МИНИСТЕРСТВО НАУКИ И ВЫСШЕГО ОБРАЗОВАНИЯ РОССИЙСКОЙ ФЕДЕРАЦИИ

ФЕДЕРАЛЬНОЕ ГОСУДАРСТВЕННОЕ БЮДЖЕТНОЕ ОБРАЗОВАТЕЛЬНОЕ УЧРЕЖДЕНИЕ ВЫСШЕГО ОБРАЗОВАНИЯ «РОССИЙСКИЙ ЭКОНОМИЧЕСКИЙ УНИВЕРСИТЕТ ИМЕНИ Г.В. ПЛЕХАНОВА»

Факультет «Международная школа бизнеса и мировой экономики»

«Допустить к защите»
Декан факультета МШБ и МЭ
Пономарева Н.В.

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«_____»_________2021 г.

ВЫПУСКНАЯ КВАЛИФИКАЦИОННАЯ РАБОТА
(на английском языке)

Направление 38.03.01 «Экономика»
Профиль «Финансы и кредит (на английском языке)»

ТЕМА: «Ценовая политика компании на высоконасыщенном рынке фаст-фуда на примере ООО «Бургер Рус»

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Москва – 2021

MINISTRY OF SCIENCE AND HIGHER EDUCATION OF RUSSIAN FEDERATION
FEDERAL STATE BUDGET EDUCATIONAL INSTITUTION OF HIGHER EDUCATION
"PLEKHANOV RUSSIAN UNIVERSITY OF ECONOMICS"

Faculty «International business school and global economics»

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GRADUATION QUALIFICATION WORK

Direction 38.03.01 «Economics»

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Student: Valeriia Korzhueva
Group 32Д-Э04/17

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Scientific supervisor:
Irina Komarova,
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Moscow 2021

Министерство науки и высшего образования Российской Федерации
Федеральное государственное бюджетное
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«Российский экономический университет имени Г.В. Плеханова»

Факультет «Международная школа бизнеса и мировой экономики»

«УТВЕРЖДАЮ»
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Н.В. Пономарева

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«____» _______________ 2021 г.

ЗАДАНИЕ И КАЛЕНДАРНЫЙ ПЛАН
по выполнению выпускной квалификационной работы
бакалавра по направлению
38.03.01 «Экономика»
профиль «Финансы и кредит (на английском языке)»
Студенки 4 курса, группы 32Д-Э04/17

Коржуевой Валерии Дмитриевны
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Тема работы: «Ценовая политика компании на высоконасыщенном рынке фаст-фуда на примере ООО «Бургер Рус»
«Company pricing policy in a highly saturated fast-food market (on the example of Burger Rus LLC)»

1. Срок сдачи студентом законченной работы: 23 июня 2021 г.

2. В разделах выпускной квалификационной работы изложить:

Во введении - актуальность работы, цель, задачи, объект, субъект, тезис, теоретический и методологический базис исследования, структура ВКР

Срок выполнения: 06 апреля 2021 г.

Глава 1. Экономическая сущность цены и ценовой политики компании

Срок выполнения: 20 апреля 2021 г.

Глава 2. Анализ конкурентоспособности ценовой политики ООО «Бургер Рус» относительно главных конкурентов на российском рынке

Срок выполнения: 11 мая 2021 г.

Глава 3. Перспективы развития ценовой политики ООО «Бургер Рус»

Срок выполнения: 01 июня 2021 г.

В заключении - краткое изложение основных результатов работы и их оценка, выводы

Срок выполнения: 04 июня 2021 г.

3. Объем выпускной квалификационной работы: 50-60 страниц компьютерного набора без учета приложений.

4. Перечень прилагаемого материала (таблицы, рисунки, приложения): Таблицы с теоретической и практической информацией и данными компаний, рисунки с собственными вычислениями и данными компаний из официальных отчетностей.

5. Основная рекомендуемая литература: Книги: Berk, J., DeMarzo, P. Corporate Finance, Global Edition, Cateora, P. R., Gilly, M. C., Graham, J. L. International Marketing, Mankiw, N. G. Principles of Economics, Pindyck, R. S., Rubinfeld, D. L. Microeconomics, Global Edition; статьи: Haron, A. J. Factors Influencing Pricing Decisions.

Руководитель зав. кафедрой экономической теории к.э.н., доцент Комарова И. П. (должность, звание, Ф.И.О.)	Задание принял к исполнению Коржуева В. Д. (Ф.И.О. студента)
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Министерство науки и высшего образования Российской Федерации
Федеральное государственное бюджетное
образовательное учреждение высшего образования
«Российский экономический университет имени Г.В. Плеханова»

АННОТАЦИЯ
выпускной квалификационной работы
Коржуевой Валерии Дмитриевны
на тему: «Ценовая политика компании на высоконасыщенном рынке фаст-фуда на примере ООО «Бургер Рус»

Традиционно цена была основным фактором, определяющим выбор покупателя. И хотя в последнее время в поведении покупателей произошел сдвиг, и неценовые факторы стали играть важную роль в процессе принятия решений потребителями, цена по-прежнему остается основным фактором, влияющим на решение покупателя. Ценообразование - важный аспект принятия решений после производства продукта. Она определяет будущее этого продукта, его приемлемость для покупателей, маржинальность. Ценообразование — это инструмент конкуренции. Решения о ценообразовании могут иметь очень серьезные последствия для организации. Цена определяет величину прибыли от продажи продукции и, следовательно, прибыльность компании. Целью данного исследования является анализ текущих ценовых стратегий компании и их конкурентоспособности на примере ООО «Бургер Рус». Анализ ценовой политики, проводимой этой компанией, приводит к вопросу: в каких направлениях следует проводить улучшения в отношении ценообразования?

На основе анализа корреляции, чувствительности, одноранговаого и финансового (прибыльности) анализа была произведена оценка финансового состояния компании и эффективности проводимой ценовой политики. Оценка показала, что есть возможности для улучшения ценовых стратегий и показателей рентабельности. Исходя из этого, рекомендуется внедрить динамическое ценообразование. Кроме того, необходимо обеспечить эффективное использование текущих ценовых стратегий.

Автор _________________________ Коржуева В.Д
подпись

Ministry of science and higher education of Russian Federation
Federal state budget educational institution of higher education
«Plekhanov Russian University of Economics»

ABSTRACT
of graduation qualification work
Korzhueva Valeriia Dmitrievna

Topic «Company pricing policy in a highly saturated fast-food market (on the example of Burger Rus LLC)»

Traditionally, the price has operated as the major determinant of buyer choice. Although recently there has been a shift in buyer behavior with non-price factors also playing a role in the consumer decision process, price still remains the major factor that influences the buyer's decision. Pricing is an important decision-making aspect after the product is manufactured. It determines the future of this product, its acceptability to the customers, margin. Pricing is a tool of competition. Pricing decisions can have very significant consequences for the organization. Price determines the profit margin on products and therefore company's profitability. This study aims to analyze the current pricing strategies of a company and their competitiveness on the example of Burger Rus LLC. An analysis of the pricing policy implemented by this company leads to the question: In which directions should the improvements regarding pricing be implemented?

