

Dark Kitchen and Marketplaces in the Oven: Paths and Challenges to Growth for Palatos

Dark Kitchen e Marketplaces no Forno: Caminhos e Desafios para o Crescimento da Palatos

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ABSTRACT

Palatos, a small chain of bakeries located in the southern region of Rio de Janeiro, is the fruit of Flávio's entrepreneurial dream, and is a regional benchmark in the bakery sector, with three units and thousands of customers served every day. In its growth challenges, one dilemma stands out, the continued growth of its delivery operation, also based on decisions that may or may not involve its entry into the Dark Kitchen model and the adoption of marketplaces. The students are then invited to put themselves in Flávio's position and his team and make a strategic decision for Palatos. The information on this teaching case was obtained from private documents, interviews and secondary market data. The case contributes by encouraging reflection on current topics that are relevant to the out-of-home food sector and applicable to other sectors and organizational types. The aim is to discuss the opportunities and challenges faced by businesses in gaining competitiveness, based on business strategy concepts and tools, such as the VRIO model and the GUT matrix.

Keywords: business strategy; VRIO model; GUT matrix; bakery markets; small enterprises; dark kitchen; marketplaces.

RESUMO

A Palatos, pequena rede de panificadoras situada na região Sul Fluminense, é fruto do sonho empreendedor de Flávio, e é referência regional no ramo da panificação, diante de suas três unidades e do atendimento diário para milhares de clientes. Em seus desafios de crescimento, um dilema se destaca, o da continuidade do crescimento de sua operação de delivery, também a partir de decisões que podem ou não envolver sua entrada no modelo de *Dark Kitchen* e adoção de *marketplaces*. Os alunos são, então, convidados a colocar-se no lugar de Flávio e de sua equipe, e a tomar uma decisão estratégica para a Palatos. As informações desse caso de ensino foram obtidas a partir de documentos privados, entrevistas e dados secundários de mercado. O caso contribui ao fomentar reflexões sobre tópicos atuais e relevantes ao setor de alimentação fora do lar, aplicáveis a outros setores e tipos organizacionais. Objetiva

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discutir as oportunidades e desafios enfrentados pelo negócio para seu ganho de competitividade com base em conceitos e ferramentas de estratégia empresarial, como o modelo VRIO e a matriz GUT.

Palavras-Chave: estratégia empresarial; modelo VRIO; matriz GUT; mercado de panificação; pequenas empresas; *dark kitchen*; *marketplaces*.

The Entrepreneurial Dream

Another day begins in production at the Palatos Bakery chain. At five in the morning, the ovens are already at high temperature, baking the first batches, bringing the delicious aroma of bread roll to the whole neighborhood. The stores will soon open for customers to marvel at and enjoy the delicacies produced in-house, such as breads, cakes, pies, savory snacks and much more. Whilst he is still at home preparing for the long day at work, Flávio is already busy with management issues at Palatos.

After all, the company and its trajectory are virtually his life - Flávio has Palatos as a great source of pride, spending practically all his day at the company. Of humble origins, Flávio is used to getting his work done: he has been working since he was 14 years old, and with a lot of dedication he went from being an attendant to a businessman responsible for ensuring the employment of more than 150 employees.

Being in charge of their own business is one of the main life dreams of many Brazilians: The Total Entrepreneurship Rate in Brazil jumped from 20.9% in 2002 to 39.0% in 2021. The activities of the 6.6 million MSEs operating in the country in 2022 had an impact on the income and lives of 21 million people who depend on them directly (SEBRAE, 2023). In this universe, the traditional bakery sector stands out, made up mostly of MSEs, and which in 2021 had turnover of R\$105.85 billion (ABIP, 2022a). Although the Brazilian population is classified as one of the most entrepreneurial in the world (GEM, 2019), less than 40% of MSEs manage to survive for more than five years (SEBRAE, 2020), illustrating the difficulty these firms face in remaining competitive in their respective markets.

If it was hard enough for a small business to survive in ordinary times, with the outbreak of the COVID-19 pandemic this task has become even more challenging. The context of social isolation represented a huge challenge for MSEs:

89% of micro and small entrepreneurs experienced a drop in turnover in 2020 with the arrival and intensification of the pandemic and its combat measures in Brazil (Brazil, 2020).

In the case of the Palatos bakery chain, the quick decisions taken by its management - centralized in the hands of Flávio - as a reaction to the effects of the measures to combat COVID-19 on the firm's performance proved to be the right ones. The strategy of introducing the new delivery service by joining the marketplace - i.e. a digital solution that connects consumers to a variety of sellers - the leader in the segment nationwide, together with the introduction of a system integrated with it, proved to be a key point in gaining a competitive advantage for the company, which is now the leader in the service in Barra Mansa / RJ and a benchmark in the local bakery market.

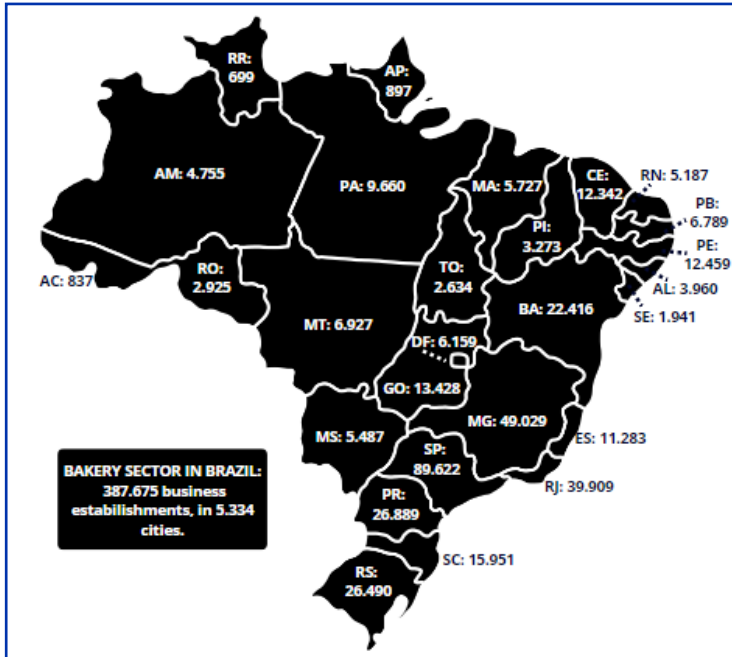
The Brazilian Bakery Market and the Challenges of Covid-19

The traditional bakery sector, the vast majority of which is made up of family-run MSEs, is of great importance to the Brazilian economy. In 2021, it had turnover of R\$105.85 billion and employed 2.5 million workers (ABIP, 2022). Bakeries operate in practically all places and social strata, often in the opposite direction to other segments of the economy. In April 2023, more than 387,000 establishments belonging to the bakery sector operated in 5,334 Brazilian municipalities, as shown in Figure 1.

