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Case for Teaching

Chocolates and 'Legrias': Dilemma of the Best Sales Channel

Chocolates e "Legrias": Dilema da Escolha do Canal de Venda

Discipline: Marketing
Subject: Sales Channels, Marketing Mix
Industry: Food
Geography: São Paulo/Brazil

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INTRODUCTION

At the end of 2019, Alexandre Silva, the founder of Kakaw Spices, faced substantial entry barriers in São Paulo city to sell his chocolates in retail. The brand was seen with high price positioning, packaging with low attractiveness at the point of sale, low margins for retailers, and, as a consequence, there was no buyback.

A solution could be to create a new brand with a more fun proposal. The packaging would be more cheerful, colorful, and clear, with more competitive price for São Paulo retail. Thus, at the beginning of 2020, Legria emerges. The company was ready to move forward and begin its sales. However, in March 2020, concomitant with the classification of the new coronavirus outbreak (SARS-CoV-2) by the World Health Organization (WHO) as a pandemic, the number of cases of people infected with the virus increased in the state capital. Consequently, in early May, the government decreed the closing of the trade.

Legria, which had just been created, would already face different challenges: How to sell chocolates during the crisis caused by the pandemic? What would be the best channels to resell the newly created chocolates? What would be the main advantages and disadvantages of sales channels? Alexandre would need to create a strategy to sell the new brand, and at the same time, maintain a reasonable profit margin for the company to grow and become competitive.

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THE CREATION OF LEGRIA

In January 2018, in São Paulo city, after several attempts to create his own business, Alexandre decided to take an introductory chocolate course to learn the techniques. He wondered the possibilities of inclusions that he could make with chocolates during the time, but wanted different flavors and decided to test the idea. He bought bar shapes, a few kilos of Belgian chocolate 70%, dehydrated fruits, and nuts. He made the bars, calculated their costs, thought of plain packaging with lead paper and kraft. And among stamps, the brand Kakaw Spices was born. Later, Alexandre discovered that he could manufacture his chocolate through bean to bar or 'from grain to bar.' To learn more about the topic, Alexandre found a three-day course. So, it was time to become a chocolate maker!

Figure 1. First packaging of chocolates.

During August 2018, Alexandre learned about the concept of bean to bar and knew the equipment he would need to perform the process of roasting, grinding, refining, and tempering chocolate. He received indications from different raw material suppliers. Excited by the knowledge acquired, Alexandre began researching the market for fine chocolates in Brazil and realized that he could use almonds of Brazilian origin to make his chocolate. Thus, he elaborated the project from research on national suppliers of cocoa almonds and found that most were in the northeast of the country.

To know the characteristics of the products that he intended to work with, Alexandre went to Ilhéus and had the opportunity to visit farms producing cocoa almonds. In conversation with almond producers, he learned different classifications and types for purchase, premium almonds, intermediate, and bulks (commodity). The premium almonds underwent a high fermentation control on the farm, acidity control and technical report, costing around R$ 22.00/kg. The intermediate almonds did not have strict fermentation control, so they had no technical information and cost an average of R$ 18.00/kg. Finally, bulk almonds, composed of sprouted almonds, over fermented, and burned by excessive exposure to the sun, cost, on average, R$ 8.00/kg. Alexandre found that if he wanted to buy premium organic almonds, he would have an additional charge of 10% on the price. Of course, these figures did not yet include freight and taxes for issuing invoices. Even so, he wanted premium almonds because believe they are essential to make chocolates with superior quality.

After meeting the producers of raw material, Alexandre went to search for the machines' suppliers. To his surprise, even though Brazil is one of the largest producers of chocolates globally, there were few suppliers of equipment for entrepreneurs in the early stages. Most made machines available to companies with large production scales and high prices for an aspiring chocolate maker who intended to start his activities producing small batches. After his research, he found that the best alternative would be to import two machines from India. It would be enough to make around 80 kg of chocolate per month.

The machines arrived, and Alexandre started the second phase of the project: finding a place to assemble the production space and define the brand and its attributes. After a long search, he rented a space not open to the public and adapted it according to Resolution RDC No 216 of Anvisa (National Health Surveillance Agency) to resell the products for direct retail. It required an investment of approximately R$ 70,000. Alexandre knew the importance of working capital to start his activities and booked R$ 25,000 for this purpose, totaling R$ 95,000 of investment to start his chocolate business.

While the equipment was being installed, Alexandre advanced in the development of the brand. He hired an advertising agency specialized in brand creation, logo, labels, and e-commerce. He reinforced the need to approach something more rustic because he would not work with molds to manufacture chocolate bars, but would make a plate and cut into irregular squares. He had already chosen a kraft package with a zip lock to facilitate transport and consumption.

The agency showed its relevance and differentials: Brazilian product, chocolate of origin, manufactured with few ingredients, vegan, and with zero lactose. They presented the brand and the packaging, as shown in Figure 2. The proposal was to base the brand on the following pillars: rustic; elegant, handmade, kraft; sustainable, and segmented to the A/B public. At that time, Kakaw Spices Chocolate bean to bar with spices was born.

Figure 2. First packs of chocolates.