Based on the correlation, sensitivity, peer-to-peer and financial (profitability) analyses an evaluation of the company's financial health and efficiency of the implemented pricing policies were made. The assessment demonstrated that there is room for improvement in pricing strategies and profitability indicators. On this basis, it is recommended that dynamic pricing should be implemented. Moreover, the effective use of current pricing strategies needs to be ensured.

Author ________________________ Korzhueva V.D.
signature

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INTRODUCTION

As globalization continues, competition intensifies among multinational and home-based companies. All are seeking a solid competitive position in order to prosper as markets reach their full potential.

Even when a company produces the right product, promotes it correctly, and initiates the proper channel of distribution, the effort fails if the product is not properly priced. Setting and changing prices are key strategic decisions. Prices set values and communicate in markets. Setting the right price for a product or service can be the key to success or failure. An offering’s price must reflect the quality and value the consumer perceives in the product. Of all the tasks facing a business, determining what price to charge is one of the most difficult. It is further complicated when the company sells its product to customers while competing in a highly saturated market.

The topicality. From a customer's point of view, value is the sole justification for the price. Many times customers lack an understanding of the cost of materials and other costs that go into the making of a product. But those customers can understand what that product does for them in the way of providing value. It is on this basis that customers make decisions about the purchase of a product. Effective pricing meets the needs of consumers and facilitates the exchange process. It requires that companies understand that not all buyers want to pay the same price for products, just as they do not all want the same product, the same distribution outlets, or the same promotional messages. Therefore, in order to effectively price products, markets must understand buyers and price their products according to buyer needs. However, one cannot overlook the fact that the price must be sufficient to support the plans of the organization, including satisfying stockholders. Price charged remains the primary source of revenue for most businesses.

The aim of the bachelor’s thesis is to reveal the impact of pricing policy on the company’s development and find effective ways of its transformation.

In order for this goal to be achieved, it is essential to undertake the following tasks:

- Understand the economic essence of price;
- Define the main pricing strategies, their peculiarities and objectives;
- Consider the features and use of pricing policy in the highly saturated fast-food market on the example of particular enterprises;
- Conduct financial, peer-to-peer, correlation, and price sensitivity analyses to evaluate the effectiveness of the pricing strategies implementation;
- Make recommendations and prepositions aimed at improving the efficiency of the pricing policy used by the analyzed company.

The object of this bachelor thesis is Burger Rus LLC. It is a master franchisee of Burger King Corporation.

The subject of the research is the pricing policy of Burger Rus LLC.

In order to increase its profitability by improving financial performance, Burger Rus LLC should make chicken products prices more attractive for its clients, increase the number of product-bundle offers, and implement dynamic pricing. Constant adjustment of prices according to the market situation and rivals' actions leads to improvements in the company's profitability and financial health. Efficient pricing is the key factor of the success of any business and therefore its significance cannot be underestimated.

Theoretical and methodological basis of the research. As for the problem of the pricing strategies' effectiveness, it is considered in some detail in the educational and scientific literature, among which are the works of such authors as Cateora, Kotler, Pindyck, Mankiw, Burnett, and others. The information base of the financial analysis was the financial statements of the analyzed company and its main rivals for the years 2012-2020. Confidential data concerning the prices and sales volume in the years 2018-2019 used during the analysis was provided by Burger Rus LLC.

Structure of the graduation assignment. The thesis consists of the introduction, three chapters, conclusion, bibliography. It contains 11 tables, 11 figures, and 35 bibliographic sources.

CHAPTER 1. ECONOMIC ESSENCE OF COMPANY PRICING POLICY

1.1 Price as the basic economic category

According to the Cambridge Dictionary[1], price is the amount of money for which something is sold. We shall precise that a price is the sum of all the values that consumers exchange for the benefits of having or using products or services. According to Mankiw price of something can be considered as the cost of what is given up in order to get what is wanted.[2] Usually, such a cost is associated with money, while a product or a service is a desired object.

Price is a complex economic category that represents the monetary value of a product or service. For Karl Marx, the value of a commodity consists of two contradictory aspects: use-value and exchange-value. Use-value refers to a product's utility in satisfying needs and wants as afforded by its material properties. Exchange-value is the "proportion in which values in use of one sort are exchanged for those of another sort." Both derive from the expenditure of labor power – use-value from the qualitative aspect of work as transforming useless matter into useful objects; exchange-value from the purely quantitative, commensurable side of work.[3]

After trade-offs, the role of prices is the second important theme of microeconomics. There are several ways prices can be determined. In a centrally planned economy, they are as a rule set by the government. In the market economy, on the contrary, prices are defined by buyers and sellers. Thus, the market price is a single price that usually prevails in a perfectly competitive market. But as markets may not be perfectly competitive, prices can fluctuate over time.[4] Regardless of the scale of the market competitiveness, companies aim at setting prices that would maximize their profits. Pricing is a powerful tool for achieving specific objectives such as increasing returns on profit, attracting customers, reaching sales volumes, gaining market share,

[1] Cambridge Dictionary | English Dictionary, Translations & Thesaurus – Cambridge University Press. – 2021. – [Electronic source] URL: https://dictionary.cambridge.org/ (access date 10.03.2021)
[2] Mankiw, N. G. Principles of Economics. – 8th ed. – Cengage Learning, 2018. P.32.
[3] Marx K. Das Kapital (Capital): A Critique of Political Economy – Benediction Classics, 2019. P. 46.
[4] Pindyck, R. S., Rubinfeld, D. L. Microeconomics, Global Edition – 9th ed. – Pearson, 2017. pp. 5, 8-9.

sending a brand message, or others. The following are the major determinants that should be considered while pricing products.[5]

1) Demand-supply conditions. When customers buy more products at low prices and less of them at high prices – the demand for these products is elastic, and customers are considered to be very sensitive to the price change of a product. Durable goods such as TVs, washing machines, and freezers are more price elastic than necessities. People are more likely to buy them when prices fall and less likely to buy them when prices rise. On the contrary, when customers are ready to buy products regardless of the price change, demand is considered to be price inelastic. For example, demand for essential goods, such as many basic food items and first aid products, is not as influenced by price changes as demand for many non-essential goods.
2) Cost of production. While making a pricing decision one shall consider the cost of the product including the amount spent on developing, testing, and packaging the product. The same goes for the costs associated with promotion and distribution. Total costs include both fixed and variable costs. Fixed costs are costs that a company must pay regardless of the level of production or sales. These costs include such items as rent, lease fees for equipment, advertising, and insurance costs. Variable costs are costs that depend on the level of production and sales of a company. Raw materials, labor, and VAT are examples of variable costs. The point at which total costs are equal to total income is called the breakeven point. To be profitable, the firm's revenue must exceed its total costs, else the company incurs a loss.
3) Quality of the product. Product quality can be considered as one of the major factors in determining the price of a product as high-quality

[5] Haron, A. J. Factors Influencing Pricing Decisions // International Journal of Economics & Management Sciences, 2016, Vol. 5, Issue 1. – pp. 1-4.

products are usually priced higher than low-quality substitutes. For some products, it is very important that the buyer knows what is bought due to the standardized nature of the products. This requires classifying the product by quality so that different varieties of the product will have different prices. Therefore, differences in the quality of products usually lead to differences in prices.