The Brazilian bakery and confectionery sector have undergone changes in recent years, driven by changes in consumer habits and the evolution of competing markets. Supermarkets, wholesalers and neighborhood stores now compete directly with bakeries, even in cities in the countryside, causing bakeries to reinvent themselves as places of conviviality with a wide range of services linked to food service (ABIP, 2020).

With the emergence of the COVID-19 pandemic, bakeries have once again had to reinvent themselves. Data from ABRASEL (2022a) points to a sharp drop of 40% in the turnover of companies in the out-of-home food segment between 2020 and 2019, with the closure of 300,000 establishments and the loss of 1.2 million

Figure 1. Number of business establishments in the bakery sector.

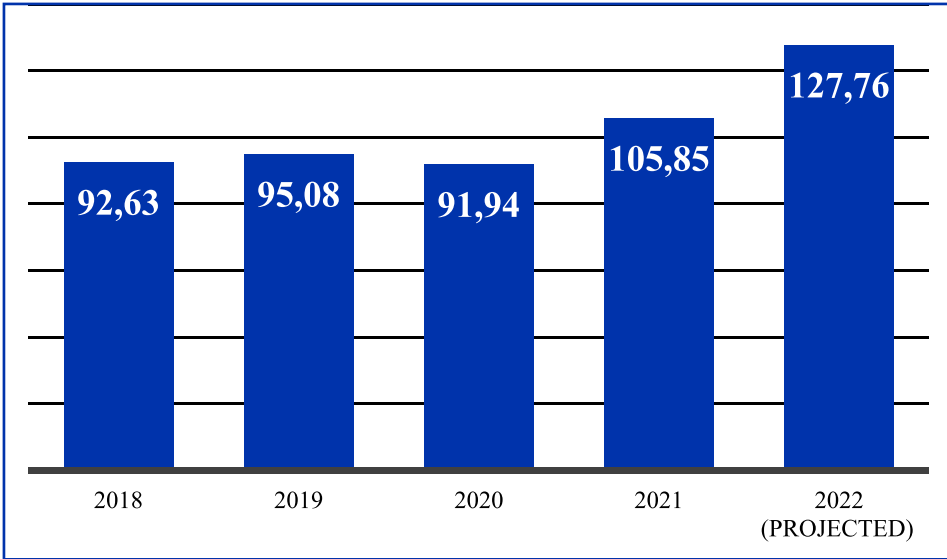


Source: SEBRAE (2023).

jobs in the period between March 2020 and July 2021 alone. And even though they are considered an essential service and therefore not susceptible to total closure during the pandemic, companies in the bakery sector have had their operations severely impacted by the COVID-19 pandemic emergency. As evidence of this reality, 89.47% of entrepreneurs in the sector have noticed a reduction in the number of customers in their stores (ABIP, 2021), which has resulted in a drop in sector turnover, according to Graph 1.

In response to the challenges of COVID-19, the entry of firms in the bakery sector into e-commerce by joining delivery marketplaces has helped to mitigate the effects of the pandemic on the turnover of companies that have been able to use these tools efficiently and to give them competitive advantages. For many of these companies, the introduction of the delivery service was not recognized before the pandemic as a practice capable of generating business value, a situation that can be seen for some as a challenge and for others as an opportunity.

Graph 1. Evolution of the Bakery Sector's Turnover (R\$ billion).



Source: Own elaboration based on data from ABIP (2023).

Digital tools have become vital in responding to the most immediate impacts caused by the pandemic and in gaining competitive advantages for firms that have shown the capacity to introduce such innovation into their operations. Data collected by ABRASEL (2022a) shows the high uptake of delivery operations: in May 2022, 71% of the entrepreneurs interviewed, who worked in the ready-to-eat food delivery business, considered this channel to be profitable.

Despite this possibility of profitability, there are also negative feelings about the inclusion of these firms in delivery marketplaces, due to the high fees charged to establishments, the lack of effective competition in a sector in which the leading marketplace has a 68% marketshare and the expectation that firms will be less dependent on delivery services when face-to-face activities resume (ABRASEL, 2022b). The bakery sector had a nominal growth of 19.5% in its turnover and 5.25% in the face-to-face flow of customers, in the period between January and May 2022 compared to the same period in the previous year (ABIP, 2022b).

Dealing with increasingly narrow margins, bakeries are also facing a significant increase in the number of players in their market - which are not always new,

but new sales models derived from the same players: their own apps, stand-alone stores, the evolution of express delivery of fresh food, dark kitchens and niche businesses with increasingly personalized service (ABIP, 2022b). With greater stabilization of the market, customers are increasingly selective and demanding, making it necessary for these firms to adapt to new business models.

Palatos: Joys and Setbacks in Making an Entrepreneur's Dreams Come True

The Palatos bakery chain is a traditional business in the city of Barra Mansa / RJ, and has a modern and organized structure, a strategic location and is positioned as a market leader and reference in pioneering, innovation, service and product diversity. It is family-run, centralized around Flávio, and has an annual turnover of around R\$3.5 million. The Palatos chain is currently made up of three physical stores, which share the same brand and production plant, and are located relatively close to each other in the town center of Barra Mansa / RJ, with an average distance of 700 meters between the stores.

Founded in 1964 - originally under the name of *Padaria Municipal* - the firm went through successive administrations that didn't expand or change its traditional business model until 2008, when it was acquired by Flávio. Seeing potential in its strategic location - close to hospitals, clinics, the city council and the city's main park - Flávio saw a great opportunity in the stagnant Municipal Bakery.

Drawing on his more than 20 years' experience in the bakery sector, Flávio carried out an extensive renovation of the store's historic building and relaunched it as *Padaria Palatos*, bringing new features not yet seen in the region - such as the possibility of having lunch in a bakery and new types of bread, both sweet and savory, with the highlight being the '*Rosca de Cerveja*', the recipe for which is exclusive to the company.