He also launched the e-commerce platform after the definitions of the flavors. Alexandre decided that he would manufacture only 70% chocolate (with only two ingredients: cocoa paste and demerara organic sugar) and add the spices later in each flavor. He tested the flavors with close friends and selected the eight most appreciated: strawberry and pepper; apricot with macadamia, pistachio with cranberry; banana with pecan nuts; pure without inclusions; cherry and almonds; berries; and Brazil nuts with cupuaçu. The idea was to bring healthier chocolate, and the dehydrated fruits would bring the sweetest taste.

NOT EVERYTHING IS SWEET!

With the product launched, Alexandre mapped the participation in fairs focused on chocolates and decided to visit coffee shops and emporiums located in Pinheiros, Itaim Bibi, Moema, Berrini, Alphaville, and Campo Belo in the city of São Paulo. Initially, the strategy was to advertise on social media and talk directly with coffee shops and emporiums to present the concept of the brand, production process, and of course, taste with potential buyers.

Alexandre scheduled four daily visits. After finish one, run to the next one. He ended the visit with a closed order and learned from conversations with buyers. This process contributed to the definition of some strategies. For example: minimum order, preparation of a display for sale, discount policy in the negotiation process, payment term, forms of deliveries, and advertising material for disclosure between customers and resellers. However, the development of some strategies required time and investment, and Alexandre was already tired, as he worked alone and was divided between the production process, commercial area, and marketing actions.

The months went by, and Alexandre noticed critical problems regarding the positioning of the product. Focusing on the distribution of chocolates in the city of São Paulo and in other states, the dealers did not make the replacement of the products. Sales happened only once. Alexandre decided to make visits to the emporiums and cafeterias to make a diagnosis. It was in these environments that he identified particularities in relation to chocolate 70%. One of them was the price, according to the report of Júlio, owner of one of the cafeterias visited: "The product is wonderful, the packaging very functional, but the customer does not buy 40 g of chocolate for R$ 15.00. I reduced the price to R$ 10.00, and still, they sold little.

Another customer, owner of a confectionery of delicate sweets, spoke about the shape of chocolate: "The packaging is beautiful, but customers don't like the shape of chocolate. They're chopped and irregular. It doesn't sell much. If you look at the competitors who make it in bars, it sells a lot and turns faster."

Another customer of Oscar Freire Avenue, vegan, reinforced problems in the packaging: "The chocolate is delicious. But it doesn't sell. If you look at the vegan chocolate competitors, they're more colorful, more fun. Kraft didn't please very much. Maybe that's it. Not least because the price of Kakaw Spices is higher."

In the case of a customer who owned a store in a high-flow shopping mall in the capital, Alexandre was surprised by some points raised: "Look, Alexandre, I'll show you the resale table of competitors of your chocolate. They resell it for half their price. Tell the same story from the bean to bar. I think this story is beautiful. But in the end, it has to be priced. How else will I resell your product twice as expensive as those of your competitors? I'm not going. It's much better to buy from your competitor. And I need to tell you two more things. The first is that 70% is for consumers with more refined taste, consumers like sweeter things. You need to think of a line of milk chocolate, something more sweet, and white chocolate. The customers here prefer it. Another thing is your brand name. Nobody says it right. They speak wrongly, and the packaging, because it is very sophisticated, drives the customer away."

From these perceptions, Alexandre was concerned; however, he identified the problems of resale. Kakaw Spices had received the International Award at the Academy of Chocolate in London in the 70% category. So the problem was not the product itself, since the taste and inclusions were approved by customers and had international recognition. It was then that, at the end of 2019, he analyzed the dilemmas he was supposed to solve, preparing a change plan for 2020.

To analyze the problems to be solved, Alexandre reflected on how to move forward with the business. The first concern was the change of brand name. Kakaw Spices not only had a pronunciation problem; it also limited the creation of new product lines. Alexandre began to wonder: the brand's positioning would be to stay only in the universe of chocolate? Did the terms "rustic; elegant, handmade; kraft; sustainable and segmented to public A/B" created a product with a perception of sophistication and drove consumers away due to the high price?

Alexandre also revised the price positioning. Even though kraft packaging is practical for the consumer, adding the stickers to the labels represented more than 33% of its final cost. It was more expensive than the chocolate itself, depending on the flavor. Another question was the flavors and categories. Of the eight flavors, only three represented 85% of sales: banana with pecan nuts, apricot with macadamia, and strawberry with pepper. The others did not have significant sales, increasing product complexity and, consequently, labeling costs.

Another problem was that there was only the 70% category. Initially, the proposal was to bring healthier chocolate. However, Alexandre realized that just a new product line would not solve the need to increase sales and would limit the public and the access to the product. On the other hand, by including animal milk, it could lose the vegan public.

There were many decisions to be made. And there was still the problem of competition. Alexandre thought a lot about his client's speech that competition in the bean to bar category was growing, and the storytelling no longer made much sense. He researched and found approximately 22 bean to bar brands registered with the Brazilian Bean to Bar Association, but he knew that the number would surpass 50 brands. A justification for this high number would be the accessibility of buying a machine and making a small production of chocolate at home without the rigor required by Anvisa. However, this was not the only problem; Alexandre realized that the competitors told a similar narrative in the sales process, leaving the price difference. While the average cost of a bar of 80 grams of chocolate from competitors was around R$ 17.00 to R$ 18.00, Kakaw Spices reached the final consumer with an average price of R$ 14.50 to R$ 15.00 per 40 g of chocolate. Alexandre concluded, "I'll need to change a lot more than I thought."

THE RESUMPTION OF ALEXANDRE AND THE BEGINNING OF THE PANDEMIC!