4) Profit-margin desired. As profit maximization is one of the main goals of any firm, a company would try to earn maximum profit by charging the highest product price. This price however must include a reasonable or targeted profit margin to not only ensure a profitable sale but also keep customers loyal.
5) Competitors' pricing. In today's competitive marketing world, no business can ignore the pricing policies of its competitors. And as companies want to have and maintain loyal customers, they will often match or control their rivals' prices. Some retailers can give their clients an additional discount if the same item can be found elsewhere at a lower price. Likewise, if one company offers free shipping, it is highly likely that other companies would do so too.
6) Consumers' buying capacity. The number of competing products and available substitutes affects the elasticity of demand. Whether a person considers a product to be a necessity or a luxury, and the percentage of a person's budget allocated to various products and services also affects price elasticity. Some products, such as cigarettes, tend to be relatively price inelastic as most smokers continue to buy them despite the price increase and the fact that other people find cigarettes unnecessary. At the same time, service providers such as utility companies in markets in which they have a monopoly face more inelastic demand as there are no substitutes available.

7) Government's policy of price-control. Federal and local regulations affect pricing decisions. These regulations are designed to protect consumers, encourage competition, and promote ethical and fair behavior by businesses. For example, the establishment of fixed trade markups on food is one of the types of restriction on price increases. This resolution defines 24 items of essential food products, retail prices for which are subject to state regulation if within 30 consecutive calendar days the increase in retail prices for the listed food products will be 30% or more.[6] There is also the Resolution of the Government of the Russian Federation "On measures to streamline state regulation of prices" where there are three lists of goods, works, and services prices of which in the domestic market are subject to state regulation.[7] There are also price floors and price ceilings. They are government-imposed minimums and maximums on the price of certain goods or services. It is usually done to protect buyers and suppliers or manage scarce resources during difficult economic times. Price floors impose a minimum price on certain goods and services. They are usually put in place to protect vulnerable suppliers. A good example of this is the farming industry; small farmers are very sensitive to changes in the price of farm products due to thin margins. Price ceilings impose a maximum price on certain goods and services. They are usually put in place to protect vulnerable buyers or in industries where there are few

[6] Постановление Правительства РФ от 15.07.2010 N 530 (ред. от 21.03.2016) "Об утверждении Правил установления предельно допустимых розничных цен на отдельные виды социально значимых продовольственных товаров первой необходимости, перечня отдельных видов социально значимых продовольственных товаров первой необходимости, в отношении которых могут устанавливаться предельно допустимые розничные цены, и перечня отдельных видов социально значимых продовольственных товаров, за приобретение определенного количества которых хозяйствующему субъекту, осуществляющему торговую деятельность, не допускается выплата вознаграждения" – Консультант-плюс. – 1997–2021 – Электрон. дан. – [Электронный ресурс] Режим доступа: http://www.consultant.ru/ (дата доступа: 15.03.2021)

[7] Постановление Правительства РФ от 07.03.1995 N 239 (ред. от 27.12.2019) "О мерах по упорядочению государственного регулирования цен (тарифов)" – Консультант-плюс. – 1997–2021 – Электрон. дан. – [Электронный ресурс] Режим доступа: http://www.consultant.ru/ (дата доступа: 15.03.2021)

suppliers. A good example of this is the oil industry, where buyers can be victimized by price manipulation.[8]

To define marketing opportunities for a product and its most successful positioning in the market, companies use a marketing mix. The traditional marketing mix has comprised the four elements of product, price, promotion, and place. Pricing is the only element of these 4 P's that produces revenue. By contrast, other elements are concerned essentially with items of expenditure.[9] Besides, price is the most flexible element as it can be adjusted rapidly comparing to the other elements of the marketing mix. Another important feature of price is being a silent provider of information. In other words, price helps the customer judge product advantages. It is crucial when the product is new, and it might be difficult to measure its benefits objectively.

Finally, we shall mention the price elasticity of demand. When the price of a good increases, the quantity demanded usually falls. Therefore, it is crucial to know how great the percentage change of sales in response to a 1% change in price will be. Price elasticity of demand is usually referred to as Ep and is calculated by the formula (1).

$$E_p = \frac{\%\Delta Q}{\%\Delta P} \qquad (1)$$

where % ΔQ means percentage change in quantity demanded and %ΔP means percentage change in price.

The price elasticity of demand is usually a negative number. When the price elasticity is greater than 1, demand is said to be price elastic because the percentage decline in quantity demanded is greater than the percentage increase in price. If the price elasticity is less than 1, we say that the demand is price inelastic. In general, the price elasticity of demand for a good depends on the availability of other substitute goods. In such a case a price increase will cause the consumer to buy less of the good

[8] Mankiw, N. G. Principles of Economics. – 8th ed. – Cengage Learning, 2018. P.135.
[9] Palmer, A. Introduction to Marketing: Theory and Practice – 3rd ed. – Oxford University Press, 2021. pp. 20-23.

and more of the substitute. Demand will then be highly price elastic. When there are no close substitutes, demand will tend to be price inelastic.[10]

To sum up, the price is the amount of money that the buyer gives to the seller in exchange for a product or service. This way price is a component of an exchange or transaction that occurs between two parties and refers to what must be given by one party to get something offered by the other party. However, this view of price provides a limited explanation of what price means for both participants in the transaction. In fact, it means different things for both buyer and seller as they have different goals. And while a company is willing to get maximum profit from producing and selling a product by higher pricing, a customer would rather prefer to buy a highly valued product at a lower price.

Moreover, there is no one right way to calculate the best price for a product. Many various factors should be considered to find the most appropriate pricing strategy. Many factors influence pricing decisions. But the most common are demand-supply conditions, product costs and their quality, profit-margin desired, competitors' pricing, consumers' buying capacity, and government and legal regulations.

1.2 Pricing strategies, their peculiarities and objectives

Generally, pricing policy refers to how a company sets the prices of its products and services based on costs, value, demand, and competition. Pricing strategy, on the other hand, refers to how a company uses pricing to achieve its strategic goals, such as offering lower prices to increase sales volume or higher prices to decrease backlog. Despite some degree of difference, pricing policy and strategy tend to overlap, and the different policies and strategies are not necessarily mutually exclusive.

Companies tend to price their products in such a way that customers believe they are receiving fair value. For consumers, price is the key metric in determining the

[10] Pindyck, R. S., Rubinfeld, D. L. Microeconomics, Global Edition – 9th ed. – Pearson, 2017. – P. 33.

attractiveness of a good or service. Therefore, pricing is a strategic tool used to compare product and perceived value across different organizations. There are the following three pricing approaches.[11]

Firstly, pricing typically begins with consumers and their value perceptions. The customer will ultimately determine whether a product is worth its price. Therefore, **customer value-based pricing** will be considered first. Buying a product, customers would like to purchase a good or service whose value would reflect its price. Therefore, it is important to consider how much value customers put on the advantages they obtain from the product and set a price that precisely measures this value. An example of a company that uses such an approach is Audi AG. Even while competing in a highly saturated automobile market, Audi is perceived as a luxury in its customers' minds. Therefore, the prices of cars are as high as their well-known German quality. So, consumers are ready to pay due to their perceptions of value.