The new business model represented by Palatos quickly became a great success. With the large number of customers at all times of the day, Flávio was able to quadruple the turnover of that point in less than three months - which gave him a great sense of pride and satisfaction. A spacious, pleasant place where peo-

ple could get together, meet friends or just enjoy a wide variety of fresh, well-presented products - it was everything Flávio had dreamed of as an entrepreneur, and he had succeeded! And, crowning the success of the Palatos project, Flávio was recognized the following year as “Entrepreneur of the Year” by the local shop owners’ association.

As a good entrepreneur, Flávio was not satisfied by this initial success. In 2010, he hired a renowned specialist to introduce a line of specialty breads, mini snacks and sweets at Palatos that could be eaten in the store or taken home - whether for a casual snack or even an event. Once again, his entrepreneurial insight proved to be right: the new products boosted sales again, which had now grown five times since opening.

With demand for Palatos’ products on the rise, over time Flávio found himself facing one of the pains of success: his store couldn’t hold any more customers! And since challenge is the entrepreneur’s fuel, Flávio embarked on expanding the company: in 2012, the first branch was opened.

Located on the city’s main shopping avenue, the new branch was designed with a leaner, more concentrated model, whose windows would be supplied from the production center located at the main store. Due to the proximity of the two stores, which were about 300 meters apart, Flávio felt comfortable managing both operations.

The following year was one of consolidating operations, with Flávio dividing his time between managing and adjusting the processes of production and the two stores. Being very present in the day-to-day running of the stores, Flávio often hears recurring suggestions from the clientele. Based on one of these suggestions, Flávio brought another innovation to Palatos: in 2014, a new line of 100% handmade frozen pies was launched, made by a professional from São Paulo. In 2015, it was time to introduce the lunch service at Branch 01 - a much anticipated launch by the clientele.

2016 was a year of hard work: the renovation of the main store began, and it continued to operate, demanding resources and quick decisions from Flávio. The renovation was completed in 2017, bringing a new layout made possible by the expansion through the rental of an adjacent store. With the new layout, it was possible to introduce a buffet service from lunch to afternoon coffee at the head store.

Figure 2. Palatos and its products.



Source: Company archives.

Over the next two years, Flávio again sought to consolidate the changes in the operations of the Palatos stores and divided his time between the company and the launch of a restaurant operation in partnership with a long-term friend.

Meanwhile, Palatos has maintained its leadership in the local market, offering its delicacies to more than a thousand customers a day: new launches - such as the line of takeaway sweets, like brownies and other delicacies, introduced in 2018 - have kept customers interested. It was one of these regular customers who brought an opportunity that Flávio didn't hesitate to seize: he had a rental point across from the city's bus station and would like Flávio to take over the operation. It would be Palatos Branch number 02.

Flávio's entrepreneurial streak led him to take on yet another challenge: in November 2019, work began on the second branch of what was now a chain of bakeries. What Flávio didn't count on, however, was that the inauguration scheduled for the end of March 2020 would not take place due to the COVID-19 emergency and the lockdown decreed by the authorities.

On February 6, 2020, the Federal Government recognized a state of emergency throughout the country by means of Law No. 13,979 and provided for the possibility of adopting isolation and quarantine measures by the authorities, within the scope of their powers. At the municipal level, although the first regulations only required tables to be moved away from restaurants, snack bars and bakeries, later decrees began to restrict both opening hours and the possibility of selling food for consumption on the premises.

Flávio then had to review the strategy for launching the new store and decided to postpone it until it was possible to fully resume the physical operations of the companies. His negotiating skills allowed Flávio to get a generous discount on the rent for the new store, which only opened at the beginning of 2021, with the easing of social isolation measures.

And, seeing his turnover from established units drop by more than 50% from one week to the next, Flávio had to act quickly. Their main source of income had been made impossible: the decrees banned the consumption of food inside commercial establishments - only purchases for delivery and takeaway were allowed. In addition, one of its greatest sources of competitive advantage had been lost: as all three stores were located in the city's main shopping center, its privileged location, which had previously been a great strength, was no longer so - with offices, clinics and public offices operating from home, the circulation of people in the city center fell sharply.

Faced with this reality, a week after the lockdown was declared, Palatos launched its delivery service, made by the company's own car, or on foot for shorter distances.

The introduction of a structured delivery service, although already part of the firm's plans, had not been implemented due to fears on the part of its management about the success of this innovation in terms of sales and due to existing budgetary constraints.

Operating a delivery service requires a certain level of infrastructure, logistics and operations designed for the new format, and specific care, especially in the food industry, but with the urgency caused by the health measures to combat COVID-19, Palatos had to adapt abruptly, as Flávio told us in an interview: ‘what has been happening in two and a half, maybe three years, was designed to happen over ten, fifteen years. We boosted it’.

Given the emergency nature of the need to introduce a delivery service, the management opted to do so by joining iFood, the main national marketplace for the delivery of prepared food. In addition to being the only delivery marketplace for the sector present in the firm’s area of operation, iFood has high utilization rates and dominates more than 80% of the meal delivery market in Brazil (ABRASEL, 2022b).

Joining iFood is a relatively simple process, requiring registration on its portal and once sales have started, an average fee of R\$100.00 per month is charged for maintaining the registration and around 12% to 15% commission per order, depending on the payment method used by the customer.

Realizing that the operational restrictions caused by the COVID-19 pandemic might take a while to lift, Flávio decided to structure Palatos’ delivery operation by hiring motorcycle couriers and extending service hours. The process of implementing delivery as a separate operation began in May 2020 and ended in August 2020, when the new service was treated, for strategic purposes, as an independent business unit within the firm - even though it would continue to be operated from the main store.

