EXPAND OR PROTECT THE BRAND: Strategic dilemmas regarding Kopenhagen's growth

EXPANDIR OU PROTEGER A MARCA: Dilemas estratégicos sobre o crescimento da Kopenhagen

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ABSTRACT

Kopenhagen, founded in 1928, is a Brazilian fine chocolate brand headquartered in the city of São Paulo. Since 2020, it has been chaired by Renata Vichi, an executive who has been with the company for 22 years and accepted the challenge of maintaining the prosperity of the business. CEOs seek to increase sales and obtain a competitive advantage and face the dilemma of defining growth alternatives to preserve a company's legacy. For Renata, this indecision generates concern, creating the necessity for a business plan that drives advancement and removes doubt and that provides development options for Kopenhagen through the growth avenues of doubling the number of stores, increasing the sales by physical stores and investing in the digital channel. This teaching case is recommended for discussing the concept of ambidexterity. The application of this teaching case is recommended for undergraduate and graduate students studying strategy and innovation.
Keywords: organizational ambidexterity, sales channels, innovation, competitive advantage, digital retail.

RESUMO

A Kopenhagen é uma marca brasileira de chocolate fino fundada em 1928 com sede na cidade de São Paulo. Desde 2020 é presidida por Renata Vichi, executiva que está há 22 anos na companhia e tem o desafio de manter a prosperidade do negócio. Com o olhar para o futuro a CEO busca incrementar as vendas e obter vantagem competitiva, e enfrenta o dilema de definir alternativas de crescimento para a preservação do legado da empresa. Para Renata esta indecisão gera preocupação e é necessário um plano de negócios que empurre o avanço e a dúvida de conciliar as opções de desenvolvimento da Kopenhagen, através das avenidas de crescimento de dobrar o número de lojas, aumentar as vendas das lojas físicas e investir no canal digital. Este caso de ensino de ensino é recomendado para discutir o conceito de ambidestria. A aplicação deste caso de ensino é recomenda para estudantes dos cursos de graduação e pós-graduação em disciplinas de estratégia e inovação.
Palavras-chave: ambidestria organizacional, canais de vendas, inovação, vantagem competitiva, varejo digital.

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Introduction

In February 2020, Renata Vichi was named CEO after working 22 years with the CRM Group (Celso Ricardo de Moraes), a Brazilian fine chocolate company that owns the brands Kopenhagen, Chocolates Brasil Cacau, Kop Koffee and is part of a joint venture with Lindt. The executive realized that the Kopenhagen brand had reached a moment of opportunity, and Renata accepted the challenge of defining growth alternatives to preserve the company's legacy.

Renata Vichi has chaired Kopenhagen since 2004, the year in which the executive assumed the position of vice president (VP) of the company. She is the only heir and successor of the organization's president, her father, Celso Ricardo de Moraes. The modernization of Kopenhagen intensified under the management of Renata, who carried out important actions; among them, in 2007, Kopenhagen launched a customer loyalty program, and in 2009, it created the CRM Group and introduced the Chocolates Brasil Cacau brand in the following year. In 2010, a new factory complex was built. Four years later, in 2014, a joint venture was undertaken with the Swiss company Lindt, which began operating Kopenhagen's e-commerce. In 2019, the health platform Soul Good and the Kop Koffee coffee shop were created, and in 2020, the majority stake of the CRM Group was sold to Advent International, a global private equity investor. In this partnership, the Lindt brand, with 48 stores, was not part of the deal and remained with Moraes. The Renata family continued to lead the company's operations as president and shareholder.

According to Sebrae (2017), in Brazil, the average annual growth of the production of traditional chocolate is 11.6%, and the production of chocolate considered to be fine, premium or premium increases 20% per year, with a consumption volume of 6 to 8%. The growth potential is a consequence of the change in the habits of consumers who seek better quality products and brands that provide experience and add value to the product/service at the time of purchase. However, fine chocolate still has low market penetration in a market that remains increasingly competitive. It is greatly impacted by the increase in the value of the dollar, costs of commodities (cocoa, sugar, butter and milk) and rent of physical store space.

According to Anvisa (National Health Surveillance Agency), the identity of and quality standards for chocolate in Brazil is defined by Resolution RDC 264 of 2005:

traditional chocolate is a mixture of cocoa derivatives, at least 25% cocoa with other ingredients and has a high level of fats (saturated, trans, cocoa butter, etc.), and fine chocolate is a mixture of cocoa derivatives of better quality, above 25% cocoa with other ingredients, and has a lower level of fats, mostly only cocoa butter and a lower percentage of other fat.

In 2020, the CRM Group comprised 802 stores distributed throughout Brazil, with 748 franchises and 54 owned stores, of which 52% were for the Kopenhagen brand and 48% were from Chocolates Brazil Cacau. The Kop Koffee cafeteria ended 2020 with two stores.

After the acquisition of control by the CRM Group, the individual in charge of the acquisition, Advent Rosa, and Renata Vichi began to reflect on the company's growth strategy. Renata faced the challenge of defining the best growth alternatives by asking how to innovate and grow while protecting the brand's legacy.

The History of Kopenhagen

Kopenhagen took its first steps in 1925, when a Latvian Jewish couple, Anna and David Kopenhagen, emigrated to Brazil, where they initially lived in Santos. In 1928, the Kopenhagens moved to the capital of São Paulo. Upon arriving in the city, Anna Kopenhagen started cooking, at home and at night, a classic European sweet, marzipan, which is made of almond and sugar; her husband, the next day, would leave early on foot, searching for consumers in the streets of the city center. In 1929, the Kopenhagens opened their first store at Rua Miguel Couto, 41, in the Center of São Paulo, a delicatessen that served marzipan in the shapes of puppets, animals and other figures. In the 1930s, Kopenhagens bought a very large plot of land in São Paulo on the corner of Avenida Brigadier Luis Antônio, now Rua Joaquim Floriano, and Rua Tapera, now Rua Bandeira Paulista, and increased the assortment of products to include items such as candies, chocolates and milk chocolate and crunchy Easter eggs. Almost a decade later, in 1943, on this same land, the first Kopenhagen factory was opened, allowing the expansion of their portfolio to include fine chocolate, confectioneries, cookies and panettone.

