

Bull Terrier, Pitbull, Rottweiler and many more!

Bull Terrier, Pitbull, Rottweiler e muito mais!

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ABSTRACT

This teaching case examines the challenges of entrepreneurship and operational management in small businesses through the story of Marconi Ferrazo, the owner of a hot-dog fast-food outlet in Imperatriz Leopoldina, Brazil. With no formal training in management, Ferrazo relied on hands-on experience and intuition to build a lean and competitive business model. His dilemma emerged when he chose to expand into a larger location, adding table service and a broader menu. The move carried substantial risks and exposed the inherent trade-offs among operations, marketing, and finance. The case is designed for undergraduate, graduate, and executive education programs, particularly in courses on Operations Management, Marketing, and Finance.

Keywords: Operations strategy and management; Marketing; Consumer segmentation. Financial analysis. Small firms.

RESUMO


Este caso de ensino explora os desafios de empreender e gerenciar operações em pequenos negócios, narrando a trajetória de Marconi Ferrazo, dono de um fast-food de hot-dogs em Imperatriz Leopoldina (SP). Sem formação acadêmica em gestão, Ferrazo apoiou-se na experiência prática e na intuição para desenvolver um modelo de operação enxuto e competitivo. O dilema surge quando ele decide expandir para um espaço maior, com atendimento nas mesas e maior variedade de produtos. A decisão envolve riscos relevantes e evidencia os *trade-offs* entre operações, marketing e finanças. O caso é indicado para cursos de graduação, pós-graduação lato sensu e educação executiva, especialmente em disciplinas de Gestão de Operações, Marketing e Finanças.

Palavras-chave: Gestão e Estratégia de Operações; Marketing; Segmentação de consumidores. Análise financeira. Pequenas empresas.

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Introduction

Every city has its popular restaurants, bakeries, and snack bars that offer quick, affordable and, if you are

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lucky, tasty meals. In Imperatriz Leopoldina, in the state of São Paulo (SP), Brazil, guided by instinct and making the most of the resources available, Marconi Ferraço built a distinctive hot dog business that offered bold flavors, fair prices, fast preparation, and above-average quality. Sandwiches with dogs' names—such as *São Bernardo* [St. Bernard], Rottweiler, and Pitbull—quickly won over local customers.

Demand grew steadily over the first 15 years of the operation, and turned Ferraço into the city's leading hot dog seller. The operation was compact, with space only for the team to assemble the sandwiches and for customers to pay. The workday ran from 11:00 a.m. to midnight. In the first shift (11:00 a.m.–6:00 p.m.), there were two employees; and in the second (5:00 p.m.–11:59 p.m.), there were two more. Ferraço closely monitored the routine and managed the business, but relied on a cook working elsewhere to prepare most of the inputs. Looking back, Ferraço admitted that his choices did not follow a prior plan—they followed his intuition:

“Nothing I've done up to now was planned. My instinct led me to the decisions I made—it's what I needed to do.”

This way of acting—grounded in practice, listening, and paying careful attention to customers—sustained the business for many years. Over time, the lines grew longer, orders piled up during peak hours, and little by little Ferraço began to feel it was time for another move:

“The sandwiches are still great, with flavors that are really different from the standard ones. The Rottweiler and *São Bernardo* are my favorites. The problem is the place: it's small and uncomfortable. You can't invite someone to sit down and eat calmly. On the other hand, this has already become an iconic spot in town. The flavor and the story speak volumes.” Roberto, 48, civil servant — Imperatriz Leopoldina (SP)

Ferraço had a plan: to move to a bigger, organized, and more comfortable space—one that could offer table service and a broader menu. The same intuition that once guided him on the sidewalk was now pushing him to take a more ambitious leap.

“In the new store, I'll be able to offer the products I'm creating and serve my customers in greater comfort,” Ferraço would say.

But the plan went beyond having a new physical space. It represented a new phase—one that would require more people and a more professionalized operation. The new environment could take the business to another level and, perhaps, even open the path to a future franchise chain. Ferraço intended to move the kitchen and baking areas into the new location, thus seeking greater control and organization. He had already selected the address, which was about 150 meters from the original unit, offering roughly 350 m² of space, but in need of renovation.

With his sharp “feel” for the business, Ferraço was close to making the final decision, yet he could feel the weight of the risk. Something about this change seemed different from the ones he had implemented over the previous ten years. The doubt was palpable: should he lease the larger space? And you—what would you do?

Roots and first flavors

Born in 1975 in Santo Antônio, Pernambuco, Brazil, Ferraço moved with his parents and siblings to state of São Paulo, following his grandparents, Jofre and Josefa, who were searching for better living conditions. The couple initially settled in São Miguel Paulista, but when they learned that the German textile company, Essen, was building a plant in Imperatriz Leopoldina, and because they were seeking stability and a better future, they decided to start their new life there. They bought a small house near the Essen plant and then brought the rest of the family who had remained in São Miguel. Even so, they endured some difficult times, marked by illness and precarious conditions.

Over time, Jofre and Tarcísio—Ferraço’s father—secured steady jobs at the company, and the family’s situation improved. Weekend lunches prepared by Dona Josefa became a household tradition and sparked Ferraço’s interest in cooking. While still a teenager, he began preparing special dishes for the family, especially for one of his sisters.

“That’s what cooking is, right? You keep testing, learning over time, getting the hang of each thing—prep time, the right point of flavor, attention to detail. I always tried to do everything well. Like my grandmother used to say: A job worth doing is worth doing well. If you do it right the first time, that’s it—done!” Ferraço recalled.

The phrase became a life principle. Without realizing it, Ferração may have begun to form a personal standard of rigor and attention to detail—something that would later define his way of doing business. His adolescence was rich in experiences that shaped his future as an entrepreneur. Beyond playing soccer, he got involved in theater, and gave small performances at the Belas Artes College in São Paulo city. That engagement grew out of the altruistic guidance of his teacher, Maria Vieira, who often said:

“Ferração, if you put 100% into the character, you’ll get 100% back from the audience. When you step on stage, you’ll get that energy back.

That sensitivity to the impact of delivery—what is seen, felt, and perceived by those on the other side—also stayed with him. With that perspective still forming in his head, he had to leave Imperatriz Leopoldina. Concerned about their children’s professional future, his parents sent Ferração and his brother to live with an aunt in Carapicuíba, another city in the state of São Paulo. There they continued studying and found jobs as office boys. Yet the bustle of the big city and difficulty in adapting meant them returning to Imperatriz.

Building his own logic (1991–2000)

Back in Imperatriz, Ferração also went to work at Essen. To be hired, candidates had to pass the “little knot test,” which required 60 knots being tied in 60 seconds; Ferração managed to tie 65! But despite the rigorous routines, he felt factory work did not meet his expectations, and he began to consider entrepreneurial opportunities.

After a misunderstanding with management, Ferração ended his time at the factory. With his severance pay in hand, he weighed two options: (1) open a low-cost business with a hot dog cart; or (2) accept an office-boy job in Imperatriz with a slightly higher salary than he had earned at the factory. He chose to bet on opening his own business. André, a friend who worked as a clerk, allowed him to place his cart on the sidewalk in front of his office. On the first day, Ferração took around R\$ 200.00, which motivated him to continue.

“From the start, I had in mind: I’m going to make a different hot dog—something people will taste and come back for. It’ll create that emotional memory,” Ferração remembered.

From the beginning, he showed a clear intuition: flavor would be the hook for building a bond with customers. From that point on he began producing most of the ingredients and inputs himself. On outings with his then-girlfriend Silvana, he would observe hot dog businesses in other cities, compare them, and bring back ideas he thought would be useful for his customers in Imperatriz. In that experimental phase, he recalled with a nostalgic smile:

“In the first six months I ruined my grandmother’s stove. I destroyed it testing recipes.”

It was the start of a personal operating logic—one built on constant experimentation with whatever resources he had at hand. In this early period, Ferração sold only one type of sandwich: a simple hot dog with sausage, tomato sauce, mashed potatoes, shredded chicken, lettuce, shoestring potato sticks with an unusual name, “Fried Green Tomatoes” that, according to him, “was a ploy to make potential customers curious.”

Because he was working alone, his routine ran from Sunday to Sunday, from 4:00 p.m. to midnight. At the time, people mainly looked for clean and organized places. Ferração reflected on that period:

“Word of mouth was really strong! People didn’t mind eating standing up—on the contrary, they even liked it. That was great because it reduced my costs a lot. But I hadn’t planned it like that; it happened because of my reality. Only later did I realize those benefits. I also worried a lot about speed of service, and our price was very similar to everyone else’s.”

Memories of that phase remain vivid for many residents:

“I remember when it was just a small office table, with your aluminum bike leaning out front. I miss your sandwiches so much—I’ve never eaten anything like them again,” recalls Marcelo, 42, a mechanic — Mogi das Cruzes, São Paulo.

This was how Ferração built his own way of operating: keeping costs under control, adapting to the context, and delivering what customers truly valued.

Success in less than 10 m² (2001–2011)

At the turn of the century, Ferraço left behind the busy sidewalk and his bicycle to operate in a small, rented shop in front of his friend's former office. His now-wife Silvana, who helped in the fast-food outlet, played a fundamental role in that phase. With the birth of their first daughter, Ferraço began hiring employees—first one, then two, increasing the number as needed. He also started creating sandwiches with different names and ingredients (**Exhibit 1**).

“I’m going to change my sales strategy. I’ll use dogs’ names like Bull Terrier, Pitbull, and São Bernardo. Then I thought to myself: I want to create a sandwich with bacon—so I invented the Rottweiler, which still sells like hotcakes today!”

Each sandwich had a distinct flavor, even though they shared some similar ingredients. To gain speed, Ferraço prioritized sandwiches assembled using room-temperature ingredients that were ready in less than a minute. Items requiring a griddle, grill, or frying pan took longer and, during peak moments, could create small order backlogs. That production logic became an invisible engine behind the operation: it made it possible to ensure speed, quality, and flavor even with a relatively varied menu.

Exhibit 1. Rottweiler: The best-seller.



Source: The author.

“One of the best hot dogs I’ve ever had. It’s a shame there’s nowhere to sit, but the food is excellent. And the hot dogs’ names? Brilliant. They’re all named after dog breeds!”
Ana Paula, 32, photographer — São Paulo city, Brazil

The special flavor came from combining basic ingredients with in-house preparations that Ferraço developed over time. He continued testing new combinations to launch new sandwiches and original recipes. Among the basic ingredients were shredded chicken and fresh vegetables; among the in-house preparations, the highlights were milk-bread buns, mashed potatoes, and home-made tomato sauce. The bun—made from his own recipe and with a three-day shelf life (no added preservatives)—reached peak flavor on the second day (**Exhibit 2**). Early on, an employee joked with him:

“Could you make the buns all the same size?”—a provocation that revealed the challenge of standardizing artisanal production.

