing Tito to turn his hobby of distilling vodka into his livelihood. Beveridge began his adventure in the early 1990s by giving away flavored vodka to friends until he eventually became known as "the vodka guy" ("Tito's Story," n.d.). At this point of recognition, Beveridge acknowledged there might be something to his propensity to create flavored spirits. As Beveridge surveyed the proprietors of numerous liquor stores, he learned flavored vodkas were not selling well because they were too difficult to drink ("Tito's Story," n.d.). When Beveridge learned the cause of the perceived problem, he set out to make an easy-to-consume vodka. He built a still based on pictures of old moonshiners and made batches mostly by trial-and-error, initially using his friends for taste-testing. Against the convention of states that grant permits, down on his luck and his last dime, Beveridge took all his savings and maxed out his credit cards as a final effort to birth his

distillery, which would become Fifth Generation, maker of Tito's ("Tito's Story," n.d.). Parent company Fifth Generation does business as Mockingbird Distillery, a name adopted by Beveridge for the land where the distillery stands ("Mockingbird Distillery," n.d.). Beveridge chose the name for the site because it is the Texas state bird and a flock of Mockingbirds took flight when he first surveyed the land, which he took as a good omen ("Mockingbird Distillery," n.d.). Mockingbird Distillery is the largest and oldest micro distillery in Texas, because Beveridge was the first to exploit loopholes in Texas' beverage laws (Richter, 2018).

THE DRINK

Tito's "is produced in Texas' oldest legal distillery and made in batches using old-fashioned pot-stills" ("Our Vodka," n.d.). Tito's is distilled six times in pot stills, which are much less efficient and less pure than more contemporary column stills typically used to distill vodka (Wondrich, 2010). At least up to the article written by Cirillo (2013), the stills themselves are handmade by Fifth Generation. The primary ingredient in Tito's is naturally gluten-free corn ("Our Vodka," n.d.). This fact is significant due to the trend of many embracing a gluten-free diet. According to Niland and Cash (2018), as published by the U.S. National Library of Medicine and National Institutes of Health, gluten-free foods' overall consumption has increased dramatically over the last 30 years. Further, Niland and Cash (2018) state that retail sales of gluten-free foods doubled from \$7.75B in 2011 to \$15.5B in 2016. Because Tito's is derived from corn, it is in a prime position to ride the gluten-free wave to popularity and increased profits. Tito's largest competitor, Smirnoff, is also made from corn and, therefore, gluten-free (Smirnoff, n.d.). Two additional competitors, Absolut, and Skyy, are derived from wheat and American grains, respectively; therefore, neither brand is gluten-free (Hines, 2018). The catalyst to fame for Tito's was winning Double Gold at the 2001 San Francisco World Spirits Competition, beating out brand giants such as Belvedere, Stolichnaya, Smirnoff, Chopin, Ketel One, and Skyy (San Francisco World Spirits Competition, 2001). The San Francisco World Spirits Competition is one of the world's most prestigious spirits competitions, noted for the caliber and qualifications of its 56 judges (Micallef, 2021). The competition is the second oldest globally and the largest and oldest in the U.S. (Micallef, 2021). Winning an award in this competition, let alone the Double Gold, which means all judges give a rank of gold, is the "surest route to obtaining broad national, and often, international distribution" (Micallef, 2021). Wine Enthusiast (2008) ranked Tito's above Ketel One, Absolut, Grey Goose, and Belvedere in 2008. Market Watch (2016) bestowed the "2016 Market Watch Spirits Brand of The Year" to Tito's and described how Tito's experienced rapid growth in defiance of the recent trend of younger drinkers gravitating toward whiskies and craft beer. The robust expansion of the Tito's brand catapulted from 1,000 cases in its infancy in 1997 to 150,000 cases in 2016 (Market Watch, 2016). Despite the proven quality of the multi-awarded product and its continued success, Tito's Handmade can be purchased for \$18 per liter, as opposed to \$24 for Absolut, as of 2005 (McLemore, 2005).

ORGANIZATIONAL CULTURE

Fifth Generation is committed to philanthropic efforts, with an affinity for canines at its core. An essential part of the culture surrounding Tito's, both employees and customers, is the support of rescue dogs. The mantra is so engrained from Fifth Generation's origins, one slogan