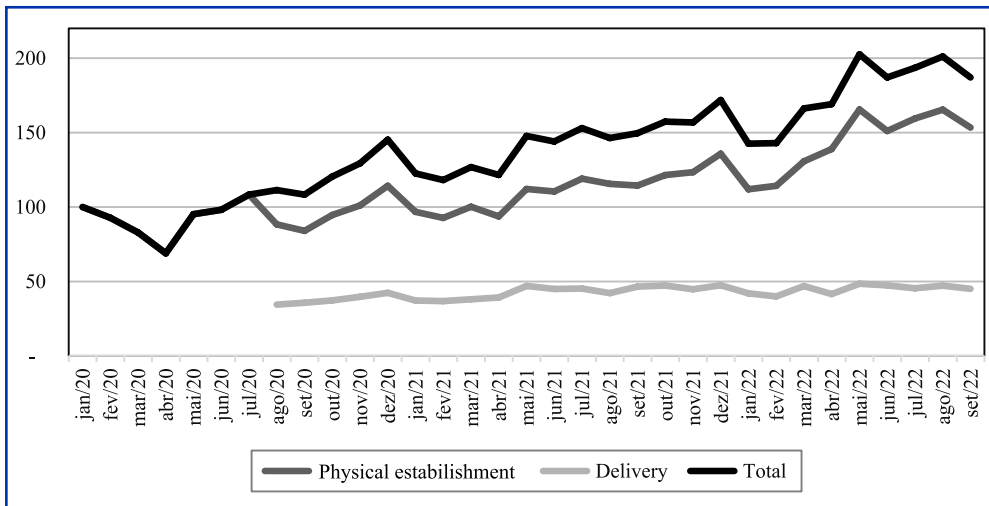
To make this new type of service operational, investments were needed in machinery and equipment, software and staff training. Packaging sealing machinery, IT equipment and sales and management software (ERP) integrated with iFood were purchased. Store leaders and cashiers were trained in the use of the new software and in online sales techniques.

The introduction of the delivery service was accompanied by changes in packaging, presentation, and the company’s own product mix: products that were previously sold by weight in person are now sold by the unit in individual packages. This change was possible thanks to the great tacit knowledge Flávio had accumulated in the production, logistics and sales processes over the decades he had been working in the market. There was a radical change in the processes of providing

services to end customers, with face-to-face contact initially giving way to online contact, with a strong presence on the social networks Instagram and Facebook, the online communication tool WhatsApp and the iFood marketplace.

Palatos was able to quickly achieve a strong presence in the local delivery market, which allowed it to reach new customers who don't normally circulate in its vicinity and enabled it to have a greater presence in existing markets as it was the first company in the sector to adopt home delivery in the city of Barra Mansa / RJ. By the end of 2020, new revenues from delivery already accounted for 20% of the company's total turnover, and even with the resumption of face-to-face operations, the new service continued to be an important source of revenue for the company, according to Graph 2.

Graph 2. Evolution of the Palatos Bakery Chain's Turnover.
(Total Turnover in Jan / 2020 = 100)



Source: Own elaboration based on company data.

According to Flávio, the introduction of the new service made it possible not only to mitigate the effects of sanitary measures to combat COVID-19 in terms of a drop in the number of face-to-face customers, but also to introduce a new service that remained relevant even after the post-pandemic recovery:

‘Both of them do not compete with each other [...] I will still have my customer coming to the store and that customer who has the profile of buying by phone, WhatsApp, or an app, I will reach them, because I’ll have this tool available to them, this way of selling to them.’

However, innovation is not always an easy task. Palatos’ entrance into the delivery market highlighted the company’s weaknesses, as he explained that pre-existing problems with internal communication, logistics and the division of labor made the process of adapting the business more difficult.

In addition, Flávio has negative feelings about the company’s insertion into delivery marketplaces due to the high fees charged for their use and the lack of options, since the leading marketplace has no competitors in the firm’s region. This puts a stranglehold on the delivery operation’s margins, compromising its profitability and its contribution to the company’s bottom line. In addition, Palatos’ more traditional clientele is still reluctant to sign up to apps like iFood, preferring to check out the options and buy in a humanized way via WhatsApp or telephone, which ends up overloading the operation.

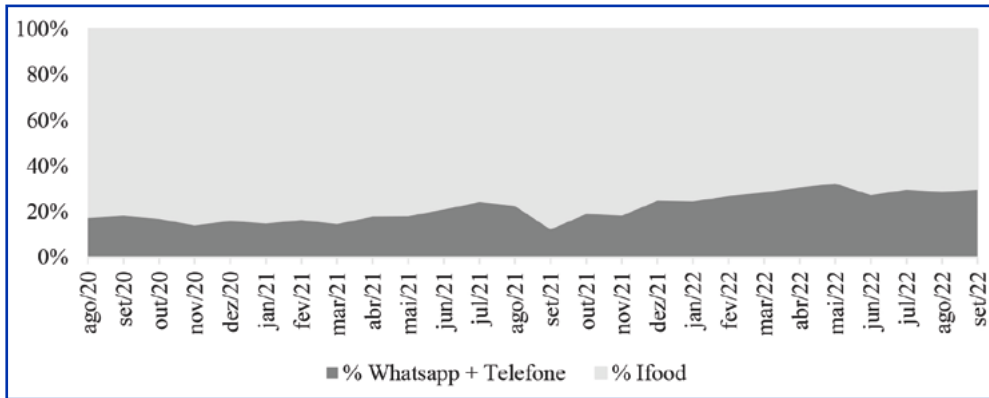
There is also the fear that the competitive advantage resulting from the introduction of the new service will be lost through imitation initiatives promoted by the competition, as evidenced by Flávio’s comments:

‘Everyone likes to copy [...] I see that everyone is evolving and we’re constantly finding new ways of advertising, that’s the most important thing.’

Although he understands that the delivery service is around for the long term, Flávio is worried about the impact of this new operation on the course of Palatos. The success of the delivery service is overloading his main store operation, and he fears for the quality of the service offered both in person and online. And when he thinks about online service, Flávio’s mind is divided between the advantages offered by apps like iFood and the dangers of leaving humanized service in the background. Both are important channels for acquiring orders for Palatos’ delivery service, according to Graph 3.

Flavio’s head is so full of questions that not even a delicious piece of pie accompanied by a cup of coffee can answer them. Which path to take? How to take Palatos to the next stage without losing its essence? After all, the continuity of his entrepreneurial dream is at stake.

Graph 3. Palatos: Evolution of the percentage of delivery orders by purchasing channel.



Source: Own elaboration based on company data.

Betting on the Future or Believing in Tradition? Dark Kitchen and Marketplaces as Dilemmas for Palatos

The first dilemma is related to the possibility of growth in the delivery operation, and its impact on the routine of Palatos' main physical store (the Head Office). The success of Palatos' delivery operation has taken its toll: today, the space in the Head Office store that has been adapted for deliveries can no longer handle the volume of orders - and is already getting in the way of serving customers who come to the store in person.

And, since expanding the physical store is not an option, Flávio's experience tells him that in order to grow in turnover, it is necessary to completely separate the physical and delivery operations. Mindful of market trends that point to Dark Kitchens as a fast-growing business model, Flávio is considering investing in an operation dedicated exclusively to deliveries.

