

Market Potential for Pintado™ Chile Relleno's in the Southwestern United States

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Background

Chile Rellenos are considered a delicacy in the southwest region of the U.S. New Mexico style rellenos are long green chile peppers stuffed with a variety of cheeses and breaded with an egg white or flour batter and fried in oil or baked. Mexican and Texas style rellenos are made using a mild, bell-pepper flavored poblano pepper and filled with meat and cheese. Even though both products are called rellenos, they have distinctly different tastes with the New Mexican style being more spicy.

Chile Industry

Fabian Garcia, a plant breeder at New Mexico State University, developed the long green chile nearly a century ago allowing New Mexico to become the foundation for the United States commercial chile industry. New Mexico now produces and processes 2/3 of the chile that is consumed in the United States. There are several different chile varieties that are used in making a chile relleno. The most common are the 6-4 and the Big Jim. The 6-4 is a mild flavored chile and the Big Jim is a longer, thicker walled chile with medium heat. Early in the growing season, New Mexico chile pods are firm and green. As the growing season progresses, they mature into sweeter red fruits that still retain the spicy chile flavor. As the chiles' mature they go through a stage exhibiting red and green colors.



Niche Market

Chile Rellenos are typically made using New Mexico chile pods that are firm and green. The reason being it has been difficult to peel the ripe red chile pods. Today there is a new process that fire roasts the red chile pods and removes the skins with a cold-water power wash. This innovative process allows the use of partially red or completely red chiles for rellenos. Important advantages of the mature chile are its better favor and increased sweetness compared to the immature green chile, thus providing a niche market for this premium product.

Market Outlets

Primary market focus for the premium relleno is expected to be full service restaurants specializing in Mexican and New Mexican cuisines. Also, many full-service restaurants featuring predominately American menus are likely to carry the product to diversify their menus. A high quality relleno may also be of interest to some fast food and institutional restaurants and as a frozen food item in supermarkets.

Marketing Region Selected

The geographic region that is recommended is the Southwestern United States. The majority of restaurant customers in this region are familiar with chile rellenos. The logical first year rollout would be to restaurants in Arizona, New Mexico, Colorado and Oklahoma. The second year rollout will be in Nevada, Texas and Utah expanding to California by the third year. This market area matches well with production capacity and favorable demographics.

Market Size

There are approximately 6,600 full service restaurants that feature Mexican/New Mexican cuisines in the Southwestern Region. In addition, there are approximately 47,000 full-service restaurants and 75,000 limited-service or fast-food establishments in the target market region. More than half of these restaurants feature American cuisine and some Mexican-style items.

Expected sales per restaurant vary by type of restaurant (Mexican/American). Industry sources estimate sales of 150 rellenos per week is a reasonable average for Mexican menu restaurants. Restaurants with American menus estimate they can sell 75 rellenos per week on average.

Production Capacity

A local farming company with a small chile processing facility indicated interest in this niche market during the initial stage of this study. The company grows sufficient acreage of the types of chile needed. This company was used as the basis for estimating growing and processing costs. The company can produce approximately 80,000 rellenos in the first year, increasing by 50% in year two and another 50% in year three. In order to achieve this goal, scheduling of chile acreage, training employees and maintaining quality control is critical. Harvesting several times per week is required in order to select chiles of the ideal color and size.

Industry Trends

Relevant trends in the United States restaurant industry:

- A rapidly growing Hispanic population likely to be familiar with chile rellenos.
- An increase in the percentage of Mexican-American owned businesses that serve Mexican Food.
- Increasing young ethnic population that prefers spicy foods like chile.
- Full service restaurants looking for new menu opportunities to stimulate stagnant sales.
- An increase in the percentage of consumers buying/eating meals outside the home.

Direct Competitors

There are approximately six regional competitors that sell a New Mexico-style chile relleno. None of these companies offer a premium chile relleno and all use the green chile pods.

Bueno Foods-New Mexico Company that offers a variety of products including a relleno that comes in different batters with different types of cheese. They are noted for marketing price-competitive products.

Ruiz Foods, Inc- California Company that offers all products in bulk, but proportioned for convenience. They use lower priced, non-uniform chile. They cater to high-volume, low-cost fast-food markets.