On the other hand, in sandwiches like the Rottweiler, Ferraço achieved a distinctive flavor by frying certain ingredients, such as the sausage and bacon, to produce an outcome that is instantly apparent. Customers who had visited other countries—such as the United States, Australia, Canada, and Italy—recognized the unique taste of his sandwiches.

A hot dog enthusiast in São Paulo city, who often tried and compared sandwiches across well-known establishments, said he had never found anything similar. Some customers even took Ferraço’s sandwiches abroad at the request of pregnant relatives. Over time, word of mouth and sensory experience became part of the fast-food outlet’s reputation. Over and above their flavor, the sandwiches became the subject of stories, comparisons, and memories—and Ferraço understood that this also had to be communicated beyond the operation itself.

Ferraço bet once again on marketing. He renovated the small space to convey care, organization, and professionalism, and commissioned two glass panels that could be stored inside the shop at closing time. The panels featured photos of the sandwiches he made—images that became part of everyday community life. In addition to the “dogs,” Ferraço also created the “cats”, a parallel range of healthy [*organic products, no preservatives*] sandwiches with catchy names such as *Vaidoso*, *Manhosão*, *Malandrão*, and others (**Exhibit 3**).

Exhibit 2. Hot dog buns (in-house production).



Source: The author.

Exhibit 3. Boa Vida [Good Life]: One of the “cats.”



Source: The author.

“We could tell customers wanted something different.”

The “cats” included ingredients such as ham, sliced cheese, turkey breast, provolone, and catupiry. Later came the “toasties,” sandwiches with different fillings that were pressed in a machine to give that toasted finish. Two years later, according to Ferração, McDonald’s launched their Toastie:

“I even told my wife: Look, they copied us. Poor thing, they don’t even know we exist.”

For first-time visitors, the place stood out because of its unusual menu—especially the sandwich names—and for the constant movement. For returning customers, the attractions were different: fast service, prices perceived as fair, and a taste that brought many people back—including visitors from away, as in the following review:

“We came from São Paulo city looking for something to eat. A thousand out of ten! Fast service, a tasty sandwich, and a great price. Whenever we’re in town, we’ll come back.”
 Sheila, 34, bank clerk — São Paulo (SP)

Exhibit 4. Products sold.

Hot dogs							
Dogs	St. Bernard	Big dog	Rottweiler	Mongrel	Mongrel 2	Pitbull	Bull Terrier
Price	R\$ 14,00	R\$ 12,00	R\$ 17,00	R\$ 6,00	R\$ 7,00	R\$ 14,00	R\$ 17,00
Avg. sales/month	1300	1200	500	600	700	1000	500

Natural sandwiches					
"Cats"	Vaidoso	Boa vida	Manhosão	Malandrão	Malandrex
Price	R\$ 15,00	R\$ 15,00	R\$ 16,00	R\$ 16,00	R\$ 15,00
Avg. sales/month	250	300	200	150	140

Afternoon snacks				
Toasties	Ham and cheese	Turkey breast	Chicken	Provolone cheese
Price	R\$ 8,00	R\$ 9,00	R\$ 8,00	R\$ 8,00
Avg. sales/month	120	100	100	90

Beverages				
Drinks	Soda can 350 ml	Beer can 350 ml	Water (still/sparkling)	Soda 600 ml
Price	R\$ 6,00	R\$ 5,00	R\$ 3,00	R\$ 8,00
Avg. sales/month	2000	1200	300	700

Source: The author.

There were no direct competitors in the fast-food format in town. But would that advantage last forever? Because there was nowhere to sit, people formed lines despite the quick service time. According to Ferraço, the lines sparked curiosity among passersby:

“What happened? Did someone die? Are they giving something away?”

I’ve been coming since the days when the line was on the sidewalk—delicious! My friends come from São José dos Campos (SP), just to satisfy their craving for your sandwiches!”
Elaine, 41, nursing technician — Imperatriz Leopoldina (SP)

Exhibit 5. The iconic spot¹



Source: The author.

With the operation reaching the limit of its physical space, Ferraço began formalizing some areas of the business. He registered the sandwich names, sought credit lines that targeted entrepreneurs, and expanded the team to serve customers and produce ingredients and inputs. On Fridays and Saturdays, he relied on

¹ From left to right: Marconi Ferraço; a 3D rendering of the original facilities; and the glass panels displaying images of the sandwiches, which were taken down at the end of the day and stored inside the shop.

freelancers to reinforce the team and handle demand peaks. As the business grew, he began buying directly from major brands, thereby reducing his dependence on intermediaries and driving down the cost of certain ingredients and beverages.

“I wanted to see my daughters grow up. Working in retail is complicated: there are different kinds of customers, and when an employee is absent, whoever shows up ends up working twice as much. And that makes people irritated and uptight.”

That care for the team and for his own well-being revealed a pragmatic and human approach to managing the business—even if it was guided largely by intuition and experience. The operation grew, yet Ferração kept making decisions anchored in his values.

“A great sandwich and price! Tip: go on less crowded days. We got it hot and perfect! Just don’t go on Sunday—it’s closed.” Paulo, 45, salesperson — Guarulhos (SP)

His care for his employees also spilled over into the relationship with his customers. The team knew many of the customers’ preferences—including their subtle adjustments to orders—almost by heart. Many who used to go there as teenagers now returned with their children, which was a cycle of affection and loyalty he had never planned, but knew how to value.

“Ferração’s sandwiches have been part of my life since I was a child. I was a kid and already eating at the cart, which was at the door of the current spot. Later, I remember leaving school and running there, always with that unmistakable taste. What’s good, remains. Today I’m a mother, and my children love it too. It’s much more than a sandwich: it’s memory, affection, and quality—things that never changed.”
Denise, 36, psychologist — Imperatriz Leopoldina (SP)

Economic context and competition

Imperatriz Leopoldina is a small city, with just under 55,000 inhabitants and a GDP of around R\$ 1.6 billion. GDP per capita—R\$ 27,800—is below the state average. Income distribution indicates that 70% of the population is in classes D and E, 23% in class C, and only 7% in classes A and B. This profile reveals a heterogeneous

community with different socioeconomic segments and consumption patterns. The diversity is reflected in the range of food options that shape the city's daily life **(Exhibit 6)**.

Exhibit 6. Popular dining options.

Pastel shops, spread across the downtown area and neighborhoods, sell filled pastries for around R\$ 10.00 to R\$ 20.00. They are frequented mainly by workers on quick lunch breaks, and students looking for a cheap meal. Despite the flavor variety, the experience is uncertain. "With a pastel you pay little, but you never know if it's going to be good... sometimes it takes forever and the oil is heavy." Rogério, 29, mechanic's assistant.

Meat skewers, sold at garage doors or improvised trailers, cost around R\$ 10.00 each. These venues became nighttime meeting points, especially on weekends. The taste is recognized, but waiting time discourages some consumers. "Skewers are tasty, but by nine at night there's a line. Then you eat standing up, in the middle of smoke." Suelen, 34, elementary school teacher.

Popcorn, churros, and savory-snack carts are part of daily routines in public squares and near schools. Low prices and easy access ensure demand, especially among families with children.

Snack shops sell items like coxinhas, **empadas** [savory pastry], and fritters from R\$ 1.50 to R\$ 5.00. Although attractive because of the cost-benefit, they receive criticism because of their quality and consistency. "It's fast and fills you up, but you can't say it's healthy." Carlos, 41, rideshare driver.

Even R\$ **1.99 stores** compete indirectly by selling soda, chips, and cookies. A recurring complaint, however, is price inconsistency. "On the sign it's one price; and at the register it's another. It feels like a scam." Fernanda, 27, shop clerk.

Source: The author.

The city's formal labor market accounts for just over 10,000 jobs, mostly in low-wage operational roles. Average monthly income is around R\$ 2,400, which is less than the state average of R\$ 3,700, which underlines the importance of informal work as an essential part of the local economy. Even so, the city shows resilience,

with small businesses spread across neighborhoods and a commercial dynamic marked by close relationships between consumers and suppliers. This plural economy, while helping circulate income, also creates intense competition in sectors with low barriers to entry—such as fast food, convenience retail, and personal services. Alongside more affordable options, the city also offers alternatives aimed at differentiated experiences (**Exhibit 7**).

Exhibit 7 - Premium dining options.

Modernized bakeries serve coffees and snacks starting at R\$ 12.00, reaching R\$ 35.00 for more elaborate dishes such as barbecue with vinaigrette. For many consumers, they are spaces for special occasions. “It’s pretty and clean, but it’s not for everyday use. It’s more for when I want to take my mother or a friend somewhere to chat.” Luciana, 38, public employee.

Pizza places also play a social role. In simpler versions, a pizza costs around R\$ 25.00; in more popular venues—with live music and uniformed waiters—prices reach R\$ 80.00 or R\$ 90.00. “It’s where the ‘fancier crowd’ goes; we only come once in a while, when the budget allows.” Márcio, 45, merchant.

Restaurants with varied cuisine show perhaps the greatest contrast. While a “today’s special” dish (PF) costs around R\$ 15.00 to R\$ 20.00, higher-end restaurants serve individual dishes for R\$ 70.00 to R\$ 90.00, which are frequented mainly by businesspeople and visitors from other cities. “Here you see people from outside, people from São Paulo city, eating freely. The city has that more sophisticated side too.” Patrícia, 33, sales consultant.

Finally, **artisanal burger joints and bistros** in old mansions complete the scene. The rustic, distinctive atmosphere attracts young people and couples, but high prices and slow service restrict the customer base.

Source: The author.

In terms of commercial rent, monthly prices range from R\$ 3,500 to R\$ 6,000 for areas between 200 - 350 m², reaching R\$ 15,000 for properties of 1,200 m². These values are significant for a city whose consumption base is mostly popular and impose additional pressure on entrepreneurs seeking to expand. Moving to

more expensive locations may bring greater visibility, but it also increases the need to attract customers willing to pay more—or to win a higher volume of customers. This dynamic helps explain why different food formats—from the simplest to the most sophisticated—coexist in Imperatriz in both competitive and complementary ways.

The desire to expand and improve the operation

Against this backdrop of contrasts—in which customers sometimes face long lines, sometimes pay high prices for refined service, and in other situations settle for quick solutions of questionable quality—the central question emerges:

How can a food business improve its operation without losing sight of the balance between price, quality, speed, and convenience? Ferração observed his customers' everyday behavior:

“Some days the customer wants a sandwich; some days they want a full meal; and some days they feel like going somewhere calmer, that's more comfortable.”

