

The hispanic market in the united states essay sample

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Pan Boricua: Developing a Market Strategy For

The Hispanic Market in the United States

Pan Boricua Inc. was formed back in 2001 when Auriel Rivera and Franco came up with a plan to export Puerto Rican bread to the United States. Their major product was pan sobao which is bread that is known for its unique flavor and texture; and it's made in Puerto Rico. An opportunity was identified when several Puerto Rican residents would take several pounds of pan sabao from local bakeries to the United States. The program included the export of frozen bread dough along with branded bread-loaf paper cover and merchandising at the point of sale. The initiative was aimed at cities in the United States with large Puerto Rican and Hispanic populations.

The partners established their first commercial link with a resident in the city of Orlando at the end of 2002. However, they did not have much luck with these business relationships, until 2006 when the company acquired exclusive rights to export frozen pan sabao to any destination in the United States. These rights were obtained from “ Panificadora (Bakery) Los Cidrines” which was one of the leaders in the production of bread in Puerto Rico. (See Exhibit (a) in the Appendix section for logistics summary). The partners got into various agreements with retailers who agreed to stock their bread; and managed to expand their horizons.

SCOPE OF THE REPORT:

The main objective of this report is to put into view a new plan for expansion that will examine current market indicators within the market for specialty

bread in the United States and match them to current business strengths. Ultimately, diverse strategic market entry vehicles will be analyzed and one will appropriately be recommended to maximize market potential and corporate profits. Questions that we seek to answer within the scope of this report include: Should the partners expand where they are already doing well? Should they stay in markets where they are weak?

Should they distribute to new states and cities in the United States?

STRENGTHS:

Unique product that serves a niche market - unique flavor and texture

Product is already well known amongst the Puerto Rican community

Exclusive rights to export pan sabao to any destination in the United States from a market leader - "Panificadora Los Cidrines" Partners have a good education in the field of Business

OPPORTUNITIES:

Consumer tastes shifting towards specialty breads and are willing to pay higher prices General characteristics of Hispanics such as they spend more on food than non-Hispanics; supermarkets are the places of food purchase most visited; traditional food is considered important etc Steady growth of the Hispanic population in the United States that is associated to constant immigration and high birth rates. Further strengthen business relationships with the existing distributors. Incomes are expected to rise which would consequently increase purchasing power

THREATS:

Competition within the bread market in the United States is stiff as more competitors enter the market to explore opportunities in niches such as gourmet food markets and specialty breads. Puerto Ricans account for only 9% of the total Hispanic population. Worldwide rise in the prices of fuel and key ingredients which in turn put pressure on the company's profit margins. Could also potentially drive them out of business

PORTER'S FIVE FORCES

See Exhibit (b) in the Appendix section

RIVALRY AMONGST EXISTING FIRMS –

The baked goods industry in the United States is one that is highly competitive; especially once big stores such as Wal-Mart entered. It is however important to note that “artisanal” baked goods hold 49% market share¹. The market for bread was highly competitive with a number of barriers which stirred competitors away from traditional bread offering and explore the opportunities in niches such as gourmet and specialty breads. A variety of bakery products of Hispanic origin were also available in the United States. This meant that numerous bakeries had surfaced.

When it comes to pan sobao however, Pan Boricua faced only one rival, Mi Pan Asociados. The rival had set up a system of “mini bakeries” that allowed supermarkets, gas stations and other retail establishments to sell fresh bread. In the United States, they also faced other competitors, such as the majority of U. S. retailers who had aisles dedicated to ethnic foods in their

stores. In fact, some such as Wal-Mart and Kroger have also incorporated bakeries within the stores.

THREAT OF NEW ENTRANTS

The bread market in the late 2000s was a low-margin, highly competitive market with a number of barriers that acted as constraints for new competitors to enter. This encouraged many competitors to leave the traditional bread market and look for opportunities in the niche markets such as gourmet and specialty breads. There are various factors that increase the threat of new entrants to the ethnic bread market. Firstly is the projected increase in the Hispanic population in the United States by 2025 which means demand will be generated and thus room for companies to satisfy that demand. Second of all is the fact that consumers are willing to pay higher prices for specialty bread which means that it will be more profitable. These two factors will encourage more competitors to enter this market; hence the threat of new entrants is relatively high.

THREAT OF SUBSTITUTES

Currently, there are not many close substitutes for the Puerto Rican pan sobao in the United States market. In fact, Mi Pan Asociados is the only other company that sells pan sobao in the United States. That does not mean that consumers will not select one over the other. However it is also important to not that there exist other choices when it comes to specialty bread. This includes specialty breads from other cultures from Mexican Tortillas to Cuban bread. All in all, the threat of substitutes for pan sobao is relatively low as there is only one direct competitor. However, this threat from Mi Pan

Asociados's pan sobao will keep the prices for Pan Boricua's pan sobao down.