He decided to restart his business. Alexandre made some changes. In January 2020 came the first change: a new name to Kakaw Spices. To do this, he researched a lot and followed a stream of name creation. The new brand should refer to playfulness, be fun, create connections, and be accessible. In this line, Alexandre noted more than 120 brands as a reference, filtered those with more adherence, and reached ten possible names. He talked with consumers and friends and defined the new name: Legria. He hired a new agency for the development of the visual identity and the proposal for packaging. The owner of the agency questioned why the company had only a 70% product line and presented the risks of this decision:"If you keep the 70% line exclusively, it will be difficult to link the meaning of the brand with the product because it is more intense and bitter. Have you thought of something else?"

Alexandre replied: "No, but this is a new decision to be made!"

After a week, Alexandre decided to include animal milk in the production. He tested a lot until he came to a version with chocolate with pleasant sensory, without excess sugar and creamy. He also discovered that his machines needed conditions to make pastes of oilseeds from chestnuts, almonds, and walnuts. This product is growing in the Brazilian market, especially among consumers with a preference for healthy products. More tests! After 15 days, Alexandre managed to make milk chocolates and a cashew nut paste. Now, Legria had four product categories according to Table 1. It is used in the packs of cashew nuts to minimize production costs as these raw materials are used in 70% chocolates.

Table 1. Products developed for a new brand.

Product	Features
Intense chocolate: 70%	Vegan; Manufactured with 70% organic cocoa and 30% organic demerara sugar; Three flavors: strawberry with pepper, apricot with macadamia, and banana with pecan nuts.
Milk chocolate	With cow milk; Made with 44% organic cocoa and cocoa butter, organic demerara sugar, milk, and sunflower lecithin; One flavor: tomboy's foot.
White chocolate	With cow milk; Manufactured cow milk; organic demerara sugar, cocoa butter, cashew nuts, and sunflower lecithin; One flavor: sweet milk, nibs, and salt flower.
Cashew nut paste	Made with cashew nuts, coconut oil, and erythritol; Vegan; Four flavors: Zero sugar: with pieces of banana and nibs; and with apricot and coconut; With sugar: with strawberries and chocolate pieces 70%; and with pistachio and chocolate 70%.

During the dive in the tests of new products, Alexandre received a call. The agency had a first version of the visual identity for the redesign of his company. The new concept would be: "Legria was developed in an exclusive way, designed and crafted to express its identity with authenticity. The logo is versatile, strong, striking, modern, and minimalist. With the subtlety and elegance of typography, we have created a solid and propitious brand to develop identity. The brand has variations to align with the playful and multifaceted proposal of the brand. Graphic elements were developed to dialogue with each other and create a strong sense of unity between identity, representing a brand of delicious products that seek to provide an interval of joy and lucidity in everyday life."

The first step was completed! Alexandre had a new brand, new identity, and a slogan: 'Chocolates and other joys,' as shown in Figure 3. With these novelties, he could expand the product lines based on chocolate or not. With creativity, Alexandre could develop the products more harmoniously with the brand.

The next phase was the development of chocolate packaging and cashew pastes. Alexandre did not want anything to refer to standard icons, for example, cocoa leaves or forest for chocolates and drawings of chestnuts and fruits for the pastes. He asked the agency to present a proposal for packages with geometric shapes, more playful, and with the proviso that each product should have a name that represented sensations generated in the consumption of chocolates, as shown in Figure 4.

Figure 3. New visual identity.

Figure 4. Initial packaging proposal.

By naming the product, Alexandre understood that he would differentiate himself in the market only with his description. The consumer would create a more extensive identification with the chocolate 'The Charmer' instead of buying chocolate with apricot and macadamia. It would be a new way of telling the story of the products. To complement, he decided to manufacture chocolates in bars and carton packs. However, the process would be longer, but would reduce the cost by 45%, allowing the resell of the chocolate to the final consumer with an average price of R$ 7.00.

A month had passed since the company's name was changed. Alexandre was ready to take the Legria chocolates to market. Many expectations! There were only a few adjustments to the packaging for printing. It was time to resume online sales and schedule new visits.

Throughout the change, Alexandre followed the news related to COVID-19 in Brazil. On March 24, 2020, state of São Paulo had decreed the first quarantine stage. The majority of the trade was closed, social isolation was decreed. The re-evaluation for a possible reopening would take place in just two weeks. Due to the severity of the pandemic, new restrictions were imposed. The expectation was that trade would return, in a restricted way, only in three months. Alexandre decided to launch Legria even in the critical quarantine scenario and was willing to face market changes.

THE DILEMMA OF THE NEW PHASE! THE DECISION-MAKING THAT WOULD CHANGE THE HISTORY OF LEGRIA

With the close of trade, the fall in sales was inevitable. Alexandre saw his partners close their establishments, mass layoffs, and new rules of operation. Besides, it had a 75% drop in sales of chocolates mainly in April. The thriving Easter filled with Legria chocolates turned out to be a period of hardship and injury. Alexandre had to inject more money to honor the commitments. A new dilemma, a new phase. Alexandre made the changes. He further reduced his costs and defined a new way to reach consumers.

The challenge was to sell the chocolates during the crisis when the buying process had changed. Consumers were becoming aware of it and directing their purchases to the online environment. That is when Alexandre came to his biggest dilemma: How to get to consumers? What are the best channels to sell new products? It was also necessary to think about the strategies to deal with where and how.