Around 2012, with his fast-food outlet well established in town, Ferração began considering a bigger move. He wanted a place with tables, greater comfort, and more items on the menu. As Rocha, one of his longest-tenured employees, summarized it:

“Ferração is thinking about adding more items like bakeries have and offering table service in a cozier space.”

The new location—already identified by Ferração—was about 150 meters from the current address and had roughly 350 m² in area, but required renovation. If the move went ahead, the current spot would be closed and the business would operate in the new space. Ferração also planned on taking the kitchen and a baking operation there. He would consolidate everything in one place—handling ingredients, producing the buns, assembling the sandwiches, and serving customers at tables—with the intention of achieving greater organization and a better control over the process.

To make the expansion viable, he planned to hire another cook, two sandwich assemblers, and four servers.

With his strong instincts, Ferração was about to make the final decision, but felt the weight of the risk. Something about this change seemed different from those he had made over the past ten years. Perhaps it was just the “butterflies” of someone about to take a big step. Still, the doubt persisted: should he lease the larger space and set a new direction for the business? And you—what would you do?

Teaching Note

CASE USE AND LEARNING OBJECTIVES

This case was developed for undergraduate, *lato sensu* [specialization course] graduate, and executive education programs in business administration, particularly Operations Management and Marketing courses. It invites students to analyze how decisions in these two domains can sustain—or undermine—the value proposition of a small business undergoing expansion. The goal is for students to evaluate operational trade-offs and discuss strategic growth alternatives for Ferração Fast-Food. The learning objectives include:

- Analyzing the operations strategy of a business (considering operational variables, competitive criteria, performance objectives, and operations decisions).
- Identifying and discussing trade-offs embedded in improvement decisions.
- Simulating financial scenarios (including costs, margins, risks, and the impacts of expansion).
- Examining market segmentation, positioning, and target audience choices in relation to competitive criteria.
- Proposing and evaluating alternative growth decisions (integrating operations, marketing, and finance).

DATA SOURCES

This case is based on a real company. Names, locations, and some data have been anonymized. It draws on in-person interviews and WhatsApp audio messages

with entrepreneur “Marconi Ferraço” (recorded between 2020 and 2024), as well as publicly available information about the company.

Suggested teaching plan

PRE-CLASS PREPARATION

Before class, students should read the case and study complementary materials that explain how to use concepts and tools such as competitive criteria, performance objectives, operations decisions, the Importance–Performance Matrix, market segmentation, and the basic structure of an income statement. For this preparation, recommended reading includes Chapters 1–3 of Slack et al. (2022), Chapter 6 of Kotler et al. (2024), and Chapter 5 of Weil et al. (2014).

Students will likely need 45–60 minutes to read the case, take notes, and develop preliminary analyses to support the in-class discussion. To check preparation, the instructor can use not only objective questions, but also an initial analytical prompt such as: “Would you rent the new space? Justify your answer.”

STRUCTURE FOR IN-CLASS DISCUSSION AND WRAP-UP

The discussion can be organized into five interconnected blocks (**Exhibit 8**), all centered on Ferraço’s expansion decision. To encourage multiple perspectives, it is recommended that student groups be assigned distinct roles as, for example: external consultants, consumers, loyal customers, or employees.

The instructor should begin with the firm’s current operations strategy and the changes Ferraço intends to implement (Block 1). From there, the discussion should move on to the financial performance (Block 2) and then to the decisions made and their side effects (Block 3). This sequence helps make trade-offs and competitiveness dilemmas explicit.

Next, the debate should move on market segmentation, positioning, and defining the target audience (Block 4). This topic may already surface in Block 1 if students recognize how operational choices connect directly to different customer segments. Alternatively, segmentation may emerge only in Block 3, when the instructor examines the decisions made and their collateral effects, which reveal how

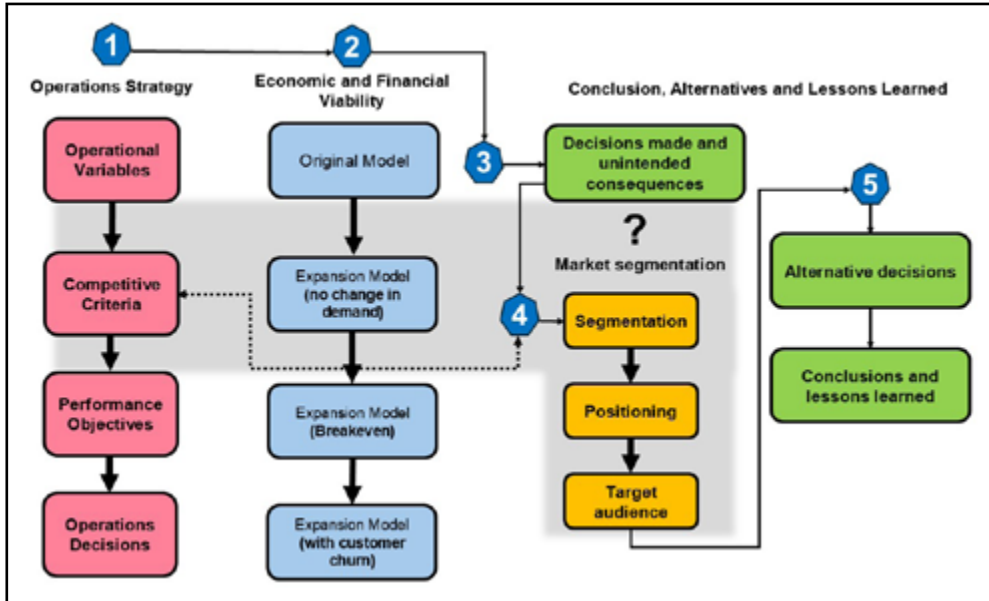
certain choices may have driven away or attracted distinct customer groups. This dual entry point reinforces the dynamic nature of **Exhibit 8: Operations decisions only make sense when aligned with the market and the segment the business intends to serve.**

The wrap-up takes place in Block 5, when each group proposes growth alternatives and consolidates lessons learned from the expansion, balancing strategic and operational coherence, financial feasibility, and market attractiveness.

The activity ends with a pitch of the strategic alternatives, in which groups present their integrated recommendations for the operations, marketing, and finance, and defend their view of Ferraço Fast-Food's future. Below is a more detailed guide for each block:

- 1. Operations strategy:** Analyze the operational variables, competitive criteria, performance objectives, and operations decisions. It is essential to discuss the trade-offs involved and how expansion may reshape the business's operational logic.
- 2. Economic-Financial viability:** Evaluate the decision using simplified models that simulate different expansion scenarios (no change in demand, break-even, and customer attrition). The objective is to estimate costs, margins, and risks, thus providing a clear view of the economic feasibility.
- 3. Decisions made and unintended consequences:** Understand the choices implemented and their intended and unintended impacts on operations and the local market, while identifying any analytical gaps that can generate learning.
- 4. Market segmentation:** Examine the segmentation, positioning, and definition of one or more target audiences. This analysis revisits competitive criteria, and reconnects market choices and operations.
- 5. Conclusion, alternatives, and lessons learned:** Propose strategic alternatives, discuss the key lessons of the case, and integrate operations, finance, and marketing into consistent recommendations.

Exhibit 8. Analysis and discussion structure.



Source: The author.

Suggested timing: 60–90 minutes per block.

Case analysis

The analyses presented below were based on information available in the case narrative, their purpose being to offer structured support for classroom use. They are not definitive descriptions of the reality, nor are they prescriptive recommendations. Rather, they are meant to guide an integrated debate of the operations, marketing, and finance, and encourage critical thinking and the applied use of the proposed tools. The definition of the decision paths, and their justifications, and implications should emerge from the student interaction, as facilitated by the instructor. To support application of the tool, we recommend using the first six questions presented in **Exhibit 9** as a guide. If the instructor wishes to deepen the discussion, we also recommend Questions 7 to 9 in the same exhibit.

Exhibit 9. Suggested questions for discussion, analysis, and decision-making.

Questions for discussion, analysis, and application of the tools

1. What are the key operational variables of Ferraço Fast-Food in its current store, and how would they likely change with the opening of the planned new store?
2. What are Ferraço Fast-Food's competitive criteria in the current store, and how would they likely be reconfigured in the planned new store?
3. What are Ferraço Fast-Food's performance objectives in the current store, and how would they likely be reconfigured in the planned new store?
4. What structural and infrastructural operations decisions underpin Ferraço Fast-Food's performance objectives in the current store, and how would those decisions likely be reconfigured in the planned new store?
5. Based on the data provided, prepare Ferraço Fast-Food's Income Statement using four distinct scenarios.
6. Which market segment and target audience should Ferraço Fast-Food (ideally) serve?

Thought-provoking questions

7. What are the main trade-offs Ferraço faced when moving from a lean model to an expanded model?
8. What growth alternatives could be suggested to Ferraço, considering the integration between marketing and operations?
9. If the dilemma had unfolded in 2025, how could digital technologies have supported the definition and implementation of market segmentation?

Source: The author.

Operations strategy

OPERATIONAL VARIABLES

1) What are the key operational variables of Ferraço Fast-Food in its current store, and how would they likely change with the opening of the planned new store?

Based on Duarte (2017) and Slack et al. (2022), we define operational variables as structural characteristics that set the boundaries of what an operation can—

and cannot—deliver (**Exhibit 10**). They serve as an analytical lens to understand each business’s “playing field” and are useful for examining operations over their different stages of development. In the classroom, they work both as an introduction to operations management and as a warm-up activity: they spark students’ initial curiosity and critical reasoning, while helping them identify what type of operation the organization is embedded in and which trade-offs are inherent in that context. These variables are typically assessed on a continuum ranging from “low” to “high” (**Exhibit 11**).

Exhibit 10. Operational variables.

Volume: Refers to the quantity of products or services delivered over a given period (day, week, month). In general, a higher volume enables repetitive routines, greater specialization, and work standardization, which tends to reduce unit costs and increase efficiency. By contrast, a lower volume typically requires greater flexibility and more direct team involvement, with less repetition and greater coordination effort, which potentially increases costs and makes performance more dependent on key individuals.

Variety: Refers to the diversity of products/services offered and the number of possible combinations (sizes, versions, add-ons, customizations). The greater the variety, the greater the complexity of the processes, inventories, training, and control, which increases the risk of errors and the costs. Lower variety, in turn, facilitates standardization, simplifies purchasing and production, reduces execution time, and tends to improve consistency. In many businesses, variety increases attractiveness, but it requires operational discipline so as not to compromise speed and reliability.