BARGAINING POWER OF BUYERS

The typical buyer of pan sobao is usually of Puerto Rican origin. There are an estimated 4.1 million Puerto Ricans in the United States as of 2007. Buyers are relatively weak in the case of pan sobao there are few buyers since it is a niche market. There are few options for the buyer when it comes to pan sobao. Producers have the power to threaten forward integration i. e. Mi Pan Asociados could decide to take over own distribution and/or retailing.

However, if we look at the bread industry in general, we see that the case is now different. There are various substitutes and very many buyers; hence buyers have more relative bargaining power as they can threaten to shift to substitute products.

BARGAINING POWER OF SUPPLIERS

The main ingredients that go into producing bread include wheat, corn flour, fats, eggs and cocoa. However, there are very many buyers of these ingredients in the United States and the very fact that the same ingredients are purchased by various other industries. Suppliers in this industry therefore have relatively low bargaining power. Firstly, this is because there are many suppliers as most ingredients are standardized products that can be used in several industries. Secondly, there is a possible threat of backward integration by purchasers i. e. Pan Boricua or Mi Pan Asociados could potentially buy out wheat and/or cocoa plantations.

PROBLEM STATEMENT

Pan Boricua is currently facing increased competition at the wholesale and retail levels; pressure on profit margins due to increased costs of fuel and key ingredients. The company has had the misfortune of entering unreliable business relationships and executing ventures without much planning. The company has to overcome the above-mentioned issues and look for ways to expand their current business. The issue here lies within how the company should expand. Other distribution points should not be ignored as this would allow other competitors to enter the market before Pan Boricua enters; as well as dominate the market. The questions that arise here include whether they should they expand within the existing markets or whether to expand to other regions. These alternatives need to be analyzed in depth before any decision can be made.

ALTERNATIVES

Alternative 1: Expansion within Existing Markets

Pan Boricua can expand within the existing markets of Orlando, Tampa, Kissimmee and Daytona. This will require looking for more prospective retailers, supermarkets and distributors that will buy the idea. This could also be done by providing higher monetary incentives to distributors and retailers by offering higher margins. This may attract more distributors/retailers/supermarkets to form business relationships. Another approach could be to diversify into other ethnic breads such as Cuban bread

and Mexican Tortillas etc. This will allow the company to expand within the regions by simply expanding their market share.

Advantages:

Already established in the market and therefore there is brand awareness
Knowledge of the markets - know the `ins-and-outs` of the market
Good relationships with key suppliers and/or buyers
High population of Puerto Rican within the regions
Increased revenues

Disadvantages:

The markets may already be saturated providing very little room for growth
The company is losing out on potential revenues that could have been made if they expanded into other regions

Alternative 2: Expand into other regions

New York is a very lucrative market that has high potential for Pan Boricua. The Puerto Rican population is 30.43% of the 21.07% of Hispanic population in New York; with the total population of the state being 18,785,319. With the rise in emigration rates and birth rates, the Puerto Rican population is more than likely to increase hence generating more demand for pan sobao. Again, offering monetary incentives such as higher margins to distributors/retailers/supermarkets may encourage them to form business relationships. Pan Boricua should also exit markets that they are not performing well in. The company already has a contact that wishes to expand into the New York City area, a businessman from Massachusetts;

already having sales expanded to Connecticut. The idea is to reach these territories before other competitors have a chance to establish themselves.

Advantages:

More growth potential by entering new markets

High Puerto Rican population

Increased revenues

Company has contact that wishes to expand sale to NY

Disadvantages:

Significant cost & investment of management time

Need to understand and comply with local legal and tax issues Higher risk as

Franco and Rivera have limited market knowledge

RECOMMENDATION & ACTION PLAN

After having evaluated the two alternative approaches to expansion. Franco and Rivera should go with alternative 2 i. e. expand into the New York region. This will allow them access to new markets and increase revenues to begin with. The region boasts a high Puerto Rican population which means that the number of potential buyers now increases which means the company could gain significant market share provided they enter early enough before other competitors get a chance to establish themselves in the market. This will however involve some costs upfront as well as management time. However, the benefits from the move far outweigh the costs involved.

The first step is to contact the businessman that was interested in expanding to the New York City area. Franco and Rivera will have to arrange a meeting and negotiate terms and have the contact do the work of an agent i. e. he will act as our representative. The businessman will be remunerated based on the business generated and will work for a commission. This contact will now introduce us to various retailers and distributors in the New York Region with whom Franco and Rivera will meet upon being introduced. Franco and Rivera should offer higher margins to penetrate into the market (margins higher than others).