In the 1940s, the first store was opened in Rio de Janeiro, followed by opening a store in the Federal Capital. During those years, several products were launched that, years later, became popular among many Brazilians and, to this day, are considered classics of the brand: Bala leite (hardened caramel shell filled with creamy condensed milk), Cat's tongue (chocolate with milk), Chumbinho (crunchy chocolate balls) and Lajotinha (waffle covered with milk chocolate). In the early 1950s, two more iconic products were born: cherry brandy (macerated cherry in sugar syrup, wine, cinnamon and cherry brandy covered with fondant with liqueur, cognac and milk chocolate) and Nha benta (marshmallow with a wafer base and covered with milk chocolate).

The Kopenhagens had two daughters, Sylvia and Ana. Sylvia married Jaque Goldfinger, who began running the business in the 1950s. In 1975, to serve consumers with food restrictions, Kopenhagen launched its first line of dietary chocolate. In the 1980s and 1990s, the brand grew in sales and became synonymous with fine chocolate. In 1985, a franchise system was instituted because the owners wanted to expand the brand beyond the Rio-São Paulo axis. In the 1990s, Kopenhagen had 100 stores, of which 5% were owned and 95% were franchises.

In 1996, the scenario changed; some family businesses, such as Kopenhagen, were shaken by the strong entry of international capital into Brazil, resulting in increased competition from chocolate shops with premium products and a lack of investment in manufacturing infrastructure and marketing communication by the company, factors that left the company stagnant, selling less and less; for this reason, the family put the business up for sale.

Celso Ricardo de Moraes, then owner of the Virtus laboratory, which manufactured Adocyl, Apracur, Atroveram and Maracujina, bought Kopenhagen. Celso is known in the market as a buyer of brands; he has acquired more than 80. He buys brands with potential, for a less expensive price, that need to be revitalized, providing the potential for a greater return. Celso considered Kopenhagen a good brand, with good products sold as presents that build an emotional link with consumers. However, according to Celso, the company had no management.

When Celso took over the company, he invested US $5 million to relocate the factory, sought more attractive tax incentives, and left São Paulo (capital) for the city of Barueri in Greater São Paulo, where he transferred original machinery, implemented quality control and designed a business plan, changing the strategy for selling chocolates, which became more expensive. He implemented franchise contracts, and the stores stopped receiving loans; additionally, the look of the stores was updated, and he invested in communication to facilitate product experimentation, launched new products, introduced a cafeteria in the stores and sought to serve diverse audiences to rejuvenate the brand.

In 1996, in the midst of these activities, Renata Vichi, Celso's only heir and only 16 years old, asked her father, on her own initiative, if she could work with him; Celso said yes. Because they worked closely within the company, Celso noticed his daughter's business sense and allowed her to develop professionally. Renata began as a marketing intern and had the opportunity to be advised by an expert in financial management, who guided her on earning respect in the corporate environment and taught her how to manage a company.

Renata held the positions of marketing director and commercial director and, in 2004, took over as VP of the company, which had revenues of R$ 152 million in 2004, R$ 760 million in 2012 and R$ 1.5 billion in 2015.

Since 2004, the modernization of Kopenhagen has intensified. There have been important achievements under the command of Renata. In 2007, Kopenhagen launched the Kop Club, a customer loyalty and advantage program to reward consumers through points that can be traded for chocolate. In 2009, there were two major milestones: the creation of the CRM Group, which brought together Kopenhagen and other businesses and the inauguration of the Chocolates Brasil Cacau brand, with a business model that is different from that for Kopenhagen. Chocolates Brasil Cacau is considered an accessible, fun, young and innovative brand, designed to serve an audience between 25 and 35 years and of the B and C economic classes. It offers its consumers quality products, with a less expensive price and good service. Renata launched this brand to compete with Cacau Show. In 2010, Kopenhagen closed its 18 thousand m^2) factory in the city of Barueri in Greater São Paulo and opened a factory complex (33 thousand m^2) in the city of Extrema in the south of Minas Gerais; the complex, requiring an investment of R $200 million, has state-of-the-art technology and the capacity to produce 3.5 thousand tons of chocolate per year. In the old factory, the annual capacity was 2.5 thousand tons.

The first Kopenhagen concept store opened in 2013 on Rua Oscar Freire in São Paulo. According to Renata, it is a laboratory for novelties; consumers have the opportunity to engage in unique experiences, from the chocolate aroma in the store and the background music to product tasting and to finding limited product reissues.

In 2014, Renata formed a *joint venture* with Lindt, an agreement involving 49% participation by the CRM Group and 51% by Lindt & Sprüngli Brazil. In that same year, the *e-commerce* brand Kopenhagen was launched with an outsourced partner. In 2016, Kopenhagen invested R$ 70 million in the factory, e.g., equipment for renovating and expanding production lines and the expansion and automation of the distribution center. In 2019, there were two major launches devised by Renata: a health platform (health and well-being),"Soul Good", which is a *clean label* in Portuguese, i.e., offers products free of preservatives and additives, with zero added sugars, zero lactose, no flavorings, no artificial sweeteners and a good source of fiber, and Kop Koffee, a cafeteria with a diverse beverage and food menu (sweets, snacks and ice cream); these goals of these services were to rejuvenate the brand and offer convenience and new experiences to consumers. In 2019, Renata modified the company's purpose to reflect the brand's goal: "Transform Common Moments into Extraordinary Moments".

In 2020, Renata Vichi assumed the presidency of the CRM Group, with the mission of advancing the company's growth. She opted to negotiate and sell the company's majority stake to Advent International, a private equity fund, to enable an initial public offering (IPO) to strengthen the company's image in the market.

ABOUT THE CRM GROUP

The CRM group was created in 2009 and has owned the Kopenhagen brand since 1996, Chocolates Brasil Cacau since 2009 and Kop Koffee since 2019. It has an industrial plant in Extrema, MG, with more than one thousand employees. It is considered one of the largest franchising groups in the country and ended 2020 with a total of 802 stores spread throughout Brazil; among the stores, 93% are franchises, and 7% are owned.

Kopenhagen is a 93-year-old brand, one of the precursors in the fine chocolate segment in Brazil, recognized for the quality of its products, a portfolio with 150 products, with a line of handcrafted classics, sophisticated packaging and a desired choice of presents. It ended 2020 with 417 stores spread across the four corners of Brazil, with 388 franchises and 29 owned stores.

Chocolates Brasil Cacau is a 12-year-old, accessible, young and innovative brand. To please all tastes and budgets, it has a broad portfolio with more than 170 products, such as truffles, candies, cookies, chocolates, and presents. It ended 2020 with 383 stores spread across Brazil, with 361 franchises and 22 owned stores.