And although the value expectations of buyers are crucial while determining prices in customer value-based pricing, the seller's costs are the primary factor to be considered in **cost-based pricing**. Costs set the floor for the amount that will be charged. Cost-based pricing thus means determining prices based on the cost of the good being manufactured, delivered, and sold. To account for efforts and risks, a fair rate of return is applied to make a profit. For example, EasyJet, a British multinational low-cost airline, is a company that is using such a pricing approach. The company is charging its clients based on its costs that are maintained at the lowest level possible. High aircraft utilization, short processing times, charging for extras such as priority boarding, suitcases, and food, and keeping operating costs as low as possible are the major characteristics of the EasyJet pricing strategy. All this helps the company to offer low prices to customers but stay profitable.

Finally, **pricing based on competition** means determining premiums based on the policies, risks, prices, and business offers of rivals. Consumers will base their

[11] Liozu, S. M. The Pricing Journey: The Organizational Transformation Toward Pricing Excellence – 1st ed. – Stanford Business Books, 2015

product value judgments in extremely competitive markets on the premiums that rivals charge for comparable goods. The oil market is one of the best examples of a competition-based pricing implementation. This is because oil prices are highly affected by the governments and the OPEC decisions concerning the amount of oil produced and stored. Therefore, oil prices cannot differentiate a lot from one company to another. Lukoil, for example, uses this type of pricing. While considering pricing for export, other market players' pricing decisions shall be considered by the company as all the firms are offering the same or almost the same product quality-wise. Therefore, the only thing that customers would consider is price.

All in all, depending on the industry and company's niche different pricing approaches should be implemented. This way, a firm shall take a closer look at the rival prices while manufacturing and selling a good or service that cannot have any additional value. In this case, no significant price differentiation is possible due to the product nature. On the contrary, when a product can have a value-added, customer value-based pricing should be considered. The greater is this additional value the higher a price can be. However, not all customers are seeking a special product. In such a case, a firm can use a cost-based approach and therefore set prices as low as possible to attract price-sensitive clients.

After deciding on one of the pricing approaches, a company can concentrate on pricing strategies. To start with, there are two policies for pricing new products.[12]

The first of them is **market-skimming pricing**. It is a strategy for setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay this high price. This way the company makes fewer but more profitable sales. Choosing such a strategy the product quality and image must support the price while the costs of producing this product in small volume should not cancel the advantage of higher prices. Moreover, the company must be sure that buyers will want

[12] Cateora, P. R., Gilly, M. C., Graham, J. L. International Marketing – 18th ed. – McGraw-Hill Irwin, 2019. pp. 526-527

the product at such a high price while there should be no competitors in the market and their possible entry into the market should not be easy.

Market-penetration pricing, on the contrary, sets a low initial price to penetrate the market quickly and deeply. This strategy helps to attract a large number of buyers quickly and to gain a great market share. While implementing this pricing strategy a company should make sure that the market is price-sensitive, and that production and distribution costs will fall as sales volume increases. Another very important factor is that low prices set by a company must keep competition out of the market. Moreover, after getting rid of all the competitors a company may switch to the market-skimming pricing strategy but keeping in mind that the product quality and image should always reflect the price.

To sum up, when a new product enters a market having no to little product differentiation, a penetration pricing strategy is used. On the contrary, skimming pricing is applied when a new product is launched in the market with no competition. Traditionally, the choice of strategy is based on the level of competitiveness, the product's innovativeness, business dynamics, and organization characteristics.

Moving to the pricing strategies used for already existing goods, products are all interrelated, and their prices are in conjunction with each other. Therefore, the strategy for setting a product’s price often has to be changed when the product is part of a product mix, which is the collection of products and services that a company chooses to offer its market. Then a company looks for a set of prices that will maximize profits on the total product mix, instead of on the individual product. Since the various products in the mix have related demand and costs, but face different degrees of competition, pricing is difficult. The following are the five major product mix pricing strategies.[13]

1) Product line pricing. It considers the cost differences between products in the line, customer evaluation of their features, and competitors’ prices. For

[13] Claessens, M. Product Mix Pricing Strategies – Pricing the Product Mix, August 24, 2015 / Claessens M. // Marketing-Insider [Electronic resource] URL: https://marketing-insider.eu/product-mix-pricing-strategies/ (access date: 21.03.2021)

example, Samsung offers different smartphones with different features at different prices.

2) Optional-product pricing. It takes into account optional or accessory products along with the main product. For example, a car buyer may choose to order a GPS navigation system & Bluetooth wireless communication.
3) Captive-product pricing. It involves products that must be used along with the main product. On the contrary, in optional product pricing products are bought with the main product. Examples of captive products are razor blade cartridges because after purchasing the razor, consumers are committed to buying replacement cartridges.
4) By-product pricing. It refers to products with little or no value produced as a result of the main product. Producers will seek little or no profit other than the cost to cover storage and delivery just to get rid of them. One of the examples is when meat is processed for human consumption. The by-product can be used as food for pets. So, the manufacturer can sell it in the market to recover some of the expenses associated with transportation and storage.
5) Product-bundle pricing. It combines several products at a reduced price. For example, fast-food restaurants bundle a burger, fries, and a soft drink at a reduced price. Also, telecommunications companies offer TV, telephone, and high-speed internet connections as a bundle at a low combined price. This way provider can promote the sales of products that its clients are not likely to buy. However, the combined price must be low enough to get consumers to buy the bundle instead of a selection of single products.

Summing up, pricing is a critical element of the marketing mix and companies must make strategic choices about how to price their products to achieve their business goals.

However, regardless of the formal pricing policies, the market sets the effective price for a product. In other words, the price has to be set at a point at which the consumer will perceive the value received, and the price must be within reach of the target market. Consequently, many products are sold in very small units in some markets to bring the unit price within reach of the target market. Therefore, most companies usually adjust their basic prices keeping in view various customer differences and market-changing situations. There are the following seven price adjustment strategies.[14]

1) Discount and allowance pricing. It reduces prices to reward customer responses such as paying early or promoting the product. Discounts are either cash discount for paying promptly, quantity discount for buying in large volume, or functional discount for selling, storing, distribution, and record keeping. Allowances include trade-in allowance for turning in an old item when buying a new one and promotional allowance to reward dealers for participating in advertising or sales support programs. Allowance is an extra payment designed to gain reseller participation in special programs.
2) Segment pricing. It is used when a company sells a product at two or more prices even though the difference is not based on cost. Under customer-segment pricing, different customers pay different prices for the same product or service. Museums and cinemas, for example, may charge a lower admission for students and senior citizens. At the same time, theaters vary their seat prices because of audience preferences for certain locations. Using time-based pricing, a firm varies its price by the season, the month, the day, and even the hour.
3) Psychological pricing. It occurs when sellers consider the psychology of prices. The price is used to say something about the product. Consumers

[14] Kotler, P., Armstrong, G. Principles of Marketing – 17th ed. – Pearson, 2017. pp. 335-343.

usually perceive higher-priced products as having higher quality. Therefore, if the value of a product cannot be judged because of the lack the information or skill, price becomes an important quality signal. Another aspect of psychological pricing is reference prices that buyers carry in their minds and refer to when looking at a given product. Even small differences in price can signal product differences. A 9 or 0.99 at the end of a price often signals a bargain. This way, reducing "$50.00" to "$49.95" makes a bigger difference in sales than reducing "$55.00" to "$54.95". Although actual price differences might be small, the impact of such psychological tactics can be big.