Demand variation: Refers to fluctuations in the volume of customers, orders, or service usage over time (seasonality, day of the week, time of day, events). When variation is high, the operation needs flexibility (people, shifts, additional capacity) or must accept queues/delays, which typically increases costs or affects customer experience. More stable demand, by contrast, allows better resource planning, more consistent routines, and less waste. Concentrated peaks (e.g., lunchtime) tend to be a recurring challenge in food-service organizations.

Demand predictability: Relates to the ability to anticipate when and how fluctuations will occur. Demand may be high yet still predictable (e.g., heavier traffic on certain days or at specific times), enabling the operation to prepare staff, inputs, and capacity. When demand is unpredictable, the operation relies more on rapid responses, buffers (slack time, inventory, idle capacity), and frequent adjustments. This increases costs and the risk of failures. Predictability generally improves planning, whereas unpredictability puts pressure on real-time decision-making.

Storability: Assesses how long a product can be stored without a significant loss in value (quality, shelf life, usefulness). Items with high storability enable inventory building, economies of scale in purchasing, and a smoothing out of variations in demand. Items with low storability (perishables, fresh and made-to-order items) require frequent replenishment, tight control, and synchronization with the sales rhythm; if not, the operation risks waste or stockouts. In services, the “product” is often not storable (unused capacity in a given time slot is lost), making capacity planning even more critical.

Customer contact: Refers to the degree of proximity and interaction between the customer and the operation (in-person, via direct service, or mediated by digital channels). The greater the contact, the more customer behavior will tend to influence the process (variations in orders, questions, complaints), requiring well-trained service staff, clear communication, and processes prepared to handle exceptions. Less contact allows the operation to focus on internal processes, increase predictability, and standardize routines. In many service companies, contact also affects perceived quality because the customer “sees” part of the process.

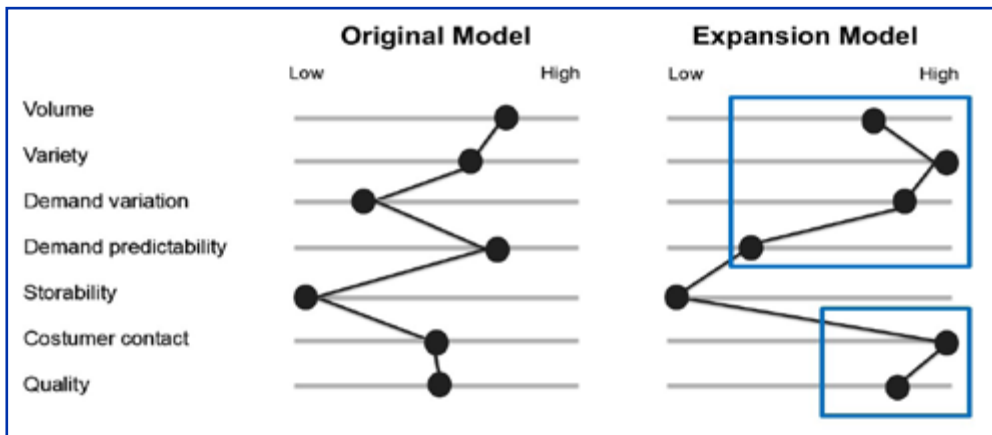
Quality (objective/subjective): Quality encompasses both objective dimensions (conformance to specifications, hygiene, safety, delivery time, absence of errors) and subjective dimensions (experience, taste/aesthetics, service, trust, reputation). Customer perceptions are shaped by context, expectations, and prior experience with the brand. As a result, two technically correct operations may be evaluated differently by consumers. In general, consistency and reliability underpin objective quality, while service, ambience, and reputation weigh more heavily on subjective quality.

Source: Adapted from Duarte (2017).

Exhibit 11 highlights the contrast between the two models. In the original model, Ferraço Fast-Food operated with high volume, low variety, and moderate demand predictability, which is consistent with the fast-food ethos: speed, standardization, and simplicity.

With the expansion model, the introduction of new items and table service increases variety, demand complexity, customer contact, and the subjective nature of quality. These changes may increase perceived value, but can also dilute the very essence of fast food. While the original outlet expanded gradually, supported by a loyal and relatively predictable customer base, the new operation would depend on consumption patterns that remain uncertain. A central location may suggest higher foot traffic, but it offers no guarantee of regularity, particularly given the short distance to the original store.

Exhibit 11. Comparing operational variables.



Source: The author.

Adding a bakery component introduces items with low storability, and increases the risk of waste and inventory-related costs. Table service intensifies customer contact and requires new capabilities, while quality is judged not only by the food itself but also by the in-store experience—waiting time, staff friendliness, and the physical setting—thereby increasing the subjectivity of any evaluation.

COMPETITIVE CRITERIA

2) What are Ferraço Fast-Food's competitive criteria in the current store, and how would they likely be reconfigured in the planned new store?

Hill (1994) argues that when formulating an operations strategy, it is essential to incorporate the market perspective. This requires building a “bridge” between what customers value and what the firm can effectively deliver. From this standpoint, competitive criteria can be classified into three categories (**Exhibit 12**).

Exhibit 12. Importance to customers.

Order-winning criteria (OWs)

1. Delivers a critical advantage to customers—it is the primary driver of competitiveness.
2. Delivers an important advantage to customers—it is always taken into account.
3. Delivers a useful advantage to most customers—it is typically taken into account.

Order-qualifying criteria (OQs)

4. Must be at least marginally above the industry average.
5. Must be around the industry average.
6. Must be close to the industry average.

Less-important criteria (LIs)

7. Typically not considered by customers, but it may become more important in the future.
8. Very rarely considered by customers.
9. Never considered by customers—and probably never will be.

Source: Corrêa & Corrêa (2022).

They should also be rated on a 1-to-9 scale, where 1 denotes a criterion that is decisive for purchase and 9 denotes a criterion that customers rarely consider in their buying decisions. Each criterion's performance should also be assessed relative to the competitors (**Exhibit 13**). The logic is similar, but the reference point shifts to the competition. Criteria are again rated on a 1-to-9 scale, where 1 indicates that the firm performs better than its competitors, and 9 indicates it performs worse than its competitors.

Exhibit 13. Performance relative to competitors.

Better than the competition
1. Consistently and substantially better than our best competitor.
2. Consistently and clearly better than our best competitor.
3. Consistently and marginally better than our best competitor.
On a par with the competition
4. Frequently, marginally better than our best competitor.
5. Approximately on a par with most competitors.
6. Frequently, a short distance behind our main competitors.
Worse than the competition
7. Usually marginally worse than most of our main competitors.
8. Usually worse than most competitors.
9. Consistently worse than most competitors.

Source: Corrêa & Corrêa (2022).

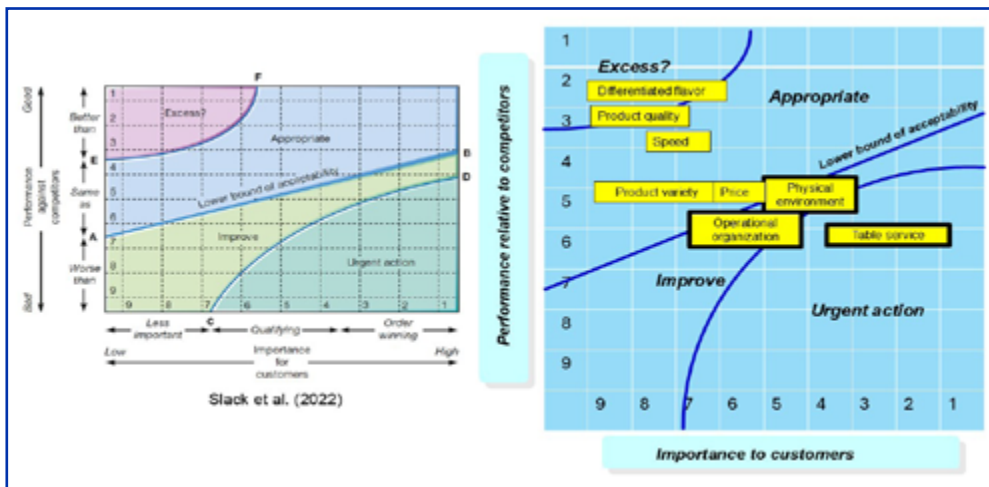
Cross-referencing these two ratings produces the Importance–Performance Matrix (**Exhibit 14**), which enables zones such as “Urgent Action,” “Improvement,” and “Excess” to be identified. The results do not need to replicate the exhibit exactly, but they should be internally consistent and avoid obvious contradictions. For instance, it would be incoherent to place distinctive flavor in the “Urgent Action” zone.

COMPETITIVE ANALYSIS: POPULAR OPTIONS, PREMIUM OPTIONS, AND FERRAÇO FAST-FOOD

Popular options: These businesses are sustained by affordable pricing and convenience (central locations, proximity to squares and schools), all attributes that function as Order Winners (OWs) and ensure steady foot traffic from lower-income consumers. Speed tends to operate as an Order Qualifier (OQ), but is often inconsistent: it may be strong in popcorn and snack stands, yet becomes critical in skewer kiosks and pastel shops. In the Urgent Action zone, issues typically emerge around perceived quality (reused oil, low stan-

standardization, poor hygiene) and the reliability of the experience (“You never know whether it’ll turn out good”). In the Excess zone, some pastel shops offer more variety than customers actually want, and without generating any meaningful differentiation—consumers primarily prioritize price, taste, and reliability. Compared with Ferraço, popular options tend to win on price, but lose on consistency and food safety.

Exhibit 14. Ferraço Fast-Food’s Importance–Performance Matrix.



Source: The author.

Premium options: These businesses differentiate themselves by the setting (cleanliness, charm, live music) and social status—OWs for A/B consumers and visitors. Product quality tends to function as an OQ: it meets the expected standard, but does not necessarily build loyalty among local customers. In the Urgent Action zone, speed becomes critical, as pizzerias, bistros, and burger joints often fall short on responsiveness. In the Excess zone, high prices (around BRL 70–90) limit access and purchase frequency. Compared with Ferraço, upscale options typically offer a superior ambience, but lose on affordability and speed. They are largely occasional choices, associated with leisure or status, and therefore do not compete day to day with a lean operation.

Ferraço Fast-Food: Ferraço's main OWs are his distinctive flavors and quality, which help explain the strong customer loyalty (**Exhibits 15 and 16**). Speed and price operate as OQs, although speed stands out relative to popular options and—especially—upscale ones. In the Urgent Action zone, ambience and operational organization constrain the experience, as limited space and peak-time bottlenecks affect consumption. In the Excess zone, flavor and quality have already reached a high level, and additional investments may increase costs without offering a proportional return.

The strategic dilemma lies in repositioning; investing in greater variety, a more comfortable setting, and table service may broaden the business's appeal, but risks undermining the speed and simplicity that currently sustain Ferraço's competitive advantage.