Kop Koffee, a 2-year-old brand, is a cafeteria created to expand the presence of the Kopenhagen brand in the daily life of the consumer, a meeting place for those who love coffee and chocolate. The portfolio includes approximately 150 products distributed among beverages, foods (savory and sweet) and ice cream. At the end of 2020, there were two owned stores in the city of São Paulo.

Competitive Dynamics of the Chocolate Market in Brazil

According to the Brazilian Association of the Chocolate, Peanut and Candies Industry - Abicab (2019), the volume of chocolate consumption in Brazil has increased to 2.6 kg per inhabitant. The total chocolate production by the Brazilian industry in 2019 was 756 thousand tons, with 28 thousand tons exported and 20 thousand tons imported, totaling 749 thousand tons of chocolate consumed. Brazil is the fifth largest country in volume of retail chocolate sales in the world, earning R$ 14 billion in 2019.

According to Abicab (2019), chocolate is part of the consumption habits of the Brazilian population; 75% of people consume chocolate, and the state of greatest importance is São Paulo. Among chocolate consumers, 56% are women, 88% buy the product for their own consumption, and 35% would not exchange it for another food. The preference of Brazilians is for milk chocolate, followed by white chocolate and mild bitter chocolate, and the preferred form is bonbons due to the practicality of handling. The factors considered by consumers when purchasing chocolate are the packaging (57%), followed by the brand and the price. The seasonal dates with the greatest sales are Easter, Christmas and Valentine's Day. The purchase channels with the greatest access (76%) are supermarkets and hypermarkets.

The Brazilian formal chocolate market is composed of manufacturers/retailers such as Nestlé (parent company of Garoto), North American Modelez (parent company of Lacta), Hershey's (parent company of Visconti), Cacau Show and the CRM Group (Kopenhagen and Chocolates Brazil Cacau). In the informal market, chocolate can be sold from homes on social networks (Instagram and Facebook) or in marketplaces (Free Market and Magazine Luiza).

Competitors

NESTLÉ SA

Nestlé is a Swiss multinational company in the food and beverage sector created in 1866 and is considered the largest food company globally. In 1921, Nestlé opened its first factory in Brazil to produce condensed milk, known as Leite Moça. In 1957, it acquired Gardano SA (chocolate powder from the friars and the Alpine), and in 2002, it bought the Garoto factory. At that time, Nestlé ranked second in chocolate sales in Brazil, with a dominance of 33% of the market, and Garoto ranked third, with 22% of the market; together, they ranked first, with 55% dominance in the sector.

However, with the growth of competition and the emergence of new businesses, in 2014, according to Euromonitor data, Nestlé lost representativeness and ranked third, holding 21.1% of the market. However, Garoto gained second position with 22.8% of the market. The sum of the two brands maintained first position with 43.9% dominance of the Brazilian chocolate market.

In 2019, Nestlé opened its first Latin American flagship store of the Kit Kat brand in the city of São Paulo. The store offers novelties, such as unmarketed flavors, allows consumers to create their own chocolate (fillings and photos on products), and provides digital interactions, such as virtual and augmented reality and games, and customers can buy drinks at the Nespresso cafeteria, with coffees that harmonize with chocolates. Another innovation instituted by Nestlé in 2019 was to integrate 100% of the brand's e-commerce and stores in Araras, Caçapava, Marília, Ribeirão Preto and São Paulo (SP), Carazinho and Passo Fundo (RS), Itabuna and Feira de Santana (BA) and Vila Velha (ES) (also the location of the Garoto factory).

Orders are placed online and picked up from the physical store 2 hours later, with the option of delivery to addresses up to 15 km from the stores.

Currently, Nestlé has 31 industrial units in 194 countries and owns some of the most popular chocolate brands in Brazil, such as Batom, Serenata de Amor, Suflair, Kit Kat, and Talento.

MONDELEZ INTERNATIONAL, INC.

The Mondelez group is an American food multinational created in 2012 after a name change in the candy division of Kraft Foods. The company produces sweets such as chocolates, cookies, chewing gum, confectioneries and powdered beverages. According to Euromonitor data, in 2014, Mondelez accounted for 32.3% of the chocolate sales in Brazil.

Since Easter of 2017, Lacta has operated through e-commerce around the seasonal dates of Christmas and Easter; on this website, it is possible to make purchases via WhatsApp. In 2020, due to the COVID-19 pandemic, Mondelez launched the "Lacta em Casa" marketplace, integrating the platform with retailers that stock the branded products and the Lacta store itself; if stock is available, the nearest store will deliver the product to the customer. Currently, Mondelez has two industrial parks that manufacture various chocolate brands, such as Lacta, Diamante Negro, Bis, Sonho de Valsa, Milka and Toblerone.

THE HERSHEY COMPANY

Hershey's is an American multinational founded in 1894 and is one of the world's largest chocolate manufacturers and bakery product producers. In 1998, the company began to import chocolate into Brazil, and in 2001, it bought the Visconti brand and factory and began to manufacture products in Brazil. In 2008, it signed a partnership with Bauducco to increase its distribution throughout the country, tripling its sales points, reaching 130 thousand, and increasing sales and billing by 10%. According to Euromonitor data, in 2014, Hershey's held 3.9% of the Brazilian market.

In 2020, Hershey's launched e-commerce as part of the online initiatives of the company and, currently, is present in the marketplace and apps. This e-commerce works in a complementary way to partners and customers of the brand, facilitating service to all of Brazil.

THE FINE CHOCOLATE MARKET

According to the Brazilian Micro and Small Business Support Service (Sebrae) (2017), industrial chocolate has lost ground to traditional and artisanal chocolates, and the fine chocolate market has grown three times more than the traditional chocolate market. Large companies in the chocolate segment perceived the high demand and innovated by creating more sophisticated and exclusive chocolate in diet/light versions, with high cocoa content, without lactose or gluten, to reach a greater number of consumers. Among the fine chocolate brands that stand out as strong competitors of Kopenhagen are Cacau Show, Lindt and Dengo.