4) Promotional pricing. It is when prices are temporarily priced below list price or cost to increase demand. This can be done by many different methods. Firstly, it is loss leader pricing. This occurs when supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic. Secondly, there is special event pricing when sellers establish special pricing in certain seasons to draw in more customers. Thirdly, some firms can offer customers low-interest financing or longer payment terms. And finally, some companies can promote sales by adding a free or low-cost warranty or service contract. Promotional pricing can help move customers over humps in the buying decision process.

5) Geographic pricing. It is used for customers in different parts of the country or the world. Some companies may charge the same price plus freight to all customers, regardless of location. Some select a city as a “basing point” and charge the freight cost associated with that city to the customer location, regardless of the city from which the goods are actually shipped. Others set up several zones where customers within a given zone pay a single total price.

6) Dynamic pricing. It is when prices are adjusted continually to meet the characteristics and needs of the individual customer and situations. A dynamic pricing system would automatically adjust the price downwards if there was excess capacity and bring it up if demand was high. These systems understand the relationship between supply and demand so they can better avoid cutting prices unnecessarily low in which you are making almost no margin or the inverse of setting them so high that you lose out to all your competitors and end up with too much extra capacity to make any money. For example, most hotel chains are now using dynamic pricing software.
7) International pricing. It is when prices are set in a specific country based on country-specific factors such as economic conditions, competitive conditions, laws and regulations, infrastructure, company marketing objectives, and others. For example, Boeing sells its jetliners at about the same price everywhere, whether in the United States, Europe, or the third world. At the same time, a pair of Levi's selling for $30 in Canada might go for $63 in Tokyo and $88 in Paris.

To summarize, when a firm considers changing prices, it must consider customers' and competitors' reactions. Both falls and increases in prices have different consequences for the market. Customers' reactions to price changes are influenced by the meaning customers see in this price change. At the same time, competitors' response is derived from an established reaction policy or a fresh analysis of each situation. There are many factors to consider in responding to a competitor's price changes. The company that faces a price change initiated by a competitor must try to understand the competitor's intent as well as the likely duration and impact of the change. If a swift reaction is desirable, the firm should preplan its reactions to different possible price actions by competitors. When facing a competitor's price change, the company might sit tight, reduce its price, raise perceived quality, improve quality, and raise the price, or launch a fighter brand.

1.3 Different pricing strategies used in the fast food industry

As we have seen earlier there are a number of different pricing strategies that can be applied under certain market conditions for particular good. Moreover, it is evident that each industry has its peculiarities, and some pricing strategies can be successfully used not everywhere. So, let us now turn out attention to the fast-food industry and consider the pricing strategies that are used there.

The fast-food industry is one of the fastest developing. Being born in the United States in the 1920s, it had a value of $647.7 billion in 2019. Moreover, the quick service restaurants segment took 42.59% share of the total global fast-food market the same year.[15] Speaking about the Russian market, we could see the same trend in 2019. Fast food restaurants accounted for a share of 51% of the total Russian restaurants' market.[16] The concept of fast, cheap, and nutritious food helps this industry in both gaining greater market share year over year and attracting different segments of the population.

This industry, which has spread all around the world, has its origins in the United States. In fast-food restaurants, customers choose their meals from a limited list of offerings for fast consumption. The industry addresses people who want quick inexpensive meals. Fast-food restaurants are characterized by informality, focus on speed and friendly personnel. They come in a wide variety of forms and offer products ranging from hamburgers, pizzas, and French fries to traditional foods such as Chinese meals, Turkish kebabs, and Indian curries.[17] While hamburger shops are dominated by large companies, ethnic restaurants usually belong to small independent owners. Large companies have entered the fast-food market in recent years and competition in the industry has become fierce. This has resulted in aggressive pricing policies among the main competitors and an increase in menu diversification. Companies started to

[15] Fast Food Market by Type and End User: Global Opportunity Analysis and Industry Forecast, 2020–2027, April, 2020 // Allied Analytics LLP [Electronic resource] URL: https://www.researchandmarkets.com/reports/5118788/ (access date: 26.03.2021)
[16] Щуренков, Н. Фастфуд отъел долю рынка // Коммерсантъ, 2020, №6. – С. 7.
[17] Ejike, B. N., Obeagu, E. I. A Review on Fast Foods and Family Lifestyle // International Journal of Current Research in Biology and Medicine, 2018, Vol. 3, Issue 4. – p. 27.

develop new products in order to increase sales and market shares. The main fast-food chains expanded their business into new locations.[18]

Starting from the way fast-food companies enter markets, we may admit that all of them are using market-penetration pricing. This is because the targeting audience of such firms are people who choose to eat fast food and therefore, they are price sensitive. As a result, managers set their products at a low cost to bring in a higher sales volume. Although the restaurant sets low prices, it means that they will incur a lower profit margin in order to bring in more business. Market-penetration pricing is widely used in this industry as the level of completion is extremely high and such a pricing strategy helps to attract a large number of customers quickly and to gain a market share.

Speaking of the pricing approach used in the fast-food industry, we can admit that it is competition-based pricing. In the second chapter of this paper, we shall see that McDonald’s, Burger King, and KFC set prices based on each other strategies, costs, prices, and market offerings. Therefore, pricing on some of the products is alike. However, the goal of the competition-based approach is not to match or beat competitors’ prices, but rather to set prices according to the relative value created versus competitors. And if a company creates greater value for customers, higher prices are justified.

Moving to the pricing strategies that help to maximize profits on the total product mix, we shall point out that only three out of five strategies are used in the fast-food industry and are the following:

1) Product line pricing. This strategy refers to setting prices for all products in a product line, including the lowest and the highest product prices, and price differentials for all the other products. It considers the cost differences between the products in this line, customer evaluation of their features, and competitors’ prices. Speaking about the real examples, we

[18] Global Fast Food Restaurants Industry - Market Research Report // IBIS World [Electronic resource] URL: https://www.ibisworld.com/global/market-research-reports/global-fast-food-restaurants-industry/ (access date: 26.03.2021)

may say that all three companies (McDonald's, KFC, and Burger King) use this policy for pricing their burgers. This way, the price depends on the burger's size and products included. All the above-mentioned companies, for example, have cheap burgers in their menus like Hamburger or Cheeseburger, premium burgers like Big Tasty, Chefburger De Luxe or Whooper, and other burgers that are considered usual and have modest prices. This strategy is used to attract more diversified customers as everyone will be able to find a product this person can afford. Moreover, the same strategy can be and is implemented for other product lines, for example, ice cream, snacks, etc.