PERFORMANCE OBJECTIVES

3) What are Ferraço Fast-Food's performance objectives in the current store, and how would they likely be reconfigured in the planned new store?

Performance objectives represent how an organization evaluates its operations internally (Slack et al., 2022). They are typically expressed as five core objectives:

- Quality
- Speed
- Dependability
- Flexibility
- Cost

It is important to note that these objectives are directly related to competitive criteria, but now viewed from an internal perspective. For example:

- Price connects to the cost objective.
- Product variety relates to flexibility.
- Waiting time links to speed.
- Flavor and standardization reflect quality.
- Service consistency translates into dependability.

Exhibit 15. Competitive analysis: popular options, premium options, and Ferrão Fast-Food.

Attribute Blocks	Competitive Criteria	Popular Options		Premium Options		Ferrão Fast-Food		Comparison
		Importance	Performance	Importance	Performance	Importance	Performance	
Product	Differentiated flavor	5	7	2	3	1	2	▲ Superior
	Product quality	5	7	2	3	3	2	▲ Superior
	Product variety	6	6	2	3	5	5	Comparable (better than popular options, worse than upscale options)
	Price	1	3	7	7	4	5	Middle-of-the-road (more expensive than popular options, more affordable than upscale options)
Processes	Speed	6	6	3	5	2	2	▲ Superior
	Operational organization	8	7	3	3	6	5	Middle-of-the-road (better than popular options, worse than upscale options)
Customer experience	Table service	8	8	3	3	7	9	▼ Not one of Ferrão's differentiators
	Ambience	8	7	2	2	7	7	▼ Not one of Ferrão's differentiators

Source: The author.

Exhibit 16. Identifying competitive criteria.

Attribute Blocks		Competitive Criteria	Popular Options	Premium Options	Ferrazo Fast-Food	Classification
Product	Differentiated flavor	Weak (low standard, little valued)	Order Qualifier (good presentation, but expected)	Order Winner (core strength, drives loyalty)	Order Winner	Order Winner
	Product quality	Urgent action (reused oil, low standardization)	Order Qualifier (refined ingredients, but not decisive)	Order Winner (perceived consistency)	Order Winner	Order Winner
	Product variety	Excessive (variety does not compensate for basic failures)	Order Qualifier ("gourmet" variety is expected, but not decisive)	Trend (may become GP/Order Winner, but risk of high cost)	Less Important	Less Important
Processes	Price	Order Winner (main differentiator)	Excessive (high, barrier to access)	Order Qualifier (fair, affordable)	Order Qualifier	Order Qualifier
	Speed	Order Qualifier (minimum acceptable, inconsistent)	Urgent action (slow in pizzerias and bistros)	Order Qualifier (adequate, but could improve)	Order Qualifier	Order Qualifier
	Operational organization	Weak (poor reliability)	Order Winner/Qualifier (structured service, but may fall short on speed)	Urgent action (queues, peak-time bottleneck)	Less Important	Less Important
Customer experience	Table service	Weak (limited service)	Order Qualifier (table service already "built into the package")	Trend (future demand; affects expansion)	Less Important	Less Important
	Ambience	Urgent action (poor hygiene, improvised setting)	Order Winner (charm, social status)	Urgent action (limited space, discomfort at peak times)	Less Important	Less Important

Source: The author.

Exhibit 17 points to a meaningful shift: Two of the central performance objectives—cost and speed—which are critical not only for Ferraço but for the fast-food sector as a whole, would be affected by the planned changes. In the current configuration, these two objectives—together with quality—form the operation’s core tripod, while dependability is largely secured through their intersection.

With the planned changes, however, **quality** (in new dimensions) and **flexibility** gain prominence, displacing the operation’s current focus. Ferraço would no longer prioritize only speed and process/product quality in service and production, but would also incorporate factors such as:

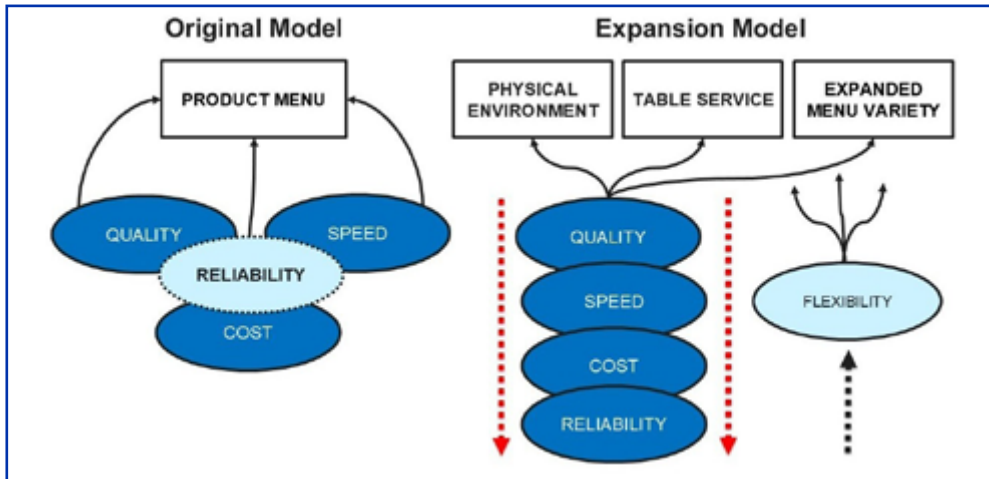
- Physical setting (layout, furniture, comfort) → quality
- Table service (a new service standard) → quality, flexibility, and dependability
- Expanded menu variety (more sandwich options) → flexibility

Under this new model, all five performance objectives become more explicit, but with different weights. Quality becomes more salient and—together with cost, speed, and dependability—is simultaneously pressured by the new operational requirements, which increases both risks and tensions. Flexibility also becomes more critical, given the broader menu and expanded service offering in the new store.

This reconfiguration demands a higher—and more complex and costly—level of internal performance. The operation may lose consistency in the elements that historically defined Ferraço’s original outlet—speed, standardization, and controlled costs—in exchange for greater variety and a richer customer experience.

In terms of product offers in Imperatriz Leopoldina, this meant Ferraço had to compete with bakeries, pastel shops, and snack bars; and in terms of ambience and service, with pizzerias and artisan burger restaurants. His move, therefore, was in response to a market signal, but it also put pressure on his operating identity, since the shift would require serving customer groups that had markedly different requirements.

Exhibit 17. Comparing performance objectives: Original Model vs. Expansion Model



Source: The author.

OPERATIONS DECISIONS: STRUCTURE, INFRASTRUCTURE AND IMPROVEMENT

4) What structural and infrastructural operations decisions underpin Ferreira Fast-Food's performance objectives in the current store, and how are these decisions likely to be reconfigured in the planned new store?

Operations management involves managing resources and processes to deliver products and services (Slack et al., 2022). Complementarily, it can be understood as the design, management, and continuous improvement of an operations system (Duarte et al., 2019). Operations decisions can generally be grouped into two categories, although different authors label them in different ways. In this case, we adopt the distinction between structural decisions (design) and infrastructural decisions (management).

Structural decisions: These refer to long-term choices that are more strategically relevant, and are typically linked to physical and tangible resources (facilities, equipment, technology, etc.). They require greater financial investment and are more sensitive to errors, which makes them slower to implement and harder to reverse. They include decisions such as:

- Product design
- Process design
- Capacity
- Layout
- Location
- Equipment
- Supplies: make or buy?
- Technology and systems

Infrastructural decisions: These refer to shorter-term choices with less strategic relevance; they are typically linked to systems, policies, routines, and practices. They require less financial investment and are less sensitive to errors, often producing results more quickly and being easier to reverse, although this makes them more readily adaptable to changes in the competitive environment. They include decisions such as:

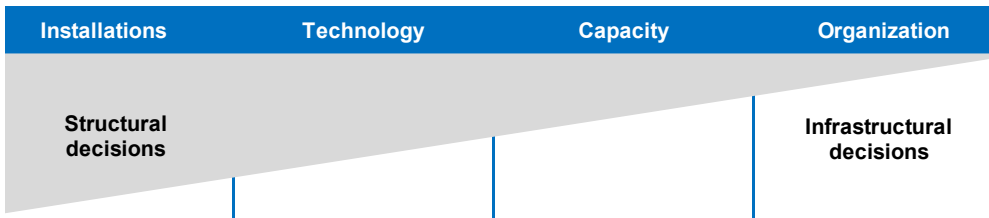
- Maintenance
- Suppliers
- Quality
- Inventory
- Costs
- People
- Performance measures
- Planning and control

The literature discusses not only the distinction between design and management decisions, but also their potential interactions. Many operational choices are hybrid in nature, combining long-term structural elements with shorter-term managerial levers (**Exhibit 18**). Capacity is a typical example: In principle, capacity is structurally constrained by the physical size of a store or plant (design), but it can also be adjusted by shift patterns and staffing schedules (management).

Thus, the distinction between structural and infrastructural decisions should be understood as a continuum, with each decision positioned according to its degree of inertia, required investment, and strategic impact. The greater the irreversibi-

lity and the need for capital, the closer the decision is to being structural. The greater the flexibility, adaptability, and reliance on operational routines, the closer it is to being infrastructural. Between these two extremes lies a meaningful middle ground, where decisions must be examined case by case.

Exhibit 18. The structural and infrastructural decision continuum.





Source: Adapted from Slack and Lewis (2009).

Structural and infrastructural decisions have distinct characteristics (**Exhibit 19**). Consider, for instance, the design of a hospital’s facilities. Location is strategic; constructing a new building involves physical and tangible resources, requires substantial financial investment, unfolds over a long time horizon, and comes with clear constraints (such as the number of beds). It is also highly sensitive to sizing errors and, because implementation takes time, it creates a strong inertia that makes the decision difficult to reverse.

By contrast, when thinking about managing the hospital’s capacity, it is often possible to expand service volume without changing the physical footprint. This can be done simply, for example, by reorganizing systems, routines, and practices, adding new shifts, hiring temporary staff, or by reallocating roles. These decisions tend to have a more limited strategic impact, require less investment, take effect quickly, involve less visible constraints, and are less sensitive to errors. They also produce faster results, have lower inertia and are more easily reversed.

The way capacity and facilities are managed, therefore, illustrates this structural–infrastructural continuum well, and shows how the same variable can take on either structural or managerial characteristics depending on the decision context and time horizon.