CACAU SHOW

Cacau Show is a Brazilian food company, founded in 1988, with the purpose of producing quality chocolate at low cost. Currently, it is present in almost all Brazilian states, with approximately 2,500 stores. It is the largest chain of chocolate stores in the world, with a turnover of R$ 3.5 billion; the company has five factories, two in Itapevi, SP, one in Campos do Jordão, SP, one in São Paulo, SP, and one in Curitiba, PR. Together, these factories produce more than 12 thousand tons of chocolate per year. The main products are truffles, chocolates and candies. The brand is built on fine chocolate made with quality raw material, lower sugar content, and more cocoa.

According to Alexandre Costa, the founder of the brand, it is an economy of scale allowing production that uses quality ingredients, better cocoa percentages and technology; the account is dependent on the volume of chocolate sales. Currently, the sales channels for the brand are direct resellers (door to door), physical stores (owned and franchises), department stores, stores that specialize in fine chocolate, supermarkets, wholesalers, distributors, e-commerce, delivery, marketplace and m-commerce.

LINDT & SPRÜNGLI AG BRAZIL

Lindt, founded in 1845, is a Swiss company that specializes in the manufacture and sale of chocolate and is considered by Forbes magazine as one of the most innovative companies in the world. In Brazil, it has been present since 1969 and is represented by Aurora drinks and fine foods, an importer of international premium brands. In 2014, it announced a joint venture, with a 51% share, with the CRM Group (Kopenhagen and Chocolates Brasil Cacau), which became its first subsidiary in South America and a means for exploring the local market through the opening of Lindt stores. The chocolate sold in stores is imported from Lindt factories in Europe. The brand's products, distributed by the Aurora, continue to be sold at retail stores and in airport duty-free stores, and Lindt Brasil's stores have an exclusive mix. The main products are truffles (Lindor) and candies.

Currently, Lindt Brazil has 50 stores in Brazil. The brand's sales channels are as follows: owned physical stores, department stores, stores that specialize in fine chocolate, supermarkets, wholesalers, distributors, e-commerce, marketplace, delivery and m-commerce.

DENGO

Dengo, a Brazilian chocolate and specialty coffee company, was founded in 2017 and seeks to redesign the cocoa economy, bringing small and medium-sized producers closer to the final consumer, generating social impact and direct returns to producers through profit sharing with these producers and their families.

Without their own farm, Dengo's business model is to buy cocoa from selected producers and pay them a premium based on the quality of their beans. Dengo pays 80% more per kilo for the best cocoa beans. Today, there are more than 120 producing partners in southern Bahia. The company has a *"bean-to-bar*" strategy, that is, the bean producer makes the chocolate. The recipes exclude essences or aromas and hydrogenated fat (only cocoa butter is included), and when necessary, added sugar is organic and used in moderate amounts; their motto is to use more cocoa and less sugar because the brand also focuses on health and well-being. The main products are *quebra-quebra*, nuggets, bonbons, gianduia, cocoa honey and nibs.

In 2020, Dengo launched a concept store in the city of São Paulo, called the Dengo factory, which immerses customers in the universe of chocolate and other products such as specialty coffees, cheeses and wines from small Brazilian producers. To demonstrate the *bean-to-bar* chocolate manufacturing process, customers can produce their own chocolate bar, personalized from the ingredients to the packaging, going through a sensory experience with virtual reality glasses and a soundscape. The Dengo chocolates app facilitates shopping and entertainment within the store by decreasing the need for face-to-face service, allowing customers to make purchases anywhere in the store without having to go to a cashier.

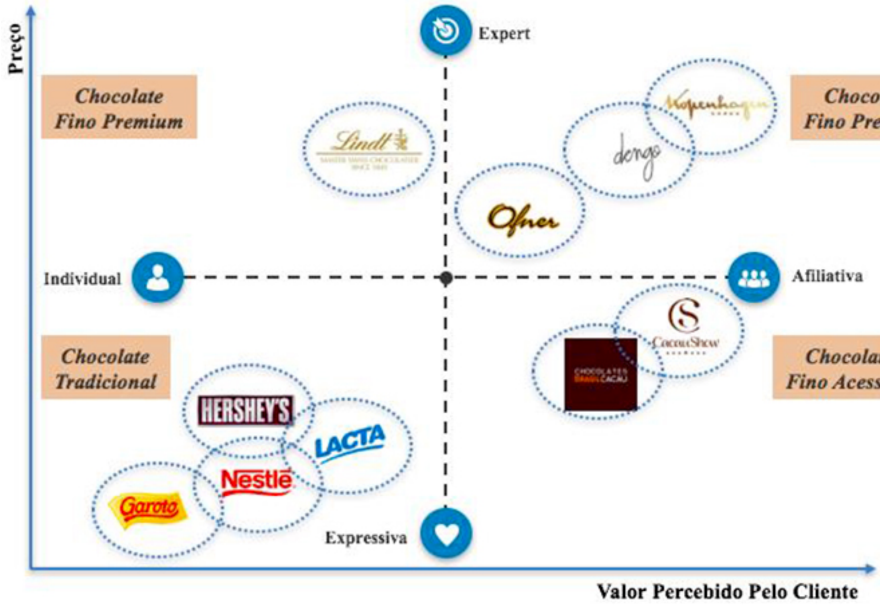
Currently, there are 20 stores in Brazil. The sales channels for the brand are as follows: owned physical stores, e-commerce, delivery and m-commerce.

Competitive Positioning

In 2020, CEO Renata Vichi asked the marketing team for an update regarding Kopenhagen's competitive positioning to understand where the brand is positioned in the market compared to its main competitors. The main competing chocolate shops were classified into three categories based on chocolate type: traditional, accessible fine and premium fine. In Figure 1, the prices charged are on the y-axis, and the value of the attribute perceived by customers is on the x-axis. Regarding the prices charged, the orders of magnitude by approximate value were R$ 40.00/kg for traditional fine chocolate, R$ 100.00/kg for accessible fine chocolate and R$ 200.00/kg for premium fine chocolate.

Four attributes of connection between the brand and the consumer were considered: individual, which values taste (sensation of pleasure); affiliation, which values sharing the product; expert, which values the process (specialist) and product quality; and expressive, which values communication and humanization.

Figure 1 Map of the competitive positioning of the Brazilian chocolate market



Source: Prepared by the authors.

KOPENHAGEN BUSINESS MODEL

Kopenhagen started as a traditional retailer, where the sales channel and distribution system were separate, and the factory supplied the store that sold to the final consumer. Physical stores dominated the market, but limited sales as other sales channels became popular and customers began to use devices such as computers and smartphones to try different shopping avenues.