Alexandre thought about starting by reactivating the e-commerce platform. Still, it was necessary to deal with the costs to redesign the site and work out strategies for the consumer to get to the digital store, create a desire for the product and purchase. How to do this? Selling directly to the final consumer was an excellent option, financially speaking, since it would have around 45% profit on each product sold, without intermediaries. It would be necessary to invest in a strategy that involved online dissemination, positioning, campaigns, and ads on social media. Still, Alexandre was not sure that the return would come fast because being in the digital environment would not guarantee high sales volume.

After talking with some customers about the dilemma — that is, in which channels to sell his products —, Alexandre considered a food delivery marketplace app, so more people would have contact with the product and, perhaps, be more disposed to buy. Alexandre talked to entrepreneurs who had already registered their confectioneries on the application and asked about the results, but the answers were not encouraging. For example, Antônio, owner of a small confectionery, closed the doors with the quarantine and started to register and sell the sweets and pies for the same application, with a 60% reduction in production capacity and a 50% drop in sales when compared to the period before the pandemic.

Alexandre was thoughtful after the conversation and made new accounts. He realized that to sell his products, per-app would have a profit margin of 15% and could be a gateway for new people to know Legria. To understand more about the possibilities of sales channels, Alexandre sought the store of natural products that they had indicated to him. They talked for almost thirty minutes. The owner had three units located in noble areas with high population density in São Paulo. They were neighborhood stores, but with loyal customers.

The owner said that since the beginning of March sales fell 15%, but he continued to serve customers, developing discount actions on social media, and investing in ads. The strategy kept the business and the request of new products, because some followers from ads on social media ended up buying. Alexandre asked if he would resell Legria products, explaining the brand's concept and giving samples. The owner said he would be interested but made it clear that he was already reselling products from competing brands and talked about the margins he practiced. Alexandre made new calculations considering the possibility of selling to small retailers, as he did at the time of Kakaw Spices, and concluded that it would have approximately 30% profit.

To sell to small retailers, it was necessary to contact them to check which ones were ordering new products and would be interested in selling Legria products. With the closure of physical trade, it became more challenging to get in touch with the small storeowners and it was a redoubled effort to convince them to sell a new brand and competing products. In contact with other coffee shops, cafeterias, and shops, Alexandre came across another reality. Most telephone contacts did not even evolve to deliver samples because potential customers did not have the capital to invest in new products.

Alexandre kept thinking about how to sell his products and decided to also research potential distributors. Thus, he could gain distribution among retailers through distributors and increase the volume of orders and, of course, production. To seek more information about this sales channel, Alexandre contacted some distributors and found that he would have a 20% profit if he used this strategy. Still, in return, he could reduce his products' unit cost by the dilution of his fixed costs in more units produced and sold.

In an attempt to exhaust the possibilities, Alexandre sought representatives based in São Paulo. Like distributors, representatives charge a commission fee for selling the products, and Alexandre would have more access to the small retailer even in the face of the pandemic. It was necessary to find, then, some representatives who agreed to include Legria in their sales portfolio. As market practices, the representatives have a commission between 8% and 10%, and the final margin for chocolates would be 22%.

While building the best scenario to start his sales, time passed, and it was already May 2020. However, he launched the brand. Given this, what would be the main elements that Legria should be concerned about in choosing its sales channel? What would be the main difficulties/benefits of each channel? These issues have become priorities to ensure the success of Legria, so what would be the best choice for a newly launched brand?

Teaching Notes

ABSTRACT

This teaching case aims to understand the challenges between opening distribution channels and new products. The report involves a small Brazilian chocolate factory. It presents the structuring, production processes, brand concept, formation of sales prices, and the choice of distribution channels in COVID-19 times. The company faced challenges in the market for presenting products with low adherence to distribution channels, high costs and price, and an inadequate brand positioning, resulting in low sales. After repositioning itself with a new brand and price concept, the case raises the dilemma: What is the best distribution channel during the crisis period caused by COVID-19 for the newly restructured company? The pedagogical objectives are focused on the analysis of alternatives in the choice of distribution channels, considering the implementation challenges, the transaction costs for products at an early stage, and the scenario of uncertainties resulting from the pandemic, as well as the application of sales channel concepts and distribution. The case can be applied in undergraduate and MBA courses in the management area and is recommended to encourage students to reflect on the structure and challenges of implementing small entrepreneurs' distribution channels.

Keywords: distribution channels; channel strategy; marketing mix; sales.

RESUMO

Este caso de ensino tem como objetivo entender os desafios entre a abertura de canais de distribuição e novos produtos. O relato envolve uma fábrica de chocolate brasileira e apresenta a estruturação, os processos de produção, o conceito da marca, a formação dos preços de venda e a escolha dos canais de distribuição em tempos de COVID-19. A empresa enfrentava desafios no mercado por apresentar produtos com baixa aderência aos canais de distribuição, custos e preços elevados e um posicionamento de marca inadequado, resultando em baixas vendas. Após se reposicionar com um novo conceito de marca e preço, o caso levanta o dilema: Qual é o melhor canal de distribuição durante o período da crise causada pela COVID-19 para a empresa recém-reestruturada? Os objetivos pedagógicos se concentram em analisar as alternativas na escolha dos canais de distribuição, considerando os desafios de implementação, os elevados custos transacionais para produtos em estágio inicial e o cenário de incertezas resultante da pandemia, bem como a aplicação de conceitos de canais de venda e distribuição. O caso pode ser aplicado em cursos de graduação e de pós-graduação lato sensu da área de gestão e é recomendado para incentivar os alunos a refletir sobre a estrutura e os desafios da implementação dos canais de distribuição para pequenos empreendedores.