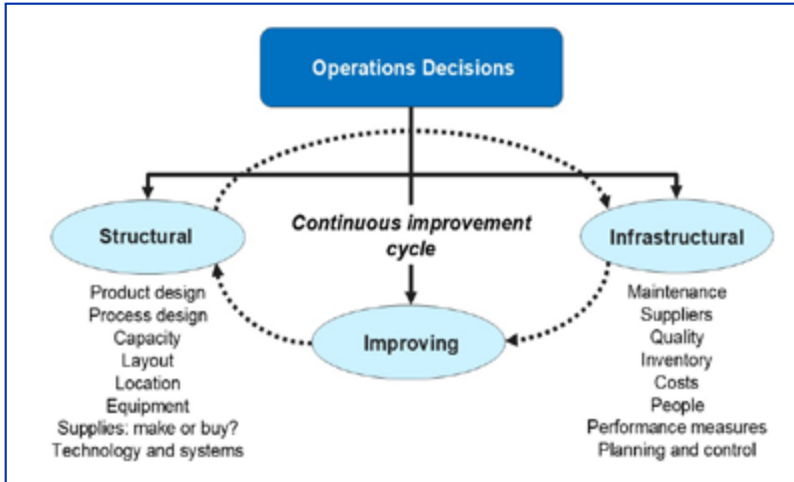
Exhibit 19. Characteristics of operations decisions.

<i>Structural</i>	<i>Infrastructural</i>
Physical and tangible resources	Sistemas, políticas, rotinas e práticas
Higher strategic relevance	Lower strategic relevance
Higher financial investment	Lower financial investment
Long term	Short term
More time to implement and see results	Less time to implement and see results
More visible constraints	Less visible constraints
Higher sensitivity to errors	Lower sensitivity to errors
 Greater inertia	 Lower inertia
Hard to reverse	Easier to reverse

Source: The author.

Improvement decisions: In addition to the categories mentioned above, we should also mention improvement decisions, which involve revisiting past structural and infrastructural choices in order to adjust them to meet new contexts or evolving needs. This logic of a continuous improvement cycle is illustrated in **Exhibit 20**. Over time, problems may emerge that require operational improvements. In the case of Ferraço Fast-Food, the facilities were initially designed in a lean way, which was well suited to the business’s early context. As demand grew, however, the space became too constrained to support sandwich preparation and provide a good customer experience. As a result, a decision that had been appropriate in the past needed to be adapted to meet the new requirements. This example illustrates how operational problems can arise when structural decisions that were once adequate—because they were made months or years earlier—become misaligned under new conditions.

Exhibit 20. Operations decisions.



Source: Adapted from Duarte et al. (2019).

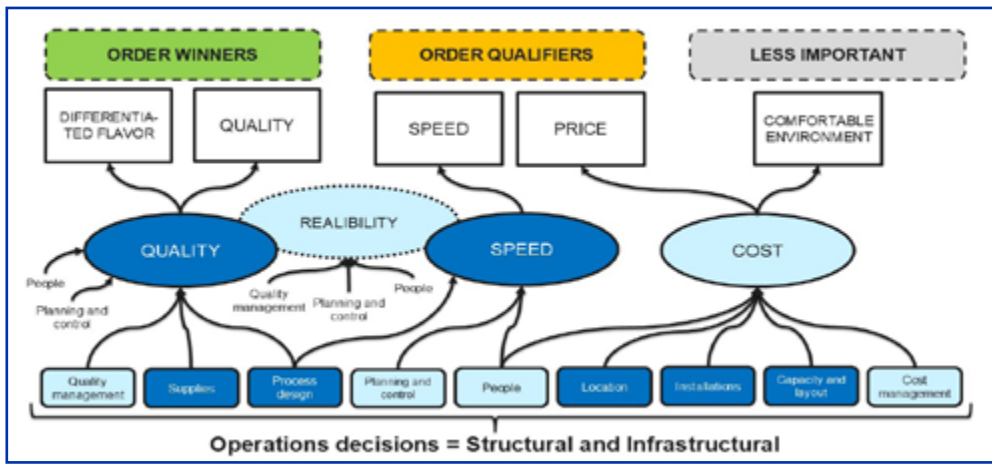
FERRAÇO FAST-FOOD'S OPERATIONS STRATEGY

Ferraço's operations decisions illustrate how structural and infrastructural choices connect directly to performance objectives and competitive criteria (**Exhibit 21** and **Exhibit 22**). Its location on a busy avenue—close to schools and retail stores—helped secure customer traffic and support competitive pricing (OQ), thus reinforcing the cost objective. The lean facilities, in turn, provided a cost advantage and were perceived as LI.

By contrast, supplies—grounded in exclusive ingredients and preparations, such as milk buns and a sauce made in-house—supported distinctive flavor and quality as OWs. Process design prioritized speed and assembly efficiency, enabling fast service without undermining quality. This coherence was reinforced by planning decisions such as closing on Sundays and in January, which reduced team fatigue and increased learning about customer patterns.

It was in this context that dependability also stood out: Operational consistency—supported by stable routines and low turnover—helped reduce costs while sustaining both quality and dependable service.

Exhibit 21. Ferraço Fast-Food’s operations strategy content.



Source: The author.

Quality management, centered on standardization and the owner’s direct oversight, helped consolidate customer loyalty. Cost discipline, in turn, sustained high margins in a price-sensitive market, albeit at the expense of a less sophisticated customer experience. Although cost was not the primary objective, the initial model—marked by structural simplicity, low investment, and discipline—delivered strong cost performance, securing above-average margins and strengthening the business’s mass-market competitiveness.

In summary, Ferraço’s OW criteria were distinctive flavor and perceived quality. Its OQ criteria, such as speed, price, cost discipline, and dependability, ensured baseline competitiveness, while LI criteria, such as ambience and capacity, highlighted the limitations and trade-offs. This alignment of operations decisions sustained the venture’s value proposition, but also imposed constraints on growth and diversification.

Exhibit 22. Alignment between operations decisions, performance objectives, and competitive criteria.

Operations decision	Performance objective	Competitive criteria	Relationship
Location	Cost	OQ (fair and affordable price)	▲ Support
Facilities	Cost	NR (comfortable ambience; not very relevant at first, later critical)	▲ Supports cost and ▼ becomes a constraint over time
Supplies	Quality	OW (differentiated flavor; quality)	▲ Support
Process design	Speed / Quality	OQ (adequate speed)	▲ Support
Planning and organization	Quality / Speed / Dependability	NR (operational dependability and people retention)	▲ Support
People	Cost / Quality / Dependability	OQ (speed and service consistency)	▲ Support
Quality management	Quality	OW (perceived quality; consistency)	▲ Support
Capacity and layout	Flexibility	NR (ambience and internal flow)	▼ Constraint (it was not a differentiator at first)
Cost management	Cost	OQ (competitive pricing; financial discipline)	▲ Support

Source: The author.

ECONOMIC AND FINANCIAL FEASIBILITY

In an Excel spreadsheet, use the assumptions below to build a simplified income statement for Ferraço Fast-Food.

5) Based on the data provided, prepare Ferraço Fast-Food’s income statement under four distinct scenarios:

1. Original model
2. Expansion model (no change in demand)
3. Expansion model (break-even)
4. Expansion model (with customer churn)

Exhibit 23. Assumptions for the financial analysis of expansion models.

Original model

- Revenue: Multiply the price of each product by the monthly quantities sold, then add the totals (**Exhibit 4**).
- Premises: BRL 600/month rent (small, affordable location).
- Staff: 1 cook (BRL 2,000) and four sandwich assemblers (BRL 1,800 each), plus 100% payroll charges → total BRL 18,400.
- Water and electricity: BRL 100/month each.
- Waste/spoilage (inputs): 5% of the production cost of the sandwiches.

Expansion model (no change in demand)

- Premises: BRL 6,000/month rent for a 350 m² of commercial space in a higher-visibility area.
- Staff: In addition to the original team, hire one additional cook, two new sandwich assemblers, and four servers (BRL 1,200 each).
- Water and electricity: a fivefold increase relative to the baseline scenario, due to the scale of the new facility
- Renovation costs: BRL 70,000 investment financed over 24 months, with monthly payments of BRL 2,916.67, treated as a new fixed operating commitment.

Expansion model (with customer churn)

- Classes D and E: a 50% contraction, due to greater vulnerability to economic shocks, price sensitivity, and less identification with the “upscale” operations
- Classes A, B, and C: a 20% contraction, reflecting dissatisfaction with the new operating standard or expectations being unfulfilled.

Market

- Economically active population in Imperatriz Leopoldina: 40,000 people.
- Distribution by social class:
Classes D and E: 35% each
Class C: 23%
Classes A and B: 2% and 5%, respectively
- This structure reinforces the fact that Ferraço’s consumer base is predominantly mass-market, and strongly dependent on price-sensitive customers.

Source: The author.

After preparing the income statements, compare the results across scenarios and discuss:

- Which indicators—gross margin, operating margin, and NOPAT—change most significantly between scenarios?
- What do these results reveal about the business’s strategic dilemmas?

Original model: In the baseline scenario, Ferraço operated as a lean snack bar: modest rent, a small headcount, and minimal operating costs. This light structure kept operating expenses at only 17% of revenue, providing substantial financial slack. The menu balanced anchor products, such as hot dogs, with higher-margin items (natural sandwiches) and complementary add-ons (beverages and afternoon snacks). This mix helped sustain a 61% gross margin, which is unusually high for mass-market fast food. Under this configuration, the business delivered an EBIT margin of 44% and NOPAT over BRL 43,900 per month—an exceptional result for a venture of this size! This highlights two core strengths of the model:

- **Operational efficiency:** a lean fixed-cost structure, with no debt or heavy investment commitments.
- **Mass-market appeal:** affordable prices and a likely uptake from all socio-economic groups.

Overall, the original model shows how combining simplicity with a volume-driven focus can generate above-industry margins, turning a local operation into a benchmark for profitability.

Expansion model (no change in demand): In the second configuration, Ferraço expands the physical footprint and professionalizes the operation, but keeps sales at the same level. The result is a much heavier cost equation; rent increases tenfold, headcount expands, and utilities are five times higher. While gross revenue remains unchanged, operating expenses rise to 40% of revenue (versus 17% under the original model). This jump sharply reduces financial slack and puts profitability under pressure. The business still maintains a strong 61% gross margin, but the weight of fixed costs drives EBIT down to 20% of revenue. NOPAT falls to BRL 20,900 per month, a 52% drop

relative to the original model; and once the monthly renovation cost payment is included, little more than BRL 18,000 remains. This scenario illustrates how a highly profitable venture can quickly lose sustainability. Expansion may deliver improvements in image and professionalization, but it also raises the break-even point, leaving the business far more vulnerable to any fluctuation in demand.