on their product is “Vodka for Dog People” (“Vodka for Dog People,” n.d.). One way Fifth Generation acts on this slogan by donating net proceeds of its merchandise sales to Emancipet, a “nonprofit organization on a mission to make high-quality spay/neuter and veterinary care affordable and accessible to all pet owners” (Emancipet, n.d.). Fifth Generation was honored with the inaugural DOG Award by Dogs@Work for being “at the forefront of integrating canines into their human culture with positive results” (Dogs at Work, 2018). As part of the Vodka for Dog People Program at Fifth Generation, and in partnership with Element Productions, the team created a documentary series, *Coming Home: Stories of Canine Transport* (Shorty Awards, 2018). This documentary followed three separate philanthropic organizations that relocate dogs to new homes all over the U.S. (Shorty Awards, 2018). The primary goal of the documentary was to raise \$20,000 for the nonprofits to fund operations and boost awareness via online presence (Shorty Awards, 2018). The effort was wildly successful and more than tripled the goal in a matter of a weekend, with other organizations pledging additional support in the future (Shorty Awards, 2018). Despite Fifth Generation being adamant about downplaying the commercialization of the effort as a pure ad campaign for Tito’s and instead focusing on the animals, the brand received a 97% positive brand sentiment and received 20 million online impressions (Shorty Awards, 2018). Due to the increase of Fifth Generation’s revenue, the company has expanded its philanthropic endeavors to donate 100% of its online store sales to a charity of the customer’s choice (Between Drinks, 2017). Tito’s website elaborates, “Love has always been at the heart of this company...When Tito decided to make a go of it in the spirits business, he started supporting charity events around Austin one bottle at a time” (“Love,” n.d.). Employees are encouraged to find a cause to be passionate about and to pursue it with Fifth Generation’s support (“Love,” n.d.). The company has a small marketing budget primarily using grassroots marketing, product sampling, which Beveridge is a staunch supporter of, and its loyal fanbase for support of the Tito’s Handmade brand (Cirillo, 2013). The company sponsors and participates in music festivals, such as South by Southwest Conferences & Festivals, and specific fundraisers to support those in need, such as those who suffered from the damage left by Hurricane Sandy (Cirillo, 2013). Fifth Generation’s service to the community is a testament to the organization’s desire to be an exceptional neighbor and builds the grassroots fanbase to support Tito’s. Beveridge himself believes Tito’s Handmade is a “word-of-mouth type brand...a cult-like brand” (Cirillo, 2013). The Tito’s brand has added a strong social media presence to add to its grassroots, word-of-mouth advertising in recent years (Slaughter, 2017).

DISCUSSION

Despite the mainstream trend to add flavor to vodka in recent years, Fifth Generation has remained faithful to its roots. Market Watch (2016) notes that Tito’s has stuck with its single unflavored, corn-based product with no plans for product expansion. This includes the bottle and simple brown-paper label, unchanged since its inception, reinforcing the brand’s craft origins and messaging (Market Watch, 2016). According to Nicole Portwood, VP of Brand Marketing for Tito’s, the mindset has not changed despite the astronomical growth of Tito’s (Slaughter, 2017). Porter elaborates, “We still make our vodka using pot stills...taste-test every batch...no flavors or line extensions. We do one thing and we do it well” (Slaughter, 2017). Fifth Generation likely will continue to influence its strong millennial following and craft messaging through festival sponsorships for its nonprofit partners (Market Watch, 2016). As Millennials’ age and incomes increase, Fifth Generation will have a stable customer base by appealing to this specific

demographic. Alternatively, if Fifth Generation decides to penetrate the flavored vodka segment, Jarvinen et al. (2014) suggest marketing to affluent women who prefer drinking alcohol without the alcohol taste. Based on the popularity of flavored vodka, a flavored additive would be a meaningful contingency if their traditional one-product approach proves ineffective.

COMPETITION

Per Shanken News Daily (2017), “In 2016 ... double-digit gains of note came from Fifth Generation Inc.’s Tito’s, now the U.S. market’s third-largest domestic vodka brand (it ranked 15th just five years ago)”. Despite the astounding growth of Tito’s Handmade in recent years, the distillery faces limited options in the spirits industry, as traditional, non-flavored vodka is the only product the company offers. This fact renders Fifth Generation helpless to compete in the aforementioned 22% market share flavored vodkas own (Distilled Spirits Council, 2016). As of this writing, Absolut and Smirnoff offer 29 and 26 different varieties of flavored vodkas, respectively (Absolut, n.d.; Smirnoff, n.d.). As shown in Figure 1 (see Appendix), Tito’s Handmade grossed \$61M in 2015 compared to \$316M and \$131M by Smirnoff and Absolut, respectively (Statista, 2016). Smirnoff and Absolut comprised 34% and 14%, respectively, of total U.S. vodka sales in 2015, while Tito’s Handmade accounted for six percent (Statista, 2016). Recent growth is evidenced in Tito’s CAGR metric of 12.62% for the three years ending in 2020 at \$300MM in revenues (PrivCo, 2021). As shown in Figure 2 (see Appendix), an additional growth indicator is the near-equal 2019 volume sales of Tito’s and Smirnoff, Tito’s main competitor (Statista, 2019).

CONCLUSION

The purpose of this case is to look at Fifth Generation and its flagship product, Tito’s Handmade. There is an opportunity in the market for Fifth Generation to add a flavored addition to its current product line, based on the research of this study. Fifth Generation holds the Tito’s brand sacred as a premium product from the time it won Double Gold in the San Francisco World Spirits competition in 2001. The sanctity of the Tito’s brand is evidenced by Fifth Generation staying with the original, simple label and creating in-house, proprietary stills up to 2013. According to Beveridge, the brand has a loyal, cult-like fanbase who admire the company and will continue to be supportive. Lastly, Fifth Generation is committed to offering Tito’s Handmade at a fair price, sometimes at 25% less than the competition. Per Beveridge, “We try to make a filet mignon and sell it at a pot roast price” (Harfmann, 2015).

Fifth Generation’s strategy to go from humble beginnings to a global brand is to be true to its origins by producing a premium product, giving back to the community, building its fanbase, and charging a reasonable price for its product. According to Beveridge, “It’s not a matter of catching the big corporations” (McLemore, 2005). Fifth Generation will stay true to its roots, nail the basics to support the brand, and continue to establish the legacy of Tito’s Handmade Vodka.

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APPENDIX

Figure 1 - Sales of the leading vodka brands in the United States in 2015 (in millions of dollars)



Figure 2 - Leading brands of vodka in the United States in 2019, based on volume sales (in 1,000 9 liter cases)