Palavras-chave: canais de distribuição; estratégias de canais; composto de marketing; vendas.

LEARNING OBJECTIVES

The case aims to help students develop analytical skills essential for constructing strategies for new product marketing channels, especially in crisis contexts. The specific objectives seek to foster discussion about marketing strategies involving sales channels and their members' choice and decisions about the marketing mix.

Strategic marketing applications are discussed to promote the case to undergraduate and graduate students in the management area, especially in the discipline of strategic marketing in sessions on sales channels and market composition, addressing concepts such as selecting channel members, the role of channel members, channel levels, and impact of channels' choice in the marketing mix.

DATA SOURCES

The discussion is based on a real case and was drafted after conducting video call interviews with the owner and creator of the Legria Company. Therefore, the narrative is subsidized by primary data extracted from documents and records provided by the owner. Product photos, brand layout, information on chocolate production, and owner's notes were used when mapping possible sales strategies during the pandemic.

DISCUSSION QUESTIONS

1. What channel options are possible?
2. What points influence the choice of sales channel?
3. What would be the best choice for the Legria channel structure design, considering the pandemic and post-pandemic periods?
4. What are the impacts of each of the alternatives on the other elements of the marketing mix?

ANSWERS TO THE QUESTIONS AND THEORETICAL BASIS OF FOR SUPPORT

The theoretical basis presented with the answers to the proposed questions is a suggestion so that the teacher can conduct the teaching case according to the learning interests, and complement the didactics for content fixation, providing experience on strategic aspects of decision-making in marketing.

1. What channel options are possible?

It is necessary to consider the challenges of launching a new brand during a period of crisis. Five options are in the sequence to contribute to the discussion on alternatives for the distribution of products and sale:

Option 1: Legria -> E-commerce -> Final consumer

Legria would direct its effort in a single digital channel, the existing e-commerce. In this option, the autonomy would be total to work prices, promotions, combos, and the monitoring of the sales process. However, to have viable e-commerce, the company would need to have a high investment in ads in social media and search engines.

Option 2: Legria -> Food delivery marketplace app -> Final consumer

Legria could direct in-app efforts to gain visibility. It would be easy to reach consumers in the metropolitan region of São Paulo. However, Alexandre pondered that the option would require stricter control of costs; after all, 27% of the profit margin would be on the platform. It would be essential to evaluate whether it would have a demand that would make it possible to stay in a single sales channel.

Option 3: Legria -> Small retail -> Final consumer

Alexandre would be responsible for producing and visiting the owners of emporiums and cafes. This path was feasible for a period initially, but it would become unfeasible in a period of economic recovery, social isolation, and new health control policies.

Option 4: Legria -> Distributor -> Retail -> Final consumer

By focusing on production, Alexandre would launch news more often. The concern was focused on the need to find a distributor that believed in a new product and with an even smaller profit margin, after all, it would need scale for more competitive values.

Option 5: Legria -> Representative -> Small retail -> Final consumer

The last alternative would be to bet on representatives who already worked in the market of fine chocolates and contacts in the metropolitan region of São Paulo. Alexandre evaluated the sales potential by joining an already established network and realized that he could have more attraction and greater sales volume if he adopted this alternative.

On a theoretical basis, the case proposes a strategic analysis of marketing channels in the pandemic scenario: choosing the number of channels and the impact of selecting different levels of channels. It is recommended to address the value that members of the channel should transmit to their customers. After all, channel design is a value network in which everyone must be a beneficiary (Kotler & Keller, 2006).

The strategy to be designed by the students is linked to the survival of the company Legria in a pandemic (Mauro et al., 2018; Wang, Hong, Li, & Gao, 2020). The marketing channel strategy involves three phases: channel selection, organizational decision related to the teaching case's central theme, and channel management, which requires reflection on the effects of decision-making encouraged by the case (Watson IV, Worm, Palmatier, & Ganesan, 2015). Therefore, the teacher can work on channel levels, intermediate types, and required channels (Kotler & Keller, 2006).

2. What points influence the choice of sales channel?

By evaluating marketing channels, it is possible to explore some criteria. Kotler and Keller (2006) suggest the analysis of three criteria: economic, control, and adaptability. The influence of resale costs and the profits achieved in each channel should be evaluated for the financial measures (Ribeiro, 2017). The teacher can stimulate discussion with questions such as: Which channel could have the highest sales volume? What are the impacts of choosing this channel on company costs?

As for the control criteria, it is necessary to verify that the owner of Legria will be able to monitor and be close to the members of the channels. This is important to understand how the products will be sold. It is necessary to evaluate which options would increase the potential to sell the product in its entirety of values, including differentials, technical aspects of production, who could sell Legria products with all their qualities, adding the value that was built by the brand? Which channel could offer access to this data? How will the product reach the point of sale? How will it be presented to the final consumer? What is the level of control over these aspects? After all, it is essential to think about its position and how it will gain prominence against competitors (Kotler & Keller, 2006).