Faced with this scenario, in 2014, Renata Vichi decided to digitally transform the company, which, in addition to physical stores, began operating in some online channels such as e-commerce, delivery, marketplace, and m-commerce with payment via Link and options for delivery or pickup.

In 2020, Renata created a digital space to begin structuring the company to be *omnichannel* with the intention of having the entire sales channel integrated and orchestrated so that the efficiency and enjoyment experienced by customers who choose to engage in more than one channel of the brand are similar to or greater than those experienced by those who use a single channel in isolation.

Multiple Paths and Kopenhagen's Legacy Challenges

Being part of a challenging market, such as fine chocolate often requires companies to reformulate their business plan and review their marketing strategies and product offerings due to economic movements, new attacks from competitors and the evolution of consumer demands.

Faced with this reality, in 2020, CEO Renata Vichi presented to the leadership team her challenge of defining alternatives for preserving the company's legacy to increase sales and obtain a competitive advantage in the market.

With the direction stated by the CEO, the board worked on structuring a business plan to be submitted for approval by Renata, with strategies based on growth avenues, with multiple paths proposed. The options presented by the directors were as follows.

INCREASE KOPENHAGEN CAPILLARITY

One of the possibilities evaluated was the expansion of the number of stores. The director of the factory reinforced that scaling the business, i.e., increasing the number of Kopenhagen stores, means having greater product demand and having to produce chocolate in greater quantity, gaining scale and productivity without acquiring resources (money and/or labor) in the same proportion, thus being able to lower the costs of the products; additionally, the company increases their attractiveness vis-à-vis competitors and the market in general, as it gains commercial and negotiation advantages with better prices and payment terms and better quality products, resulting in advantages for consumers.

Thinking of attracting new leads (potential franchisees) and considering that businesses are increasingly focused on digital avenues, the expansion director added that it is important to maintain traditional brand disclosure through participation in franchise fairs, advertising through commercials, billboards, pamphlets, newspapers and magazines. However, it is essential to invest in digital marketing to attract those interested in the brand. Currently, people are influenced by brand positioning and by identifying with company values. Therefore, to capture the attention of new customers, it is necessary to invest in good publicity through a diversity of channels (traditional and digital).

Each new store increases brand exposure and provides greater credibility. The great challenge in increasing the capillarity of the brand through franchising is not being able to maintain the standard of excellence of the product and service provided to the consumer, thereby impacting the customer experience and the brand image in the market.

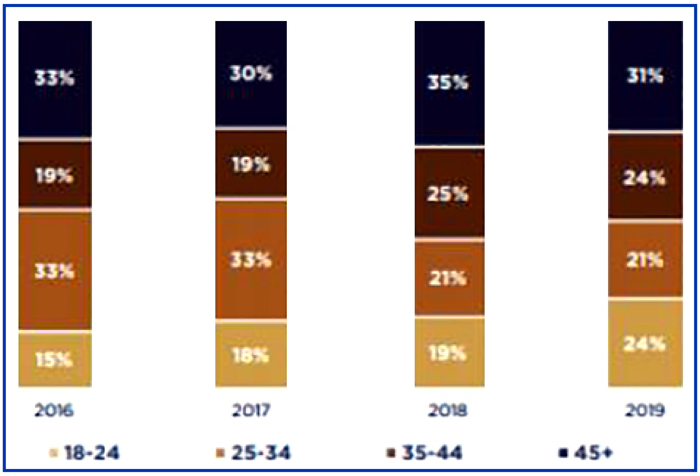
INCREASE SALES IN EXISTING STORES (OWNED AND FRANCHISED)

Another front is increasing sales at existing points, which would require investments in marketing initiatives and actions to strengthen the brand at the national level, such as marketing and publicity campaigns. To obtain the best return on this investment, capturing a consumer who buys large amounts and buys frequently would be necessary.

In this strategy, the directors suggested two approaches. The first was to increase the flow of customers in the stores through marketing communication that converses and attracts the target audience to convert traffic into sales and have a more assertive product promotion calendar that meets and generates greater customer demand. The second approach was to increase the value of the average sales ticket through the product mix, with greater variety and more items desired by the customers, so that the best sellers generate traffic and the other items offered generate income and standardize the price table of the products differentiated by location (store region) and sales channel (offline and online).

The marketing director presented data to assist in formulating the communication strategy. In recent years, the age range of Kopenhagen consumers, shown in Figure 2, indicates that customers 18 to 24 years of age represented 15% in 2016, increasing to 24% in 2019. However, the proportion of people 25 to 34 years of age decreased from 33% in 2016 to 21% in 2019. The proportion of people 18 to 34 years of age decreased from 48% in 2016 to 45% in 2019.

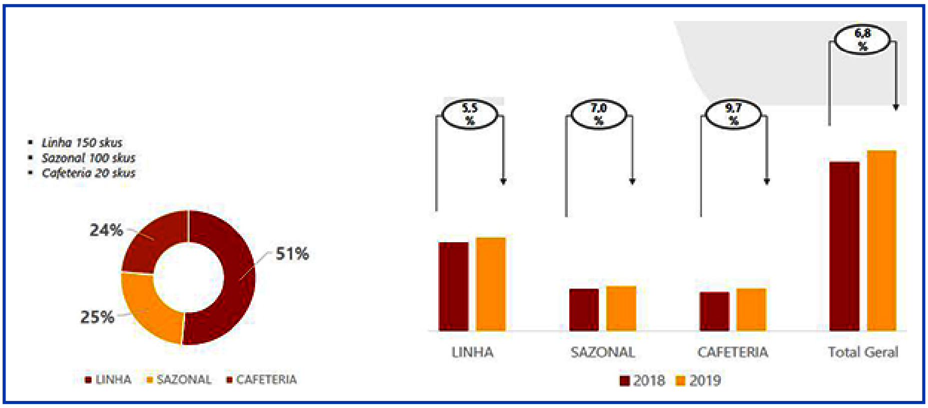
Figure 2 Distribution of Kopenhagen consumers by age group.



Source: CRM Group database.

The Kopenhagen portfolio has three major fronts, which are highlighted in Figure 3: **Line**, representing 51% of revenue and growth of 5.5% per year; **Seasonal**, representing 25% of revenue and growth of 7% per year; and **Cafeteria**, which has low conversion into chocolates, representing 24% of the revenue and growth of 9.7% per year, the highest among the three.