Dark Kitchens are points of sale for companies in the food sector that don't have a shopfront, and where there is no direct interaction between the consumer and the attendant: they are kitchens or production lines dedicated exclusively to the delivery operation. They are generally located in less valuable commercial

spaces and operate in an optimized way to reduce production, order assembly and delivery costs.

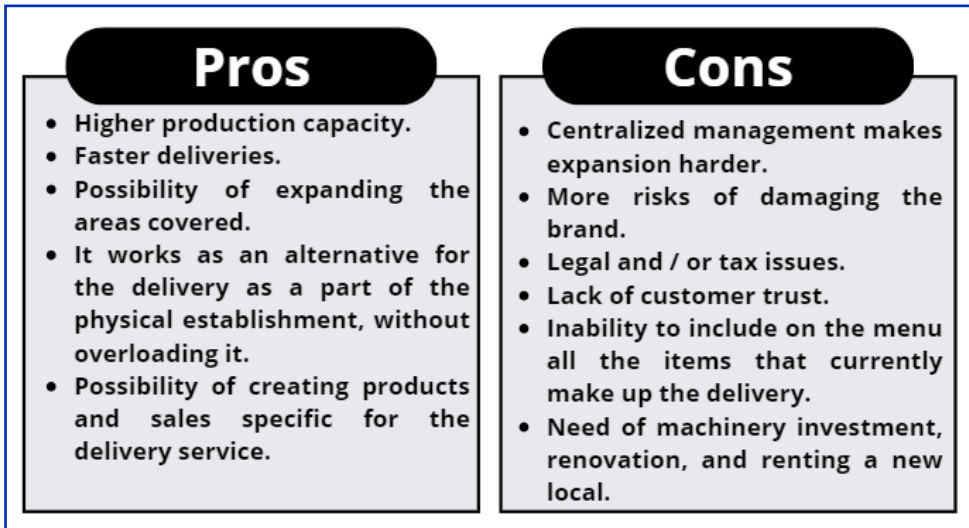
Following this path would allow Palatos to increase its production capacity of the delicacies that are the flagship of the delivery service, such as the mini fried snacks. Operating in a separate location from the physical store operation, it would also relieve the current level of saturation of space and personnel at the Head Office.

And, as it is a completely new operation, already designed and formatted for delivery, it would have greater capacity to make faster deliveries. It would also be possible to expand Palatos' delivery radius by hiring more motorcycle couriers, which is not possible today given the saturation of the space dedicated to dispatching orders. It would also increase the possibility of creating specific products and offers for delivery - since the separation of space and ERP systems would eliminate points of friction or confusion for customers and employees between what is sold physically and online.

But to obtain these benefits, Flávio would need to invest in equipment, rent and renovate a space to house the new operation. It would also involve legal and tax issues arising from the creation of yet another company. In addition, the existing synergy between the production and delivery centers would be lost since not all the equipment could be duplicated for the new operation, due to its high cost, the new operation would have to focus only on producing and selling the products that could be made in the Dark Kitchen.

But what worries Flávio most is the fact that the new operation will inevitably be in a more distant location - there are no nearby stores available or economically advantageous for setting up a delivery-only operation. This causes him anguish, because as management is centralized around him, he would have to adapt to delegating functions that he alone currently performs. This and other situations can be illustrated as pros and cons for decision-making, as shown in Figure 3.

Figure 3. Pros and Cons of Investing in a Dark Kitchen by the Palatos bakery chain.



Source: Developed by the authors.

Flávio fears that the absence of direct supervision could lead to damage to the Palatos brand, for example through the dispatch of substandard products. In addition, he believes that there is a lack of trust on the part of the traditional consumer in ordering from a place that exists, for the consumer, only on a virtual level. Flávio is therefore faced with the following dilemma:

Dilemma 1 – Dark Kitchen

Would it be the right decision to invest in a Dark Kitchen-style delivery operation for the Palatos bakery chain? Should Flávio believe in the future, allocating resources and modifying his management model to make this new venture possible, or stick to tradition and keep Palatos where it is - under his total control?

The second dilemma is linked to the type of service to be prioritized in the delivery operation. It is undeniable that delivery ordering apps represent a significant innovation that is changing consumer habits and opening up new revenue opportunities for food establishments. Their user-friendly interface and the speed and convenience they offer customers in generating their orders make delivery marketplaces a consolidated trend.

However, their adoption by MSEs generally faces barriers such as the lower level of digitalization of these companies, the existence of resistance from owners and the persistence of financial restrictions. In the case of Palatos, however, these barriers are lower than those faced by local competitors: as the company's ERP system already automatically imports orders placed via apps, there is greater control of the sales process when this channel is used. Giving priority to this customer acquisition channel can therefore bring advantages to Palatos: the greater standardization derived from establishing menus in the apps reduces the chances of errors and losses in the process of assembling and delivering orders.

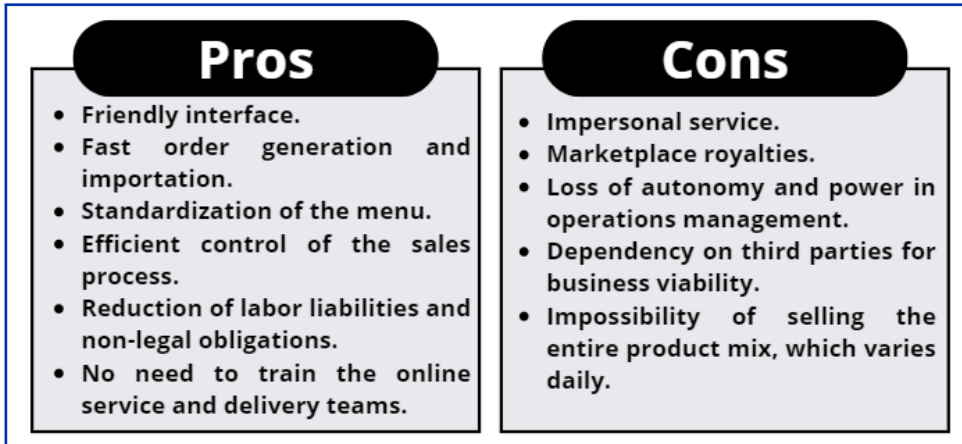
Such integration also allows for greater agility and ease in the processes, reducing the need for training for the online sales team and making it possible to expand sales via delivery without the need to hire more attendants. And finally, concentrating delivery orders on the apps would enable Palatos to reduce its labor liabilities and legal obligations: as the apps have their own team of motorcycle couriers, it is possible to outsource this function.