Matador Processors- Oklahoma company that uses a bread crumb batter relleno. It's a small regional company that markets very few products. They use New Mexico produced green chile.

Foods of NM-Offers products with New Mexican grown green chile. It is a small company with little volume and limited distribution area.

Santa Fe Brand, Inc and Albuquerque Tortilla Company- These companies produce a green chile relleno marketed only in north central New Mexico. These companies do not pose a threat at this time.

Competitive Analysis

NMSU/NAMA conducted an informal taste panel to determine how competitors products compared to a premium chile relleno made using the mature chiles selected for proper size and wall thickness and high quality breading ingredients. Results showed that none of the competitors rellenos ranked high for taste.

Dislikes the panel expressed were:

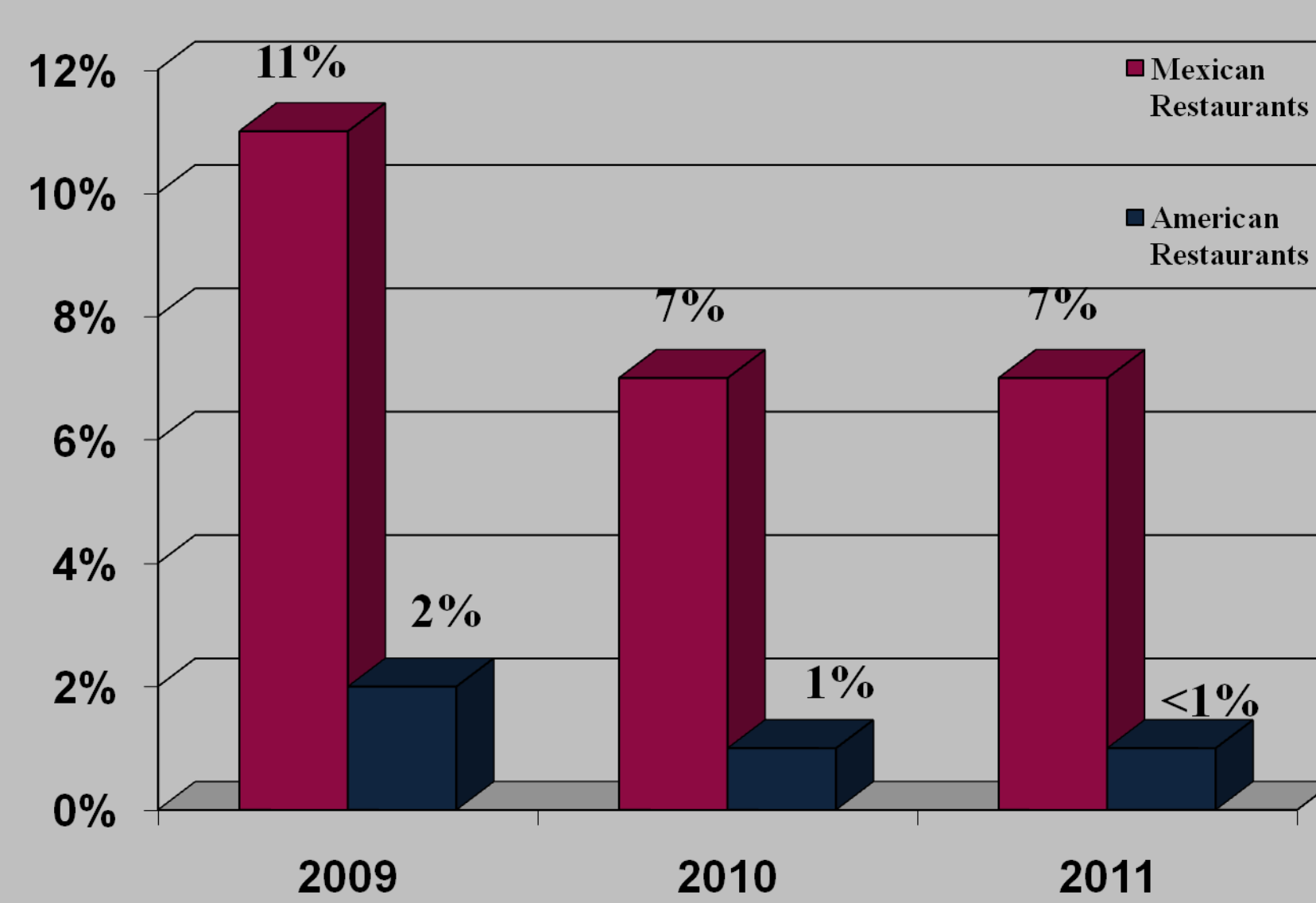
- Bland, processed flavor
- Small, not uniform in size and shape
- Thin-walled
- Inferior quality cheese
- Fell apart easily
- Tasted like "corndogs"

This research indicated that there is a market opportunity to provide a premium relleno.