Figure 3 Kopenhagen portfolio revenue (in millions of Reais).



Source: Kopenhagen internal data - *Sellout* CRM Planning.

INVESTING IN THE DIGITAL CHANNEL

According to CEO Renata Vichi, Kopenhagen is a reference in quality and tradition in the physical channel (shopping malls, streets, airports, etc.) and should provide the same experience to customers through digital channels (e-commerce, marketplace, m-commerce -mobile devices and tablets – etc.). To meet the goals of this strategy, the directors suggested two paths. The first was to focus on online sales to provide customers with digital purchases inside (self-service and vending machines) and outside the store (e-commerce, marketplace and m-commerce).

To digitize physical stores, the digital director suggested investing in express delivery (up to 3 hours or 24 hours) and ship from store (use the stock at physical stores to fulfill orders placed online), transforming some stores into distribution centers (hubs - stores that concentrate a larger stock of products to meet the demands of physical stores and requests from online channels in a given region; and dark sites - stores closed to the public that act as a point of distribution of products in a given region) and pickup sites (customers make purchases *online* and picks item up at the physical store).

The second approach is to invest in a loyalty/rewards program, considering services (personal shoppers and private purchasing advisors) and personalized benefits and discounts to strengthen the customer base, mainly to improve the recency (when a customer has last made a purchase), frequency (number of times a customer buys in a given period) and value of purchases.

The CEO considered all the proposed growth avenues as feasible and promising possibilities to maintain business prosperity and to address the dilemma of defining the best growth alternatives within these three fronts. However, she had doubts about how to innovate and grow while protecting the brand's legacy.

Teaching Notes

SYNOPSIS

This teaching case addresses the dilemma of Renata Vichi, CEO of Kopenhagen, a Brazilian fine chocolate brand founded in 1928. The executive has the challenge of maintaining the prosperity of the business through increased sales and competitive advantage and faces a dilemma regarding defining feasible and promising growth alternatives to preserve the company's legacy. The CEO sees possibilities through investments in innovations that can meet consumer demand for a retail market with wide digital capillarity and a portfolio with an assortment of products to meet different consumption occasions through different sales channels.

APPLICATION OF THE CASE AND TARGET AUDIENCE

The application of this teaching case is aimed at undergraduate and graduate students studying strategy and innovation.

DATA SOURCES

The case was structured based on primary and secondary data from Kopenhagen and addresses the issue of organizational ambidexterity faced by Renata Vichi, CEO of the CRM Group.

DIDACTIC OBJECTIVES

This teaching case illustrates a dilemma of growth alternatives that preserve a company's legacy. The pedagogical objective is to discuss organizational ambidexterity as a strategy of business perpetuity.

STUDY QUESTIONS FOR DISCUSSION

1. Discuss the historical evolution of the competitive dynamics of the chocolate market in Brazil and the historical role of Kopenhagen in this market.
2. Considering the evolution of competition in the chocolate market in Brazil and market positioning, why did the private equity firm Advent invest in Kopenhagen?
3. Is it possible to reconcile innovation with tradition? Discuss what essential characteristics should be preserved and what innovations are necessary in the case of Kopenhagen.
4. Discuss the growth alternatives for Kopenhagen, evaluating the benefits and challenges of each one. Conclude by indicating your strategic recommendations for the company.

TEACHING STRATEG

For the use of this teaching case in the classroom, the text and questions for discussion of the case should be made available to the students 15 days in advance of discussing the case; the students should read the case and complementary text and answer the study questions; and the teacher should follow the detailed lesson plan, estimated at 90 minutes. The teacher should open the discussion by contextualizing the evolution of the competitive chocolate market and the legacy of the Kopenhagen brand and guide a strategic discussion of growth alternatives that do not lead to a deterioration of perception of the brand. Ambidexterity should be presented as a strategy that drives innovation while preserving the legacy. Next, the growth alternatives should be discussed, stimulating a debate about the effect on the company's brand. The teacher can conclude the discussion by reflecting on the challenges regarding innovation for companies with recognized and traditional brands. The following is a suggested lesson plan:

- 00-15 minutes: analysis of the evolution of the chocolate market in Brazil and the legacy of Kopenhagen;
- 15-35 minutes: analysis of the positioning of Kopenhagen versus its main competitors;
- 35-50 minutes: analysis of the transformation potential of Kopenhagen and the strategic plan with private equity;
- 50-70 minutes: analysis of the topic of organizational ambidexterity at Kopenhagen; and
- 70-90 minutes: analysis of growth alternatives and strategic recommendations for Kopenhagen.

1. Discuss the historical evolution of the competitive dynamics of the chocolate market in Brazil and the historical role of Kopenhagen in this market.

To open the class, the teacher should begin by addressing the evolution of the chocolate market in Brazil, emphasizing the competitive dynamics of the brands and the role of Kopenhagen in this scenario.

In 1970, the consumption of chocolate in Brazil was very low due to the image that consumers had of the product, i.e., a dispensable item; with this, the main companies in the sector undertook an incentive campaign that increased consumption of chocolate per capita. At the end of the 20th century and the beginning of the 21st century, traditional chocolate companies were sold to or incorporated into large groups to create more brands and products available for consumption.

In the 21st century, chocolate companies began to turn their attention to a more qualified market. Kopenhagen, eyeing the movements of the sector and challenging leading brands, created the CRM Group in 2009 and launched the brand Chocolates Brazil Cacau to compete directly with Cacau Show. In 2014, a joint venture with Lindt was another strategy to remain strong and grow in the national territory. With society, it became the only chocolatier company that operates distinct brands, from affordable (Brazil Cacau Chocolates) to premium (Lindt) to luxury premium (Kopenhagen), presenting options for consumers.

In recent years, chocolate companies have been seeking quality and innovation; for example, the *bean-to-bar* movement has gained relevance, and physical stores of different brands offer novelties, such as consumers creating their own chocolate and interacting through digital means (virtual and augmented reality and games). In 2019, the CRM Group, to effectively compete with constantly growing niche competitors, launched a health and well-being platform, Soul Good, and the coffee shop Kop Koffee, under the Kopenhagen brand, rejuvenating the brand and creating new experiences for consumers. In 2020, to advance the growth of the company, it sold the majority stake of the group to a private equity firm, seeking free up capital, so as to strengthen the company's image in the market.