Expansion model (break-even): For Ferraço to return to the original level of profitability, gross revenue would need to almost double, rising to roughly BRL 206k per month. This 80% increase is the condition required to dilute the new cost structure and restore the business's attractiveness. In this scenario, the gross margin remains at 61%, but on a much larger sales base, which lifts gross profit to BRL 126k. Because operating expenses remain at BRL 46,200, operating leverage works in Ferraço's favor, and EBIT reaches 39% of revenue—nearly double the margin in the previous scenario. NOPAT increases to BRL 68k per month, and even after subtracting the monthly cost of the renovation, about BRL 65k remains. From a purely financial standpoint, the expanded model could even be more attractive than the original one. The central question, however, is feasibility: Reaching that volume of sales would require attracting substantially more customers in a market that is predominantly mass-market and characterized by relatively low purchasing power. This implies conducting research to verify whether such demand actually exists and adopting strategies consistent with both that profile and the original operating logic (**Exhibit 5**)—for example, opening new units in neighborhoods—or developing alternative paths with more detailed planning, considering this context alongside other segments (**Exhibit 32**). This does not appear to have been Ferraço's initial plan, as he steered the operation toward a different customer segment.

Expansion model (with customer churn): When the simulation assumes a 50% contraction of classes D/E and a 20% contraction among classes A, B, and C, the impact is devastating. Gross monthly revenue drops to BRL 64,700k, a 43% reduction relative to the prior level. Even with lower variable costs, gross profit shrinks to BRL 38,700—insufficient to sustain the new structure. With fixed operating expenses still at BRL 46,200, the business goes

into the red: EBIT turns negative (–BRL 7,500) and the final result increases the loss to BRL 10,400 per month. This scenario exposes Ferraço’s structural vulnerability: High fixed costs combined with dependence on a customer base that is highly sensitive to income shocks. A moderate contraction in demand is enough to make the operation unviable. Instead of positive operating leverage, expansion produces the opposite effect, which turns increased scale into an unsustainable burden. A comparative reading of the four scenarios highlights the core strategic and operational dilemmas faced by small businesses:

Exhibit 24. Conclusions from the modeled scenarios.

Original model: Highlights the strength of a lean operation, with minimal fixed costs, a gross margin above 60%, and NOPAT over BRL 40,000 a month—an outcome that is rare in the sector. This model remains sustainable as long as the business stays simple and volume-driven.

Expansion model (no change in demand): Professionalization and a larger footprint push fixed costs to 40% of revenue, bringing EBIT down to 20%. Net profit falls by more than 60%, leaving the operation far more exposed to fluctuations.

Expansion model (break-even): Shows that it only becomes attractive again when revenue increases by almost 80%. On that scale, the business may even become more profitable than under the original model, but feasibility is the core challenge: Achieving such growth is unlikely in a mass-market in a geographically constrained setting.

Expansion model (customer losses): Reveals structural fragility: With revenue down 43% and EBIT turning negative, the operation becomes loss-making. The combination of high fixed costs and a customer base concentrated among price-sensitive consumers quickly creates imbalance.

Source: The author.

In short, the case shows how expansion decisions can turn a profitable local operation into a financially fragile business. The strategic question for Ferraço—and for students—is to consider to what extent the chosen growth model is compatible with the market profile, and which alternatives might better balance ambition and sustainability.

Exhibit 25. Ferraço Fast-Food's expansion models and scenarios (Monthly, BRL)

Line items	Original model	Expansion model (no change in demand)	Expansion model (break-even)	Expansion model (with customer churn)
Gross revenue (A)	115,930.00	115,930.00	206,500.00	64,720.00
Hot dogs	72,100.00	72,100.00	129,200.00	40,540.00
Natural sandwiches	15,950.00	15,950.00	28,700.00	8,980.00
Afternoon snacks	3,380.00	3,380.00	6,000.00	1,870.00
Beverages	24,500.00	24,500.00	42,600.00	13,330.00
Cost of sales (B)	45,102.46	45,102.46	80,108.21	25,988.21
Food production	31,764.25	31,764.25	57,400.00	17,800.00
Beverages	11,750.00	11,750.00	21,120.00	6,600.00
Waste (inputs)	1,588.21	1,588.21	1,588.21	1,588.21
Gross profit (C = A – B)	70,827.54	70,827.54	126,391.79	38,731.79
Operating expenses (D)	19,200.00	46,200.00	46,200.00	46,200.00
Premises	600.00	6,000.00	6,000.00	6,000.00
Staff	18,400.00	39,200.00	39,200.00	39,200.00
Water	100.00	500.00	500.00	500.00
Electricity	100.00	500.00	500.00	500.00
EBIT (E = C – D)	51,627.54	24,627.54	80,191.79	-7,468.21
(-) Income tax (15%)	7,744.13	3,694.13	12,028.77	–
NOPAT	43,883.41	20,933.41	68,163.02	-7,468.21
(-) Renovation investment (per month)	0.00	2,916.67	2,916.67	2,916.67
Final result	43,883.41	18,016.74	65,246.35	-10,384.88

Source: The author.

Conclusion, alternatives, and lessons learned

DECISIONS MADE AND UNINTENDED CONSEQUENCES

Ferraço’s changes were shaped by the motives described in the “**Objective of the expansion model**” column in **Exhibit 26**. His original expectation was that demand would **triple, so** in working with that assumption, moving to a larger facility seemed to address all of those goals. As a result, a decision that initially focused mainly on the **physical setting** of the facilities expanded to include **capacity** as well, namely: *How large should the new facility be to deliver on these objectives? And what would be the associated cost of this, both in financial terms and in terms of change management?*

Exhibit 26. Summary of planned decisions: objectives, outcomes, and lessons learned.

Objective of the Expansion Model	Outcome of the Expansion Model	Key lessons from the Expansion Model
A larger location to enable table service, integrate areas, and improve organization	Higher fixed costs (staff, water, electricity, and rent).	Rent was roughly seven times higher than before. By integrating the kitchen and baking areas, the space that had previously seemed ample proved to be smaller in terms of seating capacity. In other words, the kitchen and baking areas could also have been used to serve customers (i.e., to allocate seating).
Improved appearance and comfort to attract more customers	Greater appeal to a minority of customers, but a gradual loss of the majority—and eventually, even of that minority.	Ferraço nurtured an overly optimistic expectation, as he had conducted no research or tests suggesting that demand would more than double. After the renovation and the installation of newer and nicer facilities, he realized that more price-sensitive customers—who used to be “regulars”—stopped coming in. Many said, “Now it feels more expensive; we can’t come in anymore.”

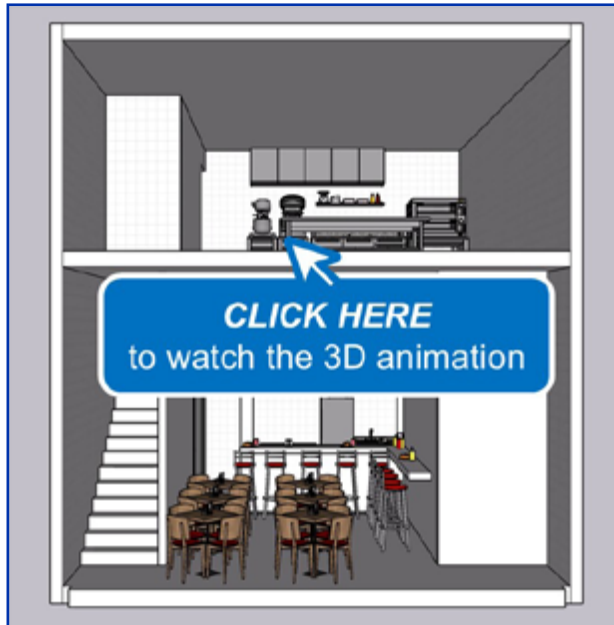
Better organization to offer more menu items (greater variety)	Launching new items (greater variety) created disorganization and reduced control, harming especially the flavor and quality of the core items.	Ferraço shifted from being a specialist in differentiated hot dogs and natural sandwiches to producing items already available in snack bars and bakeries. This format, which also faced service difficulties, ended up compromising the quality and flavor of the original sandwiches—precisely those that had driven his success.
Adding a kitchen and ovens to increase control and organization	Centralizing the kitchen and baking operation created disorganization and reduced control.	The mezzanine space—used for ingredient handling and baking—could have been allocated to tables and chairs. This layout choice made day-to-day operations more difficult.
Table-service capacity to offer more service options	Table service required more staff and therefore higher costs. This more customized option ultimately reduced service speed.	It was unclear whether customers should wait at the table to be served, place the order at the counter, or choose either option. Ferraço also expected customers to dispose of their trash themselves—a well-established practice at McDonald's—but it did not work in this context.

Source: The author.

The new 350 m² location was renovated with an investment of nearly BRL 70,000 (**Exhibit 27**). It probably attracted new premium-profile consumers (**Exhibit 30**), but failed to retain the original customer base, which gradually stopped purchasing there. In a small town, the new store may have driven away these loyal customers, who came to believe that sandwich prices had increased, even though that was not true. To make matters worse, the premium customers were not retained either: When confronted with lack of control and operational disorganization, they also stopped coming. With the move, Ferraço had to deal with three complex problems:

1. New operating costs;
2. Operational inefficiency and low service quality;
3. Unpredictable customer behavior.

Exhibit 27. Expanded store.



Source: The author.

MARKET SEGMENTATION

6) Which market segment and target audience should Ferraço Fast-Food (ideally) serve?

Changes and segmentation

Ferraço had not reflected systematically on market segmentation. On one side, there were customers who valued price, distinctive flavor, and fast service; on the other, a group that prioritized a more comfortable setting for the meal. The central question was: *How large is each segment—and what is the impact of each one on sales?*

“Later, when I looked at everything more carefully, the business had become hard to run. And I don’t know why either, but in a small town people were startled by the place

moving upscale. That guy—this is interesting—the ‘guy on the little bicycle’ who used to stop there for a sandwich wasn’t stopping anymore. He wasn’t going there anymore...” Ferração commented, probably referring to his loyal regulars.

One of the foundational processes in marketing is market segmentation (Kotler et al., 2024). Segmentation means identifying subgroups within a broader market that share similar needs and wants, and deciding whether the firm will serve them in differentiated ways. In Ferração’s case, there were signs that he wanted to move into a larger space, expand the product portfolio, and offer a more organized and comfortable experience. The central question, however, was: *Who were his customers, in practice?* Some appeared dissatisfied with the facilities, while others did not care—suggesting the presence of distinct segments within the customer base he had built up over time.

Ferração needed to understand these groups, which we have labeled “Premium” and “Original.” Which attributes mattered most to each segment? The next step would be to define the target market. To do so, he would need to assess each segment’s potential, the competitive landscape, and the resources the business already had—or would need to develop—to serve them at a high level. From there, the firm could build an action plan (i.e., improvement decisions) to deliver on the intended positioning.