2) Optional-product pricing. This strategy considers optional or accessory products along with the main product. A great example of this type of pricing is when a customer is asked if he or she would like to add sauce to the order or if some syrup should be added to coffee or tea. There are also some additional toppings for ice creams as well as the possibility of adding such extra products as cheese, bacon, or jalapeno into a burger. Such options are created to make customers pay for additional ingredients to get a feeling of having a special or unique product or just a better version of it. All three companies are actively using this strategy.
3) Product-bundle pricing. This strategy is based on offering a package or set of goods or services for a lower price than it would cost for a customer to buy all of them separately. A typical example of such pricing is a McDonald's McCombo where a burger, fries, and a soft drink are bundled together for a reduced price. KFC also has its well-known LunchBaskets where strips and cake are added to the three above-mentioned products and are sold as a bundle of five products. Burger King has its Combos' of any size starting from the original combination of three products and ending with six items that include a burger, fries, onion rings, nuggets, a soft drink, and a dessert. Therefore, we can point out that although all three

companies are implementing this pricing strategy, McDonald's has the smallest and Burger King the greatest variety of offers. In addition, Burger Kind's offers are the best compared to its competitors in terms of price and number of items relationship.

Speaking about the price adjustment strategies used in the fast-food industry, we must admit that only the following are implemented by the quick-service restaurant chains.

1) Discount and allowance pricing. One of Burger King's advantages over its rivals is that its clients get cashback while paying for orders with one of the Sberbank cards.[19] Moreover, customers can also cover up to 99% of the order price with Spasibo bonuses. In addition to that, McDonald's and Burger King have special loyalty programs that are available to any person who can download a special application. Such loyalty programs encourage customers to buy more products to get a coupon reward or a discount. Unfortunately, KFC is slightly lagging behind its competitors and has a loyalty program available only in some cities which are Pskov, Vologda, Cherepovets, Veliky Novgorod, Petrozavodsk, and Samara.[20] These bonuses can be later used as payment for some products. Coupons are another great association with the fast-food industry. Indeed, as far as customers are price-sensitive, discounts and coupons can be a great motive to buy certain products. Burger King, McDonald's, and KFC have coupons that represent a bundle or a single product at a reduced price. These coupons can be timed to a certain even, they may relate to achieving sales targets or they might help to attract new customers.

[19] Спасибо от Сбербанка // Официальный сайт Бургер Кинг [Электронный ресурс] Режим доступа: https://burgerking.ru/partners/spasibo-ot-sberbanka (дата доступа: 15.03.2021)
[20] Что такое сеть ресторанов KFC. Программа лояльности KFC, 10 декабря 2020 // Гуру скидки [Электронный ресурс] Режим доступа: https://vsebonuskarti.ru/eda/chto-takoe-set-restoranov-kfc-programma-loyalnosti-kfc (дата доступа: 17.03.2021)

2) Psychological pricing. It is used by all the mentioned above fast-food companies. As an example, all the Burger King's prices for burgers end with nine. The same situation takes place in KFC's price although some meals that end not only with nine as in the previous example but also with four and even five. Moving McDonald's, one can see even a more diversified price range with both round prices like 50 ₽ and 100 ₽ and the ones that end with three and all the above-mentioned numbers. This way, we must admit that Burger King has the strongest psychological pricing strategy compared to its main competitors. This is because prices are perceived to be smaller if the left-most digit changes to a lower level compared to if the left-most digit remains unchanged. Another aspect of psychological pricing is menu segmentation. There are cheap, medium, and high prices dishes in each category of the companies' menus. This is because bigger-size meals with more ingredients in them are perceived as being of better quality compared to basic offers. In this case, pricing reflects the value of a product. For example, Hamburger costs around 50 ₽ being one of the cheapest items on McDonald's menu, while Big Mac has a price of around 140 ₽.
3) Promotional pricing. This method is closely connected to the coupons mentioned above. We shall precise that there can be two types of them. Firstly, some coupons can be used by clients anytime. The second type of coupons is usually timed to a certain event. Such an event can be external or internal. Holidays, sports competitions, or other events that happen regardless of the restaurants' participation can be considered as internal. On the contrary, such an event as McFest at McDonald's can be considered internal as its holding depends on the company decision. During McFest each week a certain product is offered to customers at a

reduced price.[21] Such promotions stimulate additional traffic and increase the company's sales. Other fast-food companies also use promotional pricing. Examples of them are KiberPonedelnik at Burger King[22] and Crazy Wednesdays at KFC[23].

4) Geographic pricing. This strategy is based on adjustments of prices for different parts of the country. As Russia is a unique and the largest country in the world with 12 time zones, transportation costs cannot be the same for any region. Moreover, with different levels of wealth, the same price might be considered as low, too high, and normal in different regions. Therefore, all from the above-mentioned companies have slight differences in pricing of the same products in different cities. On the 17th of March 2021, the official websites of the three fast-food chains were analyzed. From this analysis we found out that for example, McDonald's Triple Cheeseburger costs 169 ₽ in Moscow and 175 ₽ in Barnaul, prices for Big Tasty are 249 ₽ and 259 ₽ respectively. For Burger King prices for Shrimp King are the same no matter the location. However, Whooper Junior is worth 109 ₽ in Moscow and 129 ₽ in Murmansk. KFC uses the same strategy as Longer and Chefburger De Luxe would cost 55 ₽ and 144 ₽ in Moscow but 59 ₽ and 159 ₽ in Irkutsk.

All in all, we can admit that in the fast-food industry companies have tough competition and approximately the same pricing ranges for the same products. This is why they have to come up with unique ideas for attracting customers, for example, creating special promotions, coupons, and loyalty programs. This additional work can be the only differentiator between the companies in this industry. In the table below we

[21] МАКФЕСТ // Официальный сайт Макдоналдс [Электронный ресурс] Режим доступа: https://mcdonalds.ru/mcfest (дата доступа: 20.03.2021)

[22] Бургер Кинг примет участие в киберпонедельнике, 25 января 2018 // Официальный сайт Бургер Кинг [Электронный ресурс] Режим доступа: https://burgerking.ru/news/article/83/burger-king-primet-uchastie-v-kiberponedelnike-29-yanvarya (дата доступа: 17.03.2021)

[23] Сумасшедшие среды в KFC! // Официальный сайт KFC [Электронный ресурс] Режим доступа: https://www.kfc.ru/crazydays (дата доступа: 17.03.2021)

pointed out the main differences in the pricing policies of the three analyzed companies.