On the other hand, the impersonality of buying via apps can generate resistance on the part of the more traditional clientele: many customers may feel wary of sharing their personal information with establishments, or even resist non-human service. Betting on marketplaces also comes at a cost: Palatos currently pays 12% of the revenue from orders placed via iFood in royalties, which strangles the operation's margin.

Added to this is the loss of autonomy and management: by betting its chips on iFood, the company ends up being at the mercy of mandatory aggressive promotions promoted by the app, but financed by the store, and the system of evaluating establishments so that the company has visibility for its virtual store windows. And, given the great diversity of Palatos' product mix, putting all the items on app menus is an unfeasible task given that many are not available every day

- this ends up reducing the range of products that can be sold via marketplaces, as shown in Figure 4.

Figure 4. Palatos: Pros and Cons of adopting Marketplaces as the only delivery order acquisition channel.



Source: Developed by the authors.

The paradox between humanizing and automating online customer service, which is a challenge for Palatos, can be demonstrated by the following managerial dilemma:

Dilemma 2 – Marketplaces

How can Palatos resolve the apparent paradox between humanizing and automating online customer service in order to satisfy and delight its traditional clientele while seeking operational efficiency?

With his coffee cooling and the piece of pie still untouched, Flávio decides to make a call to an old friend who is now a Business Strategy consultant. Supposing you were that friend, how would you help Flavio with his decisions? What recommendations would you offer? The dreams and delights of Palatos are at a crossroads...

Teaching Notes

EDUCATIONAL GOALS AND USAGE RECOMMENDATIONS

The teaching case was developed within the scope of subjects related to Business Strategy, Entrepreneurship, Innovation and related subjects, especially in Business Administration and related Social Sciences courses, at undergraduate and post-graduate levels. The educational objectives of this case are: to discuss the strategic position of the business under analysis, based on strategy concepts and tools; to analyze the company's organizational resources; to integrate the strategy tools of the VRIO model and the GUT matrix; to discuss the opportunities and challenges faced by the business in order to gain competitiveness.

As well as helping students, this case can be used by managers and consultants as a conceptual and practical tool for developing business strategies and gaining competitiveness. The information and reflections generated from the Palatos case contribute to decision-making about dark kitchens and marketplaces in the context of different companies and sectors.

SUGGESTED TEACHING PLAN

For the preparation and application of the case in the classroom, we suggest four phases of execution:

Step 01: Individual analysis and preparation

It is recommended that students have access to the text of the teaching case at least a week in advance, so that they can ask questions about their doubts and prepare their arguments. The teacher should encourage students to take personal notes and bring them with them on the day of the activities. Students should have theoretical training in the analytical tools of business strategy that will be covered. To this end, the following can be recommended as further reading: Barney (1991); Porter (2008); Barney and Hesterly (2019).

Step 02: Small group discussion

On the day of the activity, the teacher can create a suitable layout in the room by gathering chairs in small circles that are (where possible) far apart. The students

should be divided into small groups, each of which should have printed or digital versions of the teaching case. When all the groups are formed and, in their seats, the teacher will hand out the discussion questions. The groups should be asked to discuss and find ways forward for each of the dilemmas, which will then be presented to the rest of the class. It is up to the teacher to encourage the activity, interacting with the group to resolve any doubts and / or pointing out ways of consulting literature when deemed necessary. We suggest that this stage lasts between 20 and 30 minutes.

Step 03: Classroom plenary discussion

Discussion with the whole class, where the groups can present their suggestions for solving the dilemmas presented. The aim is to circulate the main theoretical concepts involved in solving the teaching case. One or two representatives can be elected as spokespeople for each group, in order to make communication more effective. It is suggested that this stage be conducted in a brainstorming format, in order to encourage the free generation of ideas, following rules of good practice: (a) define the speaking time for each group; (b) the more ideas, the better; (c) avoid criticizing the ideas presented during the course of their presentation; (d) appreciate new approaches to solving problems; (e) systematically record ideas; (e) encourage the combination and improvement of the ideas presented. During the presentation of ideas, students should be encouraged to base their arguments on elements in the literature. The pros and cons involved in the choices present in each dilemma should be understood in terms of their use as business resources. This stage lasts a suggested 60 to 70 minutes.

Step 04: Finalizing the Case

The teacher should select the best ideas recorded on the board during the previous phase, demonstrating the importance of applying the relevant theoretical tools. We recommend using the VRIO model as a way of establishing the competitive potential arising from the exploitation of each resource involved in the choices presented. The teacher should be concerned not to point out the right or wrong answers involved in the possible choices and decisions to resolve the dilemmas, but rather to weigh up the possible gains and losses linked to each choice, in terms of their impact on the level of competitive advantage to be achieved by the firm. The

results of the VRIO model, for both dilemmas, can be translated into a list of challenges or activities to be prioritized with the help of the GUT Matrix - which should be presented by the teacher - thus arriving at the decisions.

DATA SOURCE

This teaching case is based on true and reliable information about the Palatos group, obtained mainly from private business documents (including images in the firm's archives), interviews and secondary market data extracted from the SEBRAE and ABIP databases. Direct observation by one of the authors also contributed to the construction of this case, as he has direct access to the business.

The business's private data was formally authorized for publication by the company, as was the use of its real name and the accounts described here, in compliance with the ethical premises of research (PARRY; MAUTNER, 2004). Before submitting this Teaching Case, its content was shared with the company so that it could check it and present any objections to its disclosure. No objections were raised by the company to the original text, which is being presented here.

For teaching purposes, the authors created two major problem situations presented in the form of decision dilemmas, in order to lead students to solve the case. As this is a debate in an academic environment, the problem situations were formulated in such a way as not to compromise the teaching objective.

SUGGESTED DISCUSSION QUESTIONS

The possibilities for reflection on this Teaching Case are not limited to the issues suggested by the authors. However, we would like to point out a few questions that could facilitate discussion of the dilemmas presented:

1. What are the main elements with the potential to give Palatos competitive advantages?
2. Should Palatos invest in a fully automated channel for acquiring delivery orders, prioritizing marketplaces for this purpose?
3. Should Flávio believe in his entrepreneurial dream and raise funds to invest in a Dark Kitchen?
4. What are the main difficulties to be faced by Palatos in following the paths you have chosen?