In 2020, the COVID-19 pandemic impacted the chocolate industry in Brazil. Companies have adapted to the new reality, utilizing online sales channels through e-commerce and delivery systems with direct delivery to the consumer and seeking partnerships so that the product reaches the point of sale or directly to the customer; Kopenhagen began to operate in marketplaces such as Magazine Luiza, Privália, Carrefour, etc.

2. Considering the evolution of competition in the chocolate market in Brazil and market positioning, why did the private equity firm Advent invest in Kopenhagen?

In 2020, Advent bought a majority stake in the CRM Group, which owns Kopenhagen and, seeking to accelerate the growth of the company, announced a business plan for the next five years through three growth avenues: a) doubling the number of physical stores (owned and franchises) only with the current brands in the group; b) increasing sales in existing stores; and c) investing in the digital channel.

In the last decade, traditional retail has seen a systemic transition with the increase in digital purchases, reshaping consumer behavior and business models worldwide (BAEK et al., 2020). Studies show that knowing, learning and trying products in physical stores leads consumers to evaluate the digital channels of brands in a more positive way (BADRINARAYANAN et al., 2012). Presenting physical stores to digital consumers is an effective marketing communication tool because the relationship between online and offline stores can be complementary rather than competitive (WANG; GOLDFARB, 2017).

Kopenhagen has operated physical stores for more than 90 years and intends to invest in the growth of this channel, which according to the literature is advantageous to boost and complement a brand's investment front in the digital channel.

Next, the teacher should ask the students whether they think the firm has invested in Kopenhagen based on the statement by Wilson Rosa, Managing Director of Advent: "We will accelerate our investments in Brazilian companies, seeking vigorous businesses and leaders in their sectors with great growth potential - everything we find in CRM".

To close this issue, the teacher can provoke a discussion among the students by asking them whether, in their opinion, the actions undertaken by Kopenhagen through investments in innovations can meet consumer demands for digital retail and product assortment in different sales channels, contributing to a thriving company and enabling an IPO to strengthen the company's image.

3. Is it possible to reconcile innovation with tradition? Discuss what essential characteristics should be preserved and what innovations are necessary in the case of Kopenhagenn.

In this question, the teacher should address the central theme of the case and discuss organizational ambidexterity with the students, arguing what characteristics should be preserved and what innovations are necessary.

The teacher should begin the discussion by exploring the students' understanding of the topic of organizational ambidexterity. Successful companies are ambidextrous; they are aligned with and efficient at managing current demands while adapting to changes in the environment, i.e., investing in continuous improvements in existing systems and generating value in the present while innovating and anticipating consumer needs (RAISCH; BIRKINSHAW, 2008). In the environment of organizational ambidexterity, companies must develop new products/services and processes to engage in emerging markets. However, they must also explore existing products/services and processes to engage in mature markets through efficient operations (TURNER et al., 2013). Faced with this scenario, organizational ambidexterity generates a more sustainable competitive advantage for a company (KISS et al., 2020). For example, a traditional company such as Kopenhagen, with products/services and processes established many years ago and that survives disruptions in the market, works well with organizational ambidexterity because it can simultaneously manage different demands, reconciling the use of resources to achieve its goals and objectives and ensuring competitiveness in the face of competition.

Every company needs to balance exploration and exploitation, where exploration is linked to radical innovation, focused on experimentation, on new product, service, and market opportunities and on future customers, which requires greater spending, without benefits and profits in the short term, and activities to create value and achieve competitiveness in the longer term. In contrast, exploitation focuses on the use and improvement of competencies, especially of products and technology already existing in a company, and is linked to incremental innovation to optimize activities and increase quality and efficiency, generating profits in the short term (MARCH, 1991).

As the resources required for exploration activities are different from those for exploitation, companies must balance the two models (O'REILLY; TUSHMAN, 2008), but for a company to sustain success, it must integrate the contradictory objectives of short-term efficiency and long-term innovation (GÜTTEL et al., 2015). The simultaneous search for a balance between exploratory innovation and exploitation are central activities for business survival, growth and renewal (GOEL; JONES, 2016). In the current market, which is increasingly dynamic, having and maintaining a competitive advantage is increasingly difficult, and ambidextrous companies focused on exploration and exploitation activities are more likely to survive and thrive in the long term (ACEVEDO; DÍAZ-MOLINA, 2019).

Achieving a balance between exploration and exploitation activities enables the success and survival of a company but raises challenging issues that should be managed by all organizational levels, not only senior management (ANDRIOPOULOS; LEWIS, 2009). The concept of organizational ambidexterity is recommended to managers to address the turbulence and multidimensionality of the business environment, where the only constant is change and it is challenging to implement reactive and anticipatory organizational changes through evolutionary and revolutionary innovations (LIS et al., 2018). In conclusion, the achievement of organizational ambidexterity presents unique demands, including cognitive challenges for the executive board, with the CEO indirectly exerting great influence on the decision-making of the board, particularly where and with what intensity the CEO seeks innovation-based strategy information (KISS et al., 2020).

Mature companies that build deep and lasting bonds with their traditions can be extremely innovative, but others remain anchored in the past, without considering and recognizing the potential of previous knowledge, both for the creation and transformation of new products and value capture to create and feed a competitive advantage (DE MASSIS et al., 2016).

In recent years, the increased implementation of new digital technologies by companies to benefit from their advantages originated during the digital transformation, which has the potential to impact operations and internal processes as well as trigger changes in organizational structures and the strategic renewal of companies, allowing competitive products and services to be offered on the market; however, failure and/or imperfection in the digital transformation process can severely and permanently harm the competitive advantage of a company (KRETSCHMER, 2020).

EXAMPLES OF EXPLOITATION FOR KOPENHAGEN

Customization: As the Kopenhagen brand is recognized for being presentable, a way to attract and bring customers from the offline channel to the online channel and vice versa and to improve the shopping experience of customers is to tailor the packaging on the spot (minutes), for example, offer collectibles (cans and boxes) or the possibility of personalization with a name, message (written or by QR code, in this case working with 3D video or voice messages), image, or photo (including photos sent directly from a smartphone device).

Subscription club: Subscription clubs benefit customers through exclusivity (first-hand launch, limited edition, vintage items, etc.) and convenience (convenience), and for the brand, benefits range from customer loyalty to increased revenue with the guarantee of recurring revenue. From the creation of plans (weekly, biweekly or monthly), consumers regularly receive Kopenhagen products in exchange for financial compensation (in this program, customers receive significant discounts based on the plan). Instead of waiting for customers to support what the company offers, the brand and the consumer establish a closer relationship (usually in the medium and long term).