Regarding the adaptability criterion, one should reflect on the crisis scenario that involves the dilemma, evaluating market data, the impacts of the crisis on the sector and retail, and the change in consumer behavior. The pandemic has led to change, and the post-pandemic may also impact business, sales, and purchasing decisions. In this sense, it is essential to evaluate which intermediaries have the most significant capacity to adapt to market changes.

When considering that COVID-19 has generated changes in all aspects of the business during channel choice, the distribution chain members should verify the determinants of each channel's costs and sales capacity. It is also important to consider the investments already made in developing new products that aimed to encourage desire and a memorable experience with products without experimentation or touch at the point of sale (Roggeveen & Sethuraman, 2020).

3. What would be the best choice for the Legria channel structure design, considering the pandemic and post-pandemic periods?

To answer this question, it is important to consider the advantages and disadvantages of each option. There is no correct solution, so it is necessary to justify choosing one or more channels to reach the consumer. It is recommended to design the channel structure with the segment's market data considering the pandemic's impact on the purchase journey on chocolate consumption and the temporary closure of physical stores.

In Brazil, the manufacture of chocolates in 2019 reached 756,000 tons, considering all types of products, according to research by the Brazilian Association of Chocolate, Peanut, and Candy Industry (Abicab). Per capita consumption was estimated at 2.6 kg of chocolate/year per inhabitant, representing a significant growth potential compared to other countries. For example, in Germany, the leading per capita consumer of chocolates, this figure is 11.3 kg per person/year. In Switzerland, the second largest, it is 10.8 kg per person/year. The types of chocolate most consumed by Brazilians are tablets (43%), bonbons (40%), and wafers with chocolate (34%). Milk chocolate is preferred by Brazilians (42%), followed by bitter medium (31%) and white chocolate (18%) (Associação Brasileira da Indústria de Chocolates, Amendoim e Balas [Abicab], 2019).

However, even with the opportunity for growth in sale of chocolates, the pandemic directly affected the retail trade. With the pandemic, the National Confederation of Trade in Goods, Services, and Tourism (NCT) recorded that Easter sales in 2020 had a historical drop of 31.6% compared to 2019, representing a loss of R$ 738 million. Retail revenues are expected to reach R$ 1,598 billion by the end of 2020, against R$ 2,336 billion in the previous year (Confederação Nacional do Comércio de Bens, Serviços e Turismo [CNC], 2020).

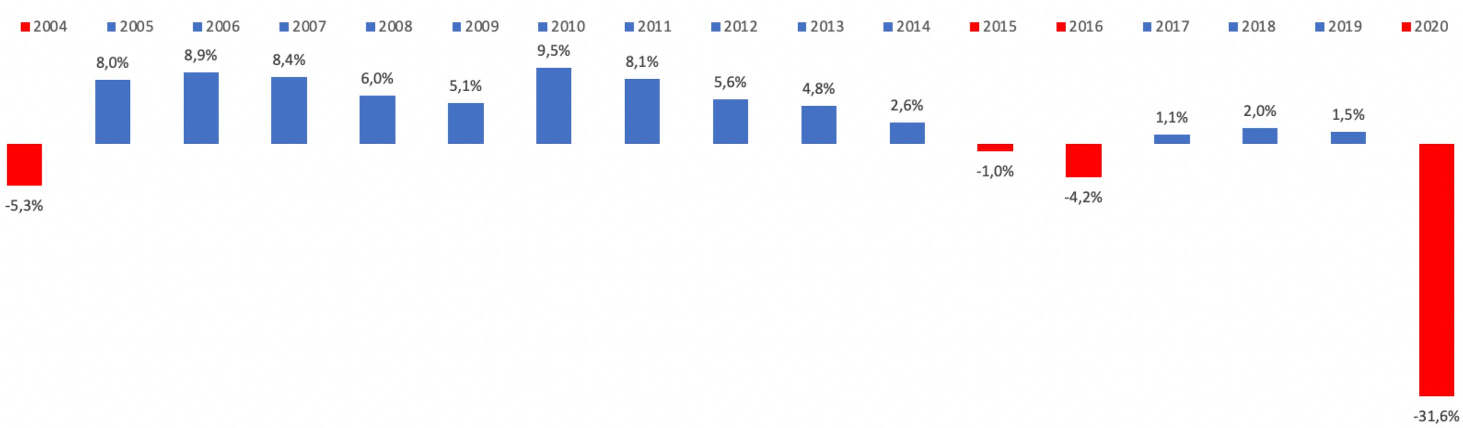

Figure 5. Sales volume at Easter: percentage changes compared to the previous year.
Source: Prepared from Confederação Nacional do Comércio de Bens, Serviços e Turismo (2020).

The quarantine stipulated by states and municipalities overturned visitors' flow and sales in stores and shopping malls. Stores in the country recorded a 46.38% drop inflow in March compared to the same month of 2019 and -43.27% compared to February 2020 — the accumulated of the year fell to -15% according to the Brazilian Society of Retail and Consumption (BSRC).

On the one hand, the retail trade suffered a sharp fall in sales and circulation; on the other hand, the impact on consumers' income was observed. It is estimated a loss of purchasing power in four out of ten Brazilians since the beginning of the pandemic. The decision-making about channels in crisis contexts should consider, in addition to economic, control and adaptability criteria, the behavioral aspects of consumers. After all, purchasing habits have been modified, hindering physical consumption during the COVID-19 crisis (Sheth, 2020). In this context, a question that could be asked is: How do new consumption habits influence the shopping journey?