CASE ANALYSIS

Flávio's and Palatos' dilemmas, presented at the end of the case (see Figures 10 and 11), involve strategic decision-making within an entrepreneurial logic. The role of business strategy is to deal with competition (BARNEY et al., 2021), i.e., the solution to the dilemmas presented involves analyzing and determining which options would bring Palatos the best competitive scenario.

In the case of MSEs, analyzing competitiveness using tools that look at the industry level is particularly complicated: these companies have greater difficulties in obtaining strategic market information, less power to influence the direction of competition at the industry level, and have limited resources to support their operations (SUSANTO et al., 2023). This case study is about the search for and maintenance of competitive advantages by a small company: it is necessary to adopt tools that look inside Palatos and based on its resources and capabilities, establish the best paths for the business in terms of competitiveness.

In the context of the theoretical debate on issues relating to business strategy and the competitiveness of firms, the influence of the Resource-Based View (RBV) stands out. The RBV tells us that firms can achieve competitive advantage thanks to the heterogeneity of resources and proposes an understanding of how these are achieved and sustained over time (Barney; Hesterly, 2019). Resources are the central element of the RBV, since they are the assets that are the basis for the elaboration and operationalization of unique value-creating strategies (Barney et al., 2021). Resources can be physical, financial, human, organizational and include skills or competencies that are fundamental to generating competitive advantages (Barney; Hesterly, 2019).

Financial resources can be understood as all the monetary capital, from any source or type, used by companies to design and implement strategies. Physical resources relate to all of a company's physical assets, including its facilities, machinery and equipment, as well as its geographical location and access to raw materials. Human resources, in turn, comprise all the experience, judgment, intelligence and competence of the firm's staff, as well as the individual relationships and perceptions between its components. Finally, organizational resources encompass both the formal and informal structure for planning, executing and controlling tasks, as well as the relationships between groups or sectors within the

firm and between the firm and other actors in its business environment (Barney; Hesterly, 2019).

If a firm possesses valuable resources and capabilities that few other firms possess, and if it is very costly or difficult for these other firms to imitate them, then the firm that controls these resources will probably have a competitive advantage (Barney, 1991). From this point of view, in order to move between the different competitive scenarios towards a sustainable competitive advantage for its business, the firm must be able to adequately identify and operationalize its resources and capabilities (Tunes; Monteiro, 2017).

Aiming to provide a tool that would allow firms to identify and select resources and capabilities in relation to their potential for generating competitive advantage, Barney and Hesterly introduced the VRIO model, made up of hierarchically constituted criteria: value, rarity, imitability and organization. This model suggests four questions - linked to the four criteria - that decision-makers should ask about the firm's resources and capabilities in order to establish its competitive potential (Barney; Hesterly, 2019).

The first of these refers to 'Value': we should ask whether the resources and capabilities allow the firm to exploit opportunities or neutralize external threats. If 'yes', these resources and capabilities are considered strengths, if not, they are considered weaknesses (Barney; Hesterly, 2019). So, a firm's resources and capabilities are valuable if they enable it to develop and implement strategies that allow it to lower its costs or increase its revenues beyond the limits that could be achieved without their possession (Barney, 1991).

The second question to be raised, that of 'Rarity', aims to determine whether this resource is being controlled by a small number of firms in a market. If a particular resource or capability is controlled by many competing firms, it is unlikely that this resource can be a source of competitive advantage for any of them, since the other firms that possess this resource also have the ability to exploit it: this leads to a scenario of competitive parity (Barney; Hesterly, 2019).

Valuable and rare resources, therefore, can only be a source of sustainable competitive advantage if the firms that own them are able to exploit them.

Chart 1. Palato’s case: VRIO assuming the option of marketplaces as the only channel for acquiring Palatos delivery orders.

Resource / Capacity	V	R	I	O	Competitive Implication
Speed in processes via menu standardization.	V	V	V	V	Sustainable competitive advantage.
Integrated control of orders obtained via marketplaces.	V	V	V	!	Unused competitive advantage.
Customer-friendly interface for generating orders on marketplaces.	V	V	X	X	Temporary competitive advantage.
Impersonal service (orders made only via app).	X	X	X	X	Competitive disadvantage.
Higher prices to cover the fees / royalties charged by marketplaces.	X	X	X	X	Competitive disadvantage.
Participation in promotional actions formulated by marketplaces.	V	V	X	X	Temporary competitive advantage.
<i>Marketplaces as the only channel for acquiring orders.</i>	V	X	X	X	Competitive equity.
Impossibility of selling the entire extensive product mix via delivery.	X	X	X	X	Competitive disadvantage.

Source: Prepared by the authors.

The VRIO model applied to the first dilemma allows us to identify that, by choosing to concentrate the acquisition of orders for its delivery on the marketplaces, Palatos can obtain sustainable competitive advantages derived from having a sales and control system (ERP) integrated with these marketplaces, which allows for a greater level of speed and standardization of processes related to the sale, preparation and dispatch of orders - something rare in local competition, and costly to obtain. As for financial and stock controls, however, such a sustainable com-

petitive advantage can only be achieved if the firm manages to organize its internal processes in a way that suits these tools - such as introducing weekly stock checks.

Opting for this path also brings temporary competitive advantages arising from the customer-friendly interface of delivery apps, which can be a stimulating factor in generating orders for Palatos. It also generates potentially undesirable competitive scenarios, such as, for example, a competitive disadvantage due to giving up humanized customer service and having to charge higher prices to cover the royalties charged by the marketplaces, as shown in Chart 2.

Chart 2. Palatos case: VRIO assuming the option to invest in Dark Kitchen for the expansion of the Palatos delivery service.

Integrated control of orders obtained via marketplaces	V	R	I	O	Competitive Implication
Speed in processes via menu standardization.	V	V	V	V	Sustainable competitive advantage.
Integrated control of orders obtained via marketplaces.	V	V	V	!	Unused competitive advantage.
Customer-friendly interface for generating orders on marketplaces.	V	V	X	X	Temporary competitive advantage.
Impersonal service (orders made only via app).	X	X	X	X	Competitive disadvantage.
Higher prices to cover the fees / royalties charged by marketplaces.	X	X	X	X	Competitive disadvantage.
Participation in promotional actions formulated by marketplaces.	V	V	X	X	Temporary competitive advantage.
<i>Marketplaces as the only channel for acquiring orders.</i>	V	X	X	X	Competitive equity.
Impossibility of selling the entire extensive product mix via delivery.	X	X	X	X	Competitive disadvantage.

Fonte: Elaborado pelos autores.