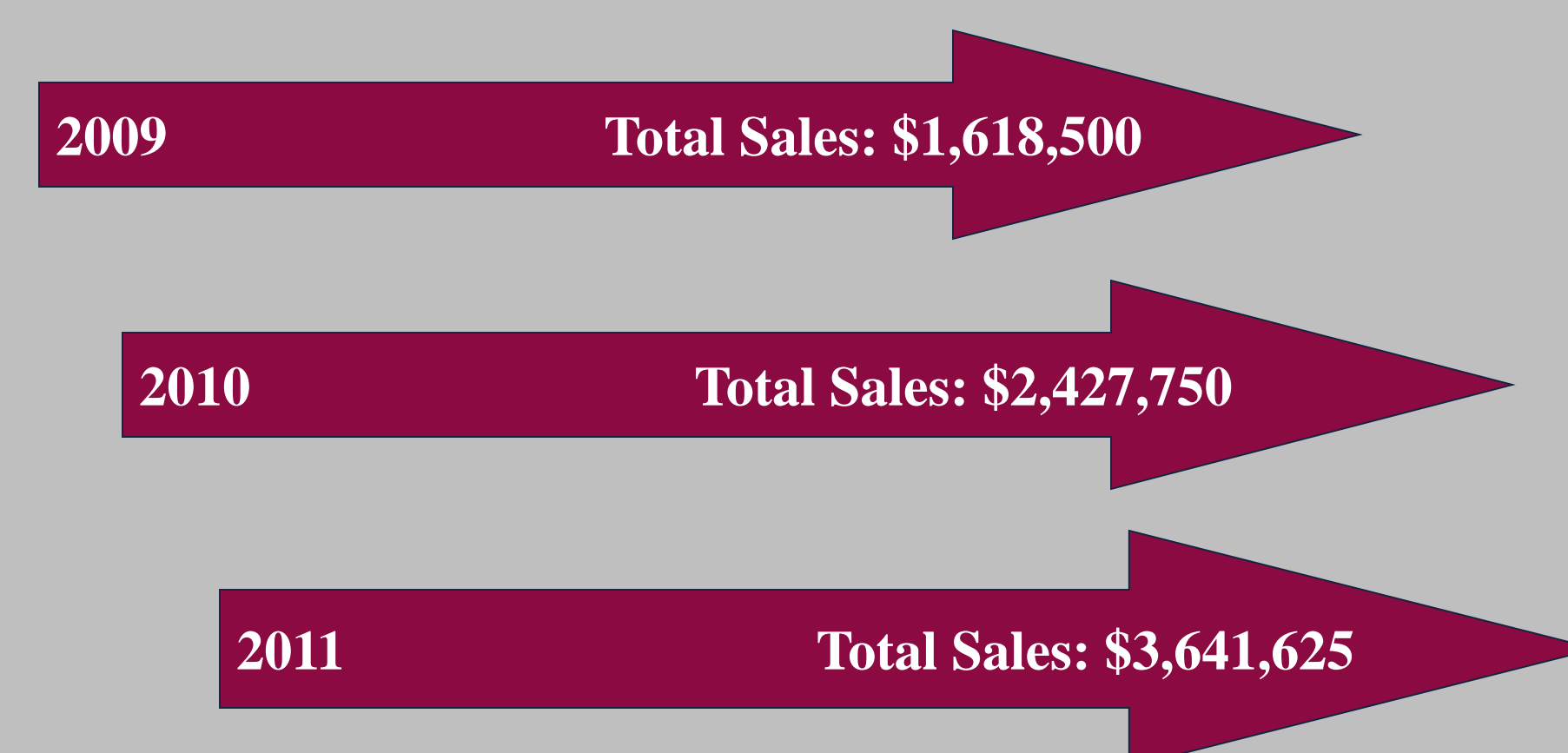
Placement in Restaurants

In order to reach projected sales goals it is critical to begin placement in 200 Mexican and 100 other restaurants in the first year roll out. By the second year achieve placement in 300 Mexican and 150 other restaurants, and by the third year placement in 450 Mexican and 225 other restaurants.