Table 1

Distinctive features of pricing strategies[24]

	Burger King	McDonald's	KFC
Major Pricing Strategy	competition-based pricing		
New Product Pricing Strategy	market-penetration pricing		
Product Mix Pricing Strategies	❖ More options in product-bundle pricing		
Price Adjustment Strategies	❖ Unique cashback program ❖ Strongest psychological pricing	❖ Longer duration and frequent holding of promotional pricing activities	❖ Loyalty program is not available all over Russia

As is shown in Table 1, all rivals are using competition-based pricing as the major policy and market-penetration as a new product pricing strategy. However, KFC does not develop a strong loyalty program for its customers. Instead, they have some unsystematic bonus cards for a smallish number of clients in some cities. At the same time, it could be claimed that although McDonald's the strongest in promotional pricing, Burger King has more options in product-bundle pricing and is the strongest in psychological pricing. In addition, Burger King offers a unique cashback program and therefore can be considered as the leader in pricing strategies implementation.

[24] Composed by author.

1.4 Influence of pricing policy on company financial performance

A price is a powerful tool in achieving a company's strategic goals. Indeed, the price remains the most important element in determining market share and profitability as a small percentage improvement in price can generate a large percentage increase in profitability. Therefore, we shall consider the following financial indicators that reflect the effectiveness of implemented pricing policy.[25]

We shall start with the **revenue** which is the total amount of income generated from the sales of goods or services. Therefore, a decrease or increase in revenues refers to the actual fall or rise in sales of a company. However, costs directly related to producing goods being sold should be also considered while speaking about the company's efficiency. This way, **gross profit**, which is the difference between sales revenues and the costs gives a better understanding of the firm's profitability.

But except for the costs of goods sold, there are other costs not associated with the direct manufacturing process. These expenses are not included in the cost of sales and occur during the ordinary course of running the business. They include administrative expenses and overhead, salaries, marketing costs, research and development expenses. Another type of expense, depreciation and amortization, represents an estimate of the costs that arise from wear and tear or obsolescence of the firm's assets. A firm may also have other sources of income or expenses that arise from activities that are not the central part of the business. Income from the company's financial investments is one example of other income.

After we have adjusted gross profit for the mentioned above sources of income and expenses, we get the firm's earnings before interest and taxes, or EBIT. From EBIT, we deduct the interest expense and corporate taxes to determine the firm's **net income**. Net income represents the total earnings of the firm's equity holders. Therefore, while analyzing a company's profitability, one should consider net income

[25] Berk, J., DeMarzo, P. Corporate Finance, Global Edition – 5th ed. – Pearson, 2019. – pp. 28-30, 35-36.

as this indicator shows how efficient is the business while considering both main and other sources of income and expenses.

Analyzing the difference between revenues and all the above-mentioned indicators is also of paramount importance while evaluating the profitability of a company. Therefore, we shall calculate three different ratios. Firstly, we shall consider **gross profit margin**. It reflects the ability to sell a product for more than the cost of producing it and therefore, the greater the margin, the better. This ratio shows the percent of the revenue left after paying the direct costs associated with the manufacturing process and is calculated by the formula (2).

$$Gross\ profit\ margin = \frac{Gross\ Profit}{Revenue} * 100\% \tag{2}$$

Next, we shall consider the **net profit margin**. It shows the percentage of sales that have turned into profits or how much profit the business has generated for each ruble of sales after deducting taxes. However, while differences in net profit margins can be due to differences in efficiency, they can also result from differences in leverage, which determines the amount of interest expense, as well as differences in accounting assumptions. So, this ratio is calculated by the formula (3).

$$Net\ income\ margin = \frac{Net\ Income}{Revenue} * 100\% \tag{3}$$

All the above-mentioned indicators and ratios are used to define the company's profitability. Therefore, while considering past data we can see either positive or negative trends in the business performance and can analyze how it changed over time. Comparing one firm with its rivals, we can evaluate the company's positioning on the market as well as the level of its competitiveness.

To sum up, we examined price as the basic economic category. We looked closely at the price definition, its key features, and major determinants. We also talked about the place of the price within the marketing mix and the importance of the price elasticity of demand. As a result, we saw that pricing is critical for successfully operating and thus, companies should consider their pricing policies as well as the ones of their main competitors. This is especially crucial in case a company wants to achieve specific strategic goals with the help of such a powerful tool as pricing.

Next, we took a closer look at the pricing strategies themselves. We talked about the main three pricing approaches, two policies for pricing new products, the five major product mix pricing strategies, and seven price adjustment strategies. Moreover, we gave examples for the above-mentioned policies and later saw which of them and how are implemented in the fast-food industry.

Finally, we talked about the financials that might show how efficient a company is at implementing pricing strategies. In this part, we talked about the financial indicators as well as ratios that describe the company's profitability.

Further, we shall take a closer look at both financials and policies implemented by Burger King and its main rivals in the Russian market. We shall analyze the degree of the company's competitiveness as well as sources and way of its development and improvement.

CHAPTER 2. ANALYSIS OF THE COMPETITIVENESS OF THE PRICING POLICY OF THE BURGER RUS LLC

2.1 Competitive analysis of the effectiveness of the implemented pricing strategies of three fast-food companies

Before we proceed with the competitive analysis of the effectiveness of the implemented pricing strategies, we shall give a brief outline concerning Burger King's history. Next, we shall speak about the current positioning of this fast-food chain in both international and Russian markets and define its market share. Then we shall consider ratios and financial indicators that show the company's profitability and compare them with the rivals' results. We also would like to see how all of them were changing over time and why.

To start with, Burger King Corporation is an American corporation that owns the global chain of fast-food restaurants with the same name – Burger King. The history of the company began back in 1954 with the Insta-Burger King restaurant chain in Jacksonville, Florida. That year the Insta-Burger King faced financial difficulties, so two local franchisees David Edgerton and James McLamore acquired the company and renamed it, Burger King. McLamore and Edgerton sold their first franchises in 1959, and Burger King soon became a national chain. In 1963, the company expanded outside the United States, opening a store in Puerto Rico. Lagging behind McDonald's in sales and profitability, Burger King had undergone many changes in ownership and corporate governance. Moreover, in 1957 a big-sized burger called Whopper was introduced and later became Burger King's signature product. At that time McDonald's was still selling only small hamburgers. Later in 1975, Burger King introduced Drive-Thru windows that are also called King Auto. This allowed drivers to place and pick an order without leaving a car. Other changes in the menu such as adding chicken products, a breakfast menu, and toys for children's lunches were introduced later.[26]

[26] McLamore, J. The Burger King: A Whopper of a Story on Life and Leadership – Mango, 2020.