Integrate *e-commerce* with stores (owned and franchises): An order made through an online store can be picked up 2 hours later at the nearest physical store or delivered to addresses up to 15 km from the nearest unit. The system has the intelligence to identify the CEP of the order delivery and the stock in stores to better serve the customer.

Blockchain: Blockchain technology is used to provide customers with QR code tracking of chocolate bars from their production to purchase for consumption, and customers can follow all stages of the individual production process for each chocolate.

EXAMPLES OF EXPLOITATION FOR KOPENHAGEN

Bean-to-bar: Artisanal chocolates made from the best quality cocoa beans are a more natural and additive-free product that makes better use of the properties of cocoa, which is sensitive to planting/harvesting methods and soil/climate conditions that, when handled well, can create a premium product to bring more flavor and health to consumers. *Bean-to-bar* respects the entire production chain, forming a productive ecosystem that results in healthy sweets, specialty flavors, responsible production and care for the environment.

Live store: This is a streaming service that allows customers to buy chocolate without leaving home, in a virtual store as in a live store, with humanized and personal service by the seller in real-time via chat. The shopping experience is similar to that at a physical store, where consumers can interact with an attendant to answer questions. For example, a customer can click on a product available on a virtual shelf and have access to a list with all the characteristics of the item; at the end of the interaction, the customer can place his/her order, which will be delivered to the address provided.

Vending machines: These are intelligent automatic self-service machines for product sales (grab & go) with interactivity and connectivity. With quick and easy pickup and payment (cash or card) and the ability to operate 24 hours per day or at different times and to be installed in different locations in addition to the store, i.e., in corridors of hospitals, airports, residential/commercial buildings, etc., the advantages are product visibility, which can be useful to customers at certain times of the day, ease of access to products, and practicality and autonomy in the purchase process.

4. Discuss the growth alternatives for Kopenhagen, evaluating the benefits and challenges of each one. Conclude by indicating your strategic recommendations for the company.

To close the case, the teacher should ask students to discuss the growth alternatives to preserve the legacy of Kopenhagen, evaluating the benefits and challenges of each front. Because all options have pros and cons, it is impossible to invest in everything all at once; actions must be prioritized, thinking about the prosperity of the business. It is important to address the two previous questions regarding the orchestration of organizational ambidexterity to assist in decision-making. To assist in the discussion, the following are alternatives for the exploitation and exploration activities that focus on company growth that the students should detail.

The fronts utilized by the major competitors of fine chocolate that are not yet utilized by Kopenhagen but may be potential growth fronts for the brand:

OPTION	ACTIVITY (exploration or exploitation)	COMPETITOR IN THE MARKET	POSITIVE POINT	NEGATIVE POINT
Direct reseller	Exploitation	**Cacau Show -** This channel represented 25% of the company's revenue in 2018. Kopenhagen began with direct selling and ordering when the only product was marzipan. The Chocolates Brasil Cacau brand of the CRM Group can perform better in this channel, as can Cacau Show, which is its direct competitor.	Extra revenue for physical stores because the reseller buys from the nearest store with a special price (reseller retains on average 15% of sales profit) Allows the product to reach customers who do not have a nearby and accessible store Allows scheduled and impulse purchases.	Customers have to wait to receive their orders Risk of incorrect handling of the product (which is delicate and sensitive to odor and high temperature).
	Exploration	Online sales – reseller's online store, own online store and marketplace.	In a virtual store, sales do not depend on the physical presence of the reseller.	To operate an online store in a marketplace, the company has to pay a commission on the order (the average is 20% of the order value), plus freight; therefore, the volume must be3 sufficient to cover the costs.
Department stores (specialized and diversified)	Exploitation	**Cacau Show e Lindt** – operate in this channel in the Americana stores and in Magazine Luiza.	Enticing customers with slogans and displays allows broad recognition of the brand in the country Contributes to democratizing the purchase of quality and affordable products.	Does not allow having product variety and competitive prices
	Exploration	Kopenhagen has begun to operate in this channel.	Allows a presence in this channel and among other competitors	Does not allow product variety and competitive prices

Specialized stores in fine chocolate	**Exploitation**	**Lindt** - available from Aurora (importer and distributor of premium foods and beverages) **Dengo** - *Bean-to-bar* model.	Increase customers' point of contact options for this specific niche. Work with more expensive products. Bean-to-bar – respects the entire chocolate production chain and the healthiest and most sustainable product.	Does not meet the expectations of customers seeking information, such as production processes and social and sustainability issues, concerns increasingly demanded by companies and society. Requires volume to improve the price of the product.
	Exploitation	Kopenhagen has begun to operate in this channel.	Allows a presence in this channel and among other competitors. Increases credibility with customers who seek specialized products.	Does not meet proposed aims and goals.
Supermarket	**Exploitation**	**Cacao Show and Lindt** - Sugarloaf, Carrefour, Extra, Big, etc.	Generates substantial product recognition. Increase the options for customers' points of contact with the brand.	Does not allow product variety and competitive prices.
	Exploitation	Kopenhagen has begun to operate in this channel.	Allows a presence in this channel and among other competitors Allows products to reach customers who do not have a store nearby.	Does not allow an opportunity to publicize the brand, highlight the product and sell to a larger number of customers.
Omnichannel	**Exploitation**		Integrates physical stores, virtual stores and buyers for a better shopping experience for customers, who see no difference between the online and offline channels; optimizes company time and costs.	Requires costs and time to develop and integrate company IT systems to integrate physical and virtual stores.
Block technology	**Exploitation**	**Lyra** - Chocolate factory (Slovak) **Nestlé and Hershey's**	Provide customers with the experience of chocolate production from harvesting the beans until sale to the consumer Use the beantracker platform to digitally record the entire chocolate journey from bean to bar, monitoring the entire cocoa value chain. Positive points: fight against child labor and slavery in the chocolate industry and develop a value chain for a scalable supply chain	Ensure data security.

The growth alternatives aim to diversify Kopenhagen's business model to maintain the legacy of an almost century-old brand, addressing new niches and sales channels to expand the ways of connecting and interacting with consumers and to understand the positioning of the brand to address diversity in relation to age group, economic class and life purpose. To conclude, the case, the professor should ask students to indicate their strategic recommendations for preserving the legacy of Kopenhagen.

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