This planning should have come before any decision about new facilities was taken. Ferração should have come up with answers to essential questions such as: Would the business serve both segments, or only one? Would the model be profitable in the long run? These choices would guide Ferração toward an operation capable of serving its target customers in a consistent and profitable way.

Exhibit 28. Segmentation process.



Source: Gupta (2014).

One suggested approach to segmentation analysis is to examine the variables illustrated in **Exhibit 29**:

Exhibit 29. Variables for consumer market segmentation.

Geographic	Country, region, city; urban vs. rural; climate.
Demographic	Age, income, gender, generation, marital status, family size, occupation, education, ethnicity, religion.
Psychographic	Lifestyle, personality, activities, interests, opinions.
Behavioral	Usage occasion/reason, loyalty, product knowledge, involvement, purchase occasion, stage in the buying process.
Expected benefits	Convenience, value, safety, status.

Source: Based on Shapiro and Bomoma (1984).

A preliminary analysis based on the case information makes it possible to outline plausible characteristics of the Premium segment (**Exhibit 30**). For a more robust assessment, these insights should be triangulated with the city’s socio-economic profile.

Overall, the analysis suggests that while the Premium segment may offer some potential, prioritizing the Original segment is more coherent. The Premium proposition does not align well with the city’s predominant profile, and demand from visitors is unlikely to sustain the new facilities on its own. Moreover, an excessive focus on Premium customers could alienate the Original segment—the established base of Ferração’s current clientele.

Exhibit 30. Analyzing Ferração Fast-Food’s Premium segment.

Variables	Defining the Premium segment	Evidence
Geo-graphic	Residents of Leopoldina and visitors from neighboring municipalities who value traditional, local sandwiches.	“I’ve been coming here since the days when the line was out on the sidewalk—amazing! My friends come from São José dos Campos just to satisfy their craving for your sandwiches!” Elaine, 41, nursing technician — Imperatriz Leopoldina (SP).

Demo- graphic	Teenagers and young adults (15–40), with higher purchasing power.	Information about socioeconomic classes in the case text. “That guy—interesting, right? The ‘little bicycle’ guy who used to stop by to eat a sandwich—he stopped coming. He wasn’t going anymore, you know?” (loyal clientele) — Ferração’s account to the author.
Psycho- graphic	Consumers who value differentiated culinary experiences and high-quality service.	Customers who had visited countries such as the United States, Australia, Canada, and Italy recognized the sandwiches’ distinctive flavors. A hot dog enthusiast in São Paulo said he had never found anything similar.
Behav- ioral	People who enjoy staying longer on-site—socializing, savoring the sandwiches, and talking with staff about curiosities, flavors, and the business’s story.	“The sandwiches are still great, with flavors that are really different from the standard—the Rottweiler and the <i>São Bernardo</i> are my favorites. The problem is the place: small and uncomfortable. You can’t invite someone to sit and eat calmly. On the other hand, it has already become an iconic spot in town. The flavor and the story speak volumes.” Roberto, 48, civil servant — Imperatriz Leopoldina (SP).
Expected benefits	A differentiated experience in service, facilities, appearance, and product flavor.	

Source: The author.

This analysis illustrates the challenges of managing a small business. In Ferração’s case, his choice appears to have been driven by two intuitive motivations that, when combined, proved to be counterproductive. The first was to expand the sandwich preparation area—a move that made operational sense. The second was to offer customers a more comfortable setting—an initiative aimed at a smaller segment and one that required a detailed assessment of the needs and impact. Without a clear strategic alignment, this combination increased the complexity and may have undermined the effectiveness of the change.

ALTERNATIVE DECISIONS

REPLICATING THE SUCCESSFUL MODEL

In classroom discussion, students are likely to suggest growing the business by opening new outlets in other neighborhoods or nearby towns, while preserving the original concept (**Exhibit 5**). If this idea does not emerge organically, the instructor may want to prompt it explicitly. At this point, it is essential to consider Ferraço's role in the operation. Questions for debate include:

- How would new outlets operate without Ferraço's direct presence?
- What operating standards and processes would be required to reduce dependence on the founder and ensure the success of new outlets?

Exploring these questions helps students understand both the founder's importance and the need to develop a replicable, autonomous, and sustainable operating model.

“STORE-WITHIN-A-STORE”

Another alternative would be to choose a mid-sized facility that includes a dedicated area for Premium service. Even so, the recommendation is to preserve the original menu, and avoid the inclusion of items that are typically found in bakeries and snack bars—a move Ferraço had already tried unsuccessfully. New items could be introduced over time, provided the brand's identity is maintained; this would be reflected in creative names, exclusive ingredients, and preparation processes similar to the current ones.

The Premium area should have a discreet entrance, visible only to customers already inside the venue, making it possible to serve both segments simultaneously (**Exhibit 32**). Discussion questions (**Exhibit 31**) include:

Exhibit 31. Suggested analytical and thought-provoking questions.

Analytical questions

1. What would be the main operational implications of this configuration, considering processes, layout, and service flow?
2. Would the current team be able to serve both segments, or would it be necessary to hire and train additional staff?

3. How might a shared service system affect perceived quality and waiting time in the Premium area?

Thought-provoking questions

4. How can efficiency and differentiation be balanced within a single operation? Should the Premium area be treated as an extension of the Original operation, or as a distinct business?

5. What are the limits of the current team's flexibility? Would hiring additional staff be a necessary investment—or a risk of inflating fixed costs?

6. Is it worth putting the traditional fast-food identity at risk to capture a Premium audience? To what extent can this shift create value without undermining the Original customer base?

Source: The author.

These questions help assess not only whether creating a Premium area would be feasible without undermining the efficiency and quality of the Original operation, but also the extent to which such a decision would affect the business's identity, cost structure, and long-term strategic sustainability.

Exhibit 32. Suggested store format for two segments (Original & Premium).

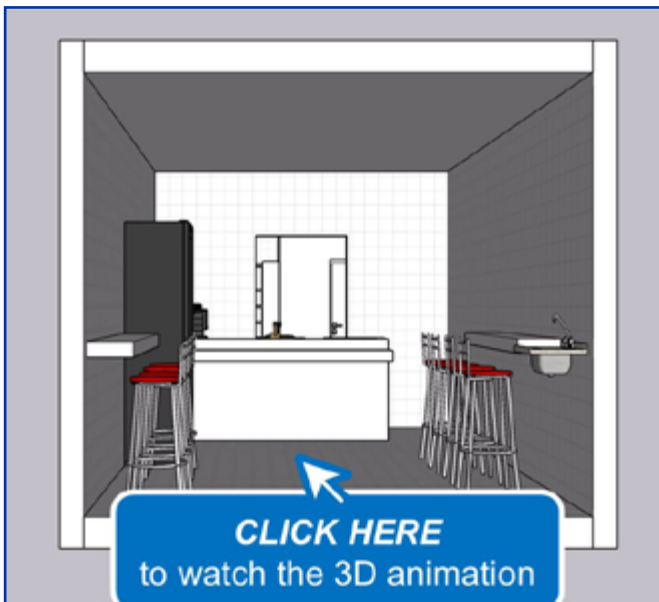


Source: The author.

FERRAÇO TODAY

Today, Ferraço operates in a location that is larger than the original outlet, but roughly half the size of the facility where the expansion attempt failed (**Exhibit 27**). The new venue enables a better service setup that is broadly aligned with Ferraço's original operations strategy. For dine-in customers, there are two side counters with high stools that are not particularly comfortable—encouraging quick meals, even though customers are sheltered from the rain (**Exhibit 33**).

Exhibit 33. Current store.



Source: The author.

CONCLUSION AND LESSONS LEARNED

Ferraço had built a business using solid competitive criteria (**Exhibit 34**), serving a customer base that preferred to eat standing up, take away, or order delivery—and that had remained loyal for more than 15 years. Yet the intended expansion model, which was implemented without adequate strategic reflection and without data to support it, ultimately diluted the business's identity and undermined its original value proposition (the “implemented” outcome).

Exhibit 34. Aspiration vs. reality: the challenges of entrepreneurship.

Original model	Expansion model (intended)	Expansion model (implemented)
Differentiated flavor	Differentiated flavor	Undifferentiated flavor
Quality	Quality	Poor quality
Fast	Fast	Slow
Fair price	Fair price	Perception that the place had become more expensive
—	Greater menu variety	Items similar to those offered by bakeries and snack bars—combined with the hot dogs and the “Cats”—ended up eroding differentiation
—	More organized operation	Disorganized operation
—	More comfortable on-site service	As a consequence of the issue above, the space ended up feeling uncomfortable

Source: The author.

The “Intended” column suggests that Ferraço aimed to preserve the first four criteria and add the last three to the operation. In the end, he lost them all; both what he originally had and what he tried to implement. This highlights the importance of understanding trade-offs, market segmentation, target audience and value proposition. The improvements served a minority Premium audience but alienated the Original customer base. The new operation—with table service and the inclusion of kitchen and bakery areas—created problems of disorganization and slower service. These factors negatively affected product quality and significantly increased operating costs. Against this backdrop, five lessons stand out for managers and entrepreneurs:

- 1. Planning, simulations, and data:** It is crucial to plan carefully, simulate scenarios, and ground decisions in concrete data and evidence—so as to avoid diluting the business’s identity and to ensure that changes truly meet the needs of the target audience(s).

2. **Market segmentation:** Ferraço wanted to offer a more comfortable service experience in a response to complaints. However, he needed a clearer understanding of the size of that “complaining” segment and its impact on revenue. Segmentation would have enabled more appropriate planning for the change.
3. **Strategic impact:** When implementing major changes, it is essential to assess how they affect both operations and the customer experience, ensuring that expansion or restructuring preserves the original value proposition and sustains the desired satisfaction levels.
4. **Strategic choices:** The essence of strategy is defining not only what to do, but also what not to do. Ignoring this logic leads to the temptation to try to please everyone, thus eroding focus and weakening the business’s value proposition (Porter, 1996).
5. **Learning and course correction:** By keeping the lease of the original location, Ferraço preserved an address associated with the attributes of his initial value proposition. When the move to the new store failed to deliver the expected results, he decided to return—an act of practical humility, recognizing the need for adjustment and course correction. Today, he operates in an intermediate-sized outlet (**Exhibit 33**), which is aligned with his original strategy.

“Sometimes a small loss is still a gain. I took a loss, stepped back, and stabilized. Then a spot that wasn’t so big opened up across from the original one, so I was able to get organized again, and the business thrived. Sometimes people are ashamed to admit their mistakes and won’t step back, and they end up sinking. They also worry too much about what others will think. And remember: going bankrupt means closing your doors!” Ferraço recalled.

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