The application of the VRIO model to Dilemma 02 shows that investing in a Dark Kitchen with the aim of expanding Palatos' delivery service can give the company sustainable competitive advantages derived from a new, large and automated production plant, as well as an exclusive physical space designed to optimize home delivery operations. It would also provide a sustainable competitive advantage from an expanded delivery radius, should the company choose to organize itself to meet the increased geographical reach of its operations.

It also makes it possible to obtain temporary competitive advantages from having a dedicated team on delivery, as well as the possibility of implementing a different product mix from the current operation - in both cases, these resources, although rare, can be obtained relatively easily by the competition. Preparing orders in a place that is not visible to customers, however, would only allow Palatos competitive parity, as it would match the practices of most of the competition (most local firms do not have a kitchen visible to consumers in their physical stores).

Implementing a Dark Kitchen, however, means reducing the control of top management - centralized in the figure of Flávio - over the delivery operation, since it is in another location. It also means reducing the mix of products offered via delivery (since not all items could be produced in the new facilities), and the possibility of exclusion from the Simples Nacional group due to the need to open another CNPJ. This would put Palatos at a competitive disadvantage, as it would not provide value to the company.

The analysis presented here shows that all the possible paths allow a set of resources to be exploited that can give Palatos very different competitive scenarios. The VRIO model makes it possible to identify the level of competitive advantage derived from the exploitation of a given resource, or a set of them, but it does not make it possible to establish prioritization or actions to exploit them (Pereira; Bamel, 2021).

In order to resolve the dilemmas presented, we must bear in mind that not every resource has the same weight in terms of business success. Barney (2004) reminds us that just taking risks and working hard are not the differentiating factors between successful and unsuccessful entrepreneurs: those who know how to identify which resources and competencies can provide their firms with a source of sustainable competitive advantage are more likely to succeed. It is therefore essential that entrepreneurs are able to identify the critical success factors for their firms.

As a way forward, we propose applying the GUT matrix (Pinto et al., 2022) as a way of establishing prioritization criteria for the challenges identified during the application of the VRIO model. The GUT matrix makes it possible to analyze demands in order to understand their degree of importance and, consequently, establish an order for their execution. It is therefore useful for aiding decision-making by enabling the link between business strategy and its operational implementation in the form of projects (Longman; Mullins, 2004). The first step in applying the GUT matrix is to list a series of activities to be carried out, assigning them grades from 01 to 05 in terms of their severity, urgency and trend, as shown in Figure 5.

Figure 5. GUT Matrix.

G GRAVITY What are the expected effects?	U URGENCY Can it wait?	T TENDENCY Will it worsen?
5 Extremely serious	5 Extremely urgent	5 Quick worsening
4 Very serious	4 Very urgent	4 Short-term worsening
3 Serious	3 Urgent	3 Medium-term worsening
2 Not very serious	2 Not very urgent	2 Long-term worsening
1 Not serious	1 Not urgent	1 No worsening trend

Source: Developed by the authors based on Pinto et al. (2022).

With the activities listed and the grades assigned, the next step is to obtain the result for each item on the list by multiplying the scores given to each of the criteria. This will produce a score that will serve as the basis for classifying the activities listed in order of priority: activities that receive higher scores are prioritized over those that receive lower scores.

In this Teaching Case, the items that led to competitive levels below sustainable competitive advantage in the VRIO analysis could be listed as activities: with the exception of these, all the others could be considered problems to be solved by the firm. Thus, using the GUT matrix, the following problem-solving prioritization would be obtained, as shown in Chart 3.

Chart 3. GUT Matrix applied to the Palatos Dilemmas.

Initiative	Initiative	Urgency	Tendency	GUT	Calculated order
Higher prices to cover the fees / royalties charged by marketplaces.	5	5	4	100	1
Impersonal service (orders made only via app).	5	4	5	100	1
Impossibility of selling the entire extensive product mix via delivery.	5	5	3	75	3
Preparation of orders in a place not visible to customers.	4	4	4	64	4
Participation in promotional actions formulated by marketplaces.	3	4	4	48	5
<i>Marketplaces as the only channel for acquiring orders.</i>	5	3	3	45	6
Removal of CNPJ from Simples Nacional.	5	2	3	30	7
Impossibility of selling the entire extensive product mix via delivery.	3	3	3	27	8
Reduction of direct management control over the delivery operation.	5	5	1	25	9
Promotional mix designed for delivery.	2	4	3	24	10
Integrated control of orders obtained via marketplaces.	3	2	3	18	11
Staff dedicated exclusively to the delivery operation.	1	3	2	6	12
Customer-friendly interface for generating orders on marketplaces.	1	1	3	3	13

Source: Prepared by the authors.

The results of the GUT matrix show that resolving Dilemma 02 is a priority, since the possible problems arising from this dilemma generally have higher scores than the problems arising from the choices made in Dilemma 01. It also shows that some of the problems arising from the choice to invest in a Dark Kitchen can have a major impact on the firm's operations and a high tendency to worsen.

It should be noted, however, that there is no right or wrong answer to a teaching case of this nature. The reasoning applied to the tools presented in these Teaching Notes is based on the evidence presented and is a coherent way of interpreting it, but it is not the only viable way of solving Palatos' dilemmas. Rather than pointing out mistakes and successes, it is important for the teacher to observe the coherence of the answers and how each group defends the chosen strategy, based on the recommended literature.

FINAL CONSIDERATIONS

The dilemmas presented in this Teaching Case refer to current and relevant topics for the out-of-home food sector: the incorporation of technology into the sales process (adherence to delivery marketplaces) and the physical separation between delivery and in-person store activities. They also involve trade-offs for decision-making, since the entrepreneur is forced to decide in a reality where resources are scarce. They are therefore related to the very survival of these companies: making the wrong decision could lead to financial deterioration or even bankruptcy.

This is particularly true for MSEs: despite their economic importance and the fact that they are present in all Brazilian geographic and social strata, these firms have a high rate of bankruptcies - which shows the need to discuss the competitiveness of these businesses from the perspective of business strategy. The case of Palatos is relevant because it is a traditional and mature business, but one that is facing contemporary dilemmas.

The history of work on delivery marketplaces is relatively recent, as are studies on Dark Kitchens. This Teaching Case contributes to students' ability to reflect on themes that are currently under construction and discussion by academia, by bringing these themes to the Brazilian reality. The context of Palatos makes it an ideal object for such discussion, since the dilemmas presented are real and are being considered now. The Palatos case looks to the future, and its decisions must be made urgently.

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