Another critical point is that they should consider consumers' growing concern with safety as a decision-making criterion in the purchasing process. According to a survey conducted by Bhargava et al. (2020), in all participating countries, respondents claim that with the pandemic they tend to buy more from companies that are concerned about healthy and hygienic packaging and products. This is also clear when we verify a 650% increase in internet search for the term 'delivery food is safe?' in the US since the beginning of the pandemic (Doppelt, 2020).

Companies with launch and promotion strategy from experimentation and interaction in physical points of sale, such as Legria, were influenced by isolation and rigor measures (Sheth, 2020; Wang et al., 2020). Therefore, it is essential to consider new digital channel options even with smaller margins and intermediaries (Wang et al., 2020). According to a survey conducted by Google on how brands should act in a pandemic and post-pandemic moment, 44% of respondents answered that they should facilitate the purchase process (Moreschi, 2020). In this sense, it is essential to stimulate the discussion about the new criteria for choosing channels among students.

Visit Flow

Year x Year	January	February	March	Accumulated
Shopping center	-1.64%	-5.03%	-44.57%	-16.84%
Physical stores	-3.21%	-2.26%	-46.38%	-15.00%
Street shops	-2.79%	-10.10%	-35.26%	-15.56%
Shopping stores	-1.95%	4.92%	-50.08%	-14.82%

Year x Year	January	February	March
Shopping center	-20.17%	-14.17%	-39.69%
Physical stores	-18.84%	-7.30%	-43.27%
Street shops	-31.30%	-22.48%	-24.36%
Shopping stores	-42.08%	-24.33%	-48.79%

Figure 6. Visit flow.
Source: FX Retail Analytics (2020).

4. What are the impacts of each of the alternatives on the other elements of the marketing mix?

During the classroom discussion, it is essential to highlight that channel decisions directly affect the other marketing mix items. That is, they also affect the price, product presentation, and promotion. The challenge is to work strategically on these four items of marketing mix to gain a competitive and sustainable position (Hooley, Saunders, & Piercy, 2001). So, it is necessary to think about the final consumer's value to each channel, focusing on the competitive advantage that meets consumers' needs and desires (Czinkota, Dickson, Dunne, & Griffin, 2001). In other words, one should stimulate discussion not by evaluating in isolation the choices of channels, but considering how a strategic marketing decision integrates other elements and the impact on the organization as a whole (Kotler & Keller, 2006).

Option 1: Legria -> E-commerce itself -> Final consumer

Price: In this case, the price of Legria should be the same as practiced by the reseller, considering no intermediaries in the product's sale. This fact would consequently increase the company's profit margin.

Promotion: As a consequence of the digital channel choice, the advertising should focus on the online environment through social media and search engines. It is important to note that this is a brand not yet known by the public. Thus, it is necessary to invest in disclosures and communications that make the brand known in the digital environment. It is also essential to consider investments for the good positioning of the online brand, directing the public to e-commerce.

Product: It is necessary to consider that buying in the online environment does not allow common experimentation of the physical environment. Thus, it is required to create strategies that make the product attractive, even without the possibility of touch in the purchase process. It will be essential to recreate sensations in the journey of buying the product in the online environment in order to generate attraction thus boosting the acquisition.

Option 2: Legria -> Food delivery marketplace app -> Final consumer

Price: The final price would change, considering the marketplace's administration fee and the delivery amount. Also, orders made by food delivery applications practice different values according to distance. Therefore, in some cases, the value of the delivery may exceed the value of the product.

Promotion: The promotion will change in the need to strengthen a brand not known on a platform with numerous direct competitors. The advertising on social media and with the support of the delivery application itself will be essential if this alternative is implemented.

Product: A discussion could be how the product is presented in the marketplace, considering that competitors and many brands are known to the public. This channel's change would be positioning the product with all its competitive advantages and options to serve all audiences, such as vegans and/or people with food restrictions. A highlight will be to invest in the positioning of product images within the application so that it is seen by potential consumers and generates curiosity and desire.

Option 3: Legria -> Small retail -> Final consumer

Price: The price will undergo a small change, higher than the amount charged in e-commerce, for example, considering that there will be small retailers as intermediaries. Retail will have its purchase and storage costs and the need to calculate profit. It is essential to highlight that in this channel option, the products may undergo price changes at each retail store in which it is sold, considering the margin practiced by each store.

Promotion: It will be important to think about how the dissemination of Legria products will occur in physical environments. Given the pandemic, the experimentation of products in physical points of sale is restricted. It will be important to think about promotional materials that can pass the values and sensations desired for the Legria brand.

Product: With only one intermediary, it will be essential to analyze the impact of Legria products' presentation on sales points and how each small retailer added value with the final consumer. It is important to reflect that at the same point of sale, Legria will share space with other brands, brands known and/or frequently bought by consumers. Therefore, it should be encouraged to build a strategy for the product to be presented to generate results on sale, that is, that it is well positioned, that customers can have easy access at the point of purchase, and that the owners and their team know the product.

Option 4: Legria -> Distributor -> Retail -> Final consumer

Price: The price for the final consumer may change, considering that it should encompass the profit margins of the Legria brand, the distributor, and the retailer. Given this, will the consumer be willing to pay this monetary value for products recently launched on the market?

Promotion: One should analyze the importance of brand promotion. Strengthening the brand may facilitate the sale of products through distributors and in retail with the final consumer. It is important to assess whether distributors will guarantee the added value of Legria products up to the sale point.