Market Share



Sales Goals



Distribution Strategies

Most food manufactures distribute their products to restaurants throughout national and regional food service distributors such as Sysco Foods, Shamrock Foods, and US Food Services. These companies have indicated they will carry the product if there is sufficient demand.

Financial Analysis

The New Mexico Pintado™ chile relleno is a new product line added to an existing business. Financial success is measured by the ability of the Pintado™ relleno to contribute to the bottom line of the company.

Sales	2009	2010	2011
Revenue			
Pintado Chile	\$1,618,648	\$2,429,149	\$3,642,351
Gross Sales	\$1,618,648	\$2,429,149	\$3,642,351
Discounts & Returns	\$16,186	\$24,291	\$36,424
Net Sales	\$1,602,461	\$2,404,858	\$3,605,927

Cost of Goods Manufactured and Gross Margin

	2009	2010	2011
Ingredients	\$638,381	\$957,572	\$1,436,358
Processing Cost	\$173,850	\$248,275	\$364,913
Packaging & Shipping	\$370,760	\$556,140	\$834,210
Total COGM	\$1,182,991	\$1,761,987	\$2,635,480
Gross Margin	\$419,470	\$642,871	\$970,447
Gross Margin %	26%	27%	27%

Expenses

Expenses	2009	2010	2011
Brokerage Fees	\$82,809	\$123,339	\$184,484
Merchandizing Allowance	\$50,869	\$75,765	\$113,326
Sample Cost	\$29,575	\$30,835	\$39,532
Advertising Promotions	\$37,264	\$55,503	\$69,840
Trade Shows & Direct Mail	\$38,447	\$44,050	\$52,710
Marketing Manager	\$60,000	\$63,000	\$66,000
Travel, Contingency & Misc.	\$29,250	\$40,950	\$57,038
Total Expenses	\$328,214	\$433,442	\$582,929
Net Profit Contributions	\$91,256	\$209,429	\$387,518
Contribution % of Sales	5.7%	8.7%	10.7%

Business Strategies

Based on the analysis and industry trends, there is a market opportunity for a New Mexican premium chile relleno in full service restaurants. The following advertising and promotional strategies should enable the new product to be successful.

Product Positioning

The relleno should be branded as a premium entrée because of the quality of the ingredients used. Branding the product will make the product distinctly different from competitors.

Branding

The Pintado™ name was selected and trademarked. This name differentiates the product from other chile rellenos in the market. The Pintado Chile Relleno will be established as a premium brand, with the Pintado chile pepper logo, "Mr. Pintado™" appearing on all packaging, brochures, and advertisements.



Price

Distributors prices of competitor's relleno products range from \$0.84 to \$1.11 per relleno. Due to the premium quality for the Pintado™ relleno it will need to be sold at a price of \$1.20 per relleno to the restaurant. The relleno will be sold to the food distributors at \$0.83.

Selling Strategies

- Direct sales calls on restaurant buyers demonstrating the high quality and unique flavor.
- Retain a food broker to assist in creating the market and contacts with restaurants and chefs.

Promotion

- **Food Brokers:** Retain the services of a food broker to promote the NM Pintado Chile Relleno.
- **Food and Trade Shows:** Participate in national and regional food shows.
- **Brochures:** These should contain information, including recipes, and preparation tips for distribution at food shows.
- **Menu Inserts:** Colorful menu inserts should be provided to the restaurants.
- **Catalogs:** The relleno will appear in several distributor's catalogs.
- **Magazine and Print Advertisements**
- **Website**
- **TV and Newspaper:** As a pull strategy feature the chile relleno on a TV food program.
- **Word of Mouth**



Summary

This business plan indicated the Pintado™ product should be a profitable product line. Since the plan was developed a chile company in New Mexico that was not part of the development of the plan is currently in the process of marketing the product. This company has secured the rights to use the Pintado™ name and logo, which will appear on all their products.