Product: In this channel option, it is necessary to consider that the sale generally happens in large volumes by the distributor. After all, this intermediary's goal is to ensure, from large retail sales contracts, higher profits. In this sense, it is important to evaluate the productive capacity of Legria to meet these requests considering the varied product mix. Another aspect that should be considered concerns the volume of orders for each product in the Legria mix. Because they are handmade products, it is necessary to evaluate whether there is idle productive capacity capable of fulfilling large orders.

Option 5: Legria -> Representative -> Small retail -> Final consumer

Price: The resale price would be lower as a result of the intermediaries involved. The representatives have between 8% and 10% commission on the amount sold. In addition, retailers need to apply their margin, and this could affect the final consumer price. In this way, Legria Company will have to reduce its margin to meet the consumer's final price. Also, the representative may request a product bonus for sales testing. This would increase costs for a newly structured company.

Promotion: Legria Company must develop advertising material so that representatives can present it to retailers. The retailer can also request specific actions at its point of sales, such as tasting or seasonal promotional activities.

Product: The company considers best business practices with resellers and reviews the commission, so that its representatives do not have a similar product, in order not to generate conflict of interest between Legria and its competitors.

LESSON PLAN

When applying the teaching case, the teacher must work on the contents associated with the theme, such as the marketing mix, distribution and sales channels, and marketing strategies. We suggest that the teacher stimulate the construction of the solution to the proposed dilemma based on concepts associated with the marketing mix, marketing channels, and marketing strategies, taking into account the impact of the crisis generated by COVID-19, mainly for small businesses. The solution to the dilemma can contribute to the learning process of concepts that involve the construction of channels, such as the selection of channel members, the channel function and channel levels, their respective applicability in crisis contexts, and the impacts on the marketing strategy of small businesses.

It is recommended that the reading of the case be done before class so that students have prior contact with the context to be worked on. In the first reading, the student highlights the main points of the case and is encouraged to reflect on the pandemic's impact on small businesses. It is also essential that the teacher considers and conducts the case application allowing an experience of management decision-making that extrapolated the choice of distribution and sales channels, making strategic decision-making capable of defining the company's survival. It is suggested to apply the case in three hours, divided into two classes of one and a half hours each, or sequentially in the case of discipline offered for graduate programs, allowing students to reflect on each step of the solution formulation.

Table 2. Application phases and duration time.

Stages of the application of the teaching case	Duration time (estimated)
Case reading	40 min (before meeting in class)
The division into groups, discussion, and completion of the solution board	50 min
Presentations of the proposed solutions	40 min
Discussion of the proposed solutions with all students	30 min
Association of concepts and theory to the teaching case and activity closure	20 min

DISCUSSION OF THE LEGRIA CASE!

The teaching case of Legria enables a set of strategic analyses that contribute to the learning process of undergraduate and graduate students in MBA courses in management. Specifically, the case constitutes a pedagogical tool to support the training of new managers and entrepreneurs. To this end, the teacher of the discipline must adapt the case to the students' reality. In addition, the discussion of the case is a fundamental part of the learning process.

The first proposed phase discusses the case in small groups and the construction of a framework of solutions (Figure 7). It is recommended that the case be applied in groups of up to four students, with preliminary reading. The solution table will help students analyze the advantages, disadvantages, and risks of each option proposed for the marketing of Legria products. The frame structure must be printed and delivered to each group. In the end, the students will present the proposed solutions considering one or more distribution channels. Students must construct a justification and understand the impact of decision-making in the business.

In the second phase, each group presents its proposals. It is suggested that one or two students present without interruptions. At this time, the framework of solutions, with emphasis on the relevant points, should be presented. The fundamental issue is that the teacher makes sure that the students have understood the motivations of their choices clearly and objectively. Thus, the groups can encourage reflection on the different perspectives for the solution of the case.

The third phase begins after the presentation of the groups. The teacher should conduct a discussion about the solutions pointed out. It can initiate with the argument from the four questions proposed in the teaching note. At this moment, the debate could be about the theoretical discussions held in the classroom before the case's application.

The teacher should stimulate students' participation, especially those who did not speak during the presentation, and understand how decision-making was constructed within each group. It should be emphasized that the case is based on real facts, promoting reflection on how managerial decision-making was altered by context, by changes in business and consumer behavior from the COVID-19 pandemic. The discussion should encourage thinking on the post-pandemic moment that will also require the company's adjustments, including distribution channels.

The discussion may become more valuable if associated with the application of cost accounting and the concepts of scale savings, given its maximizing approach to results in the face of the dilemma presented. It is important to emphasize that the costs involved in possible distribution channels determine aspects to make managerial marketing decisions

Finally, to close the activity, the teacher can associate the marketing concepts with the theory suggested and highlight how they are applied in the market and how the case helps in this understanding. With the students' help, the teacher can make a list of the concepts that have been addressed. Thus, it is expected that students can understand the complexity that involves decision-making related to the distribution channel of products during the COVID-19 crisis on managing small businesses.

Solution table								
Which channel is chosen?	Several channels chosen?	Who is involved in the process until it reaches the customer?	What is the profit of Legria?	Why was this channel chosen?	What are the advantages of this channel?	What are the disadvantages of this channel?	What aspects were considered to choose the channel?	What are the impacts of choice on every business?

Figure 7. Solution table.

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