More than 60 years after its creation, Burger King Corporation is operating worldwide. Speaking about the Corporation's growth and development, we should point out that in 2020 Burger King operated and franchised 18 625 restaurants worldwide, the majority of which were franchised. Only 52 units remain in the company's operation, as more and more stores have been replaced by franchises over the past years. And although Burger King has cut the number of restaurants it operates, there was a consistent grown in the total number of restaurants from 2009 to 2019, with a sharp decrease in 2020 connected to the COVID-19 pandemic. The global expansion of the company has resulted in Burger King being one of the most valuable fast-food brands in the world. Moreover, in 2020 the brand value was over six million US dollars. Burger King's revenues have also increased over the past four years, after declining gradually in previous years. However, because of the coronavirus's impact on the restaurant chain's operations, Burger King's revenue declined in 2020 compared to the previous year. Despite slightly decreasing locations and fluctuating revenues, Burger King's American Customer Satisfaction Index rating remained stable. The restaurant chain scored 76 out of 100 points in 2019 and 2020 in terms of overall customer satisfaction. In comparison, its rival McDonald's scored only 69 and 70 points these years.[27]

The first Burger King restaurant in Russia appeared in 2010. The fast-food chain operates in Russia through a master franchisee - Burger Rus LLC. It is 100% owned by Cyprus Burger King Russia Ltd. In 2018, Cyprus Xomeric Holdings Ltd. became the biggest shareholder in Burger King Russia with a 35% stake. VTB Capital has purchased a 20% interest, while Gladerom Investment Ltd has a further 30% stake. Burger King Europe, the European affiliate of the American group, has a stake of 15%. Burger King has more than 700 restaurants all over Russia now. However, speaking about the number of locations and revenue, we shall compare the company to its main

[27] Number of Burger King restaurants worldwide 2009–2020, April 22, 2021 / Lock S. // Statista [Electronic resource] URL: https://www.statista.com/statistics/222981/number-of-burger-king-restaurants-worldwide/ (access date: 22.04.2021)

competitors that are McDonald's and KFC. From the Figure below, we can see historical data concerning both elements for all the mentioned competitor fast-food chains.

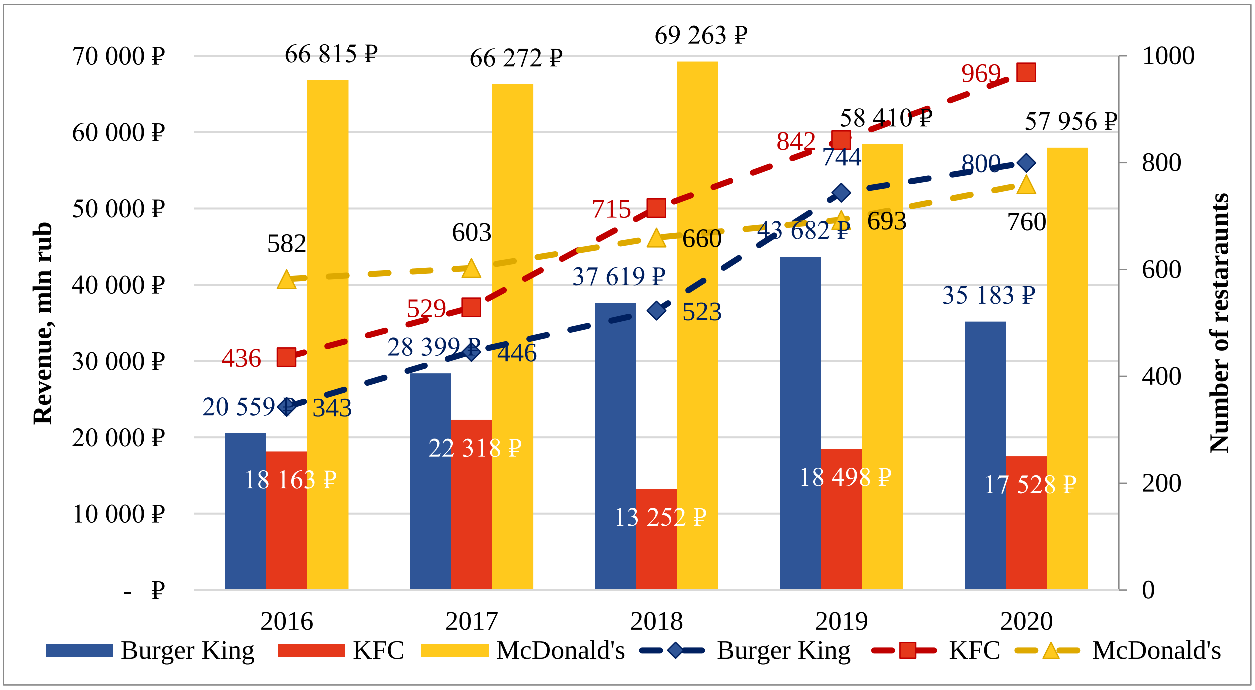

Figure 1. McDonald's, KFC, and Burger King in the Russian market in years 2016-2020[28]

Speaking about the number of restaurants, Burger King and KFC had the greatest and constant growth within the analyzed period. Moreover, both increased the number of sales points by 133% and 122%. McDonald's was also constantly opening new restaurants, but the growth was modest. As a result, by increasing its sales points only by 31% within the analyzed five years, McDonald's takes the last place in the number of restaurants, while KFC being the leader in this indicator since 2018.

However, as we consider revenues, we can see that growth in the sales points does not always have a positive impact on the volume of sales. Starting from McDonald's, which has been operating on the Russian market since 1990, it had the

[28] Figure is composed by the author based on the РБК исследования рынков Российский рынок фаст-фуда: текущая ситуация и основные игроки – 2020 – РБК Москва, 2020; Федеральная служба государственной статистики: Официальный сайт // Федеральная служба государственной статистики. – 1995–2021 [Электронный ресурс] Электрон. дан. – Режим доступа: https://www.gks.ru/ (дата доступа: 15.04.2021); Ресурс БФО // ФНС России. – 2005–2021 [Электронный ресурс] Электрон. дан. – Режим доступа: https://bo.nalog.ru/ (дата доступа: 15.04.2021); Предоставление сведений из ЕГРЮЛ/ЕГРИП в электронном виде // ФНС России – 2005–2021 [Электронный ресурс] Электрон. дан. – Режим доступа: https://egrul.nalog.ru/index.html (дата доступа: 15.04.2021).

greatest revenues in all the analyzed period, although its sales were declining from year to year. The only increase in revenue took place in 2018 but did not exceed a 5% rise. Moving to KFC, which is taking first place in the number of restaurants, it has the smallest volume of sales compared to its main rivals. Moreover, the company's trend was inconsistent. There was a growth of 2% in 2017 that was followed by a significant fall of more than 40% in 2018 and then a rise of 39.5% in 2019. KFC had a 5% decrease in sales in 2020, thus, the company had an over fall of 3% in its revenue comparing 2020 to 2016. McDonald's had a 13% decline for the same, while Burger King had a rise of 71%. Although the revenues of the last dropped by almost 20% in 2020, they were constantly growing all the previous years.

All in all, we can see that in 2020 Burger King was the second greatest fast-food company in the Russian market in terms of sales and number of restaurants. Moreover, it had the most rapid growth indicators compared to its main rivals.

Next, we shall consider the three companies' sales and cost of goods sold (COGS) for a longer period represented in the Figure below. We see that the growth in the company's revenue corresponds to its fall in COGS and vice versa. So, these two indicators are mirror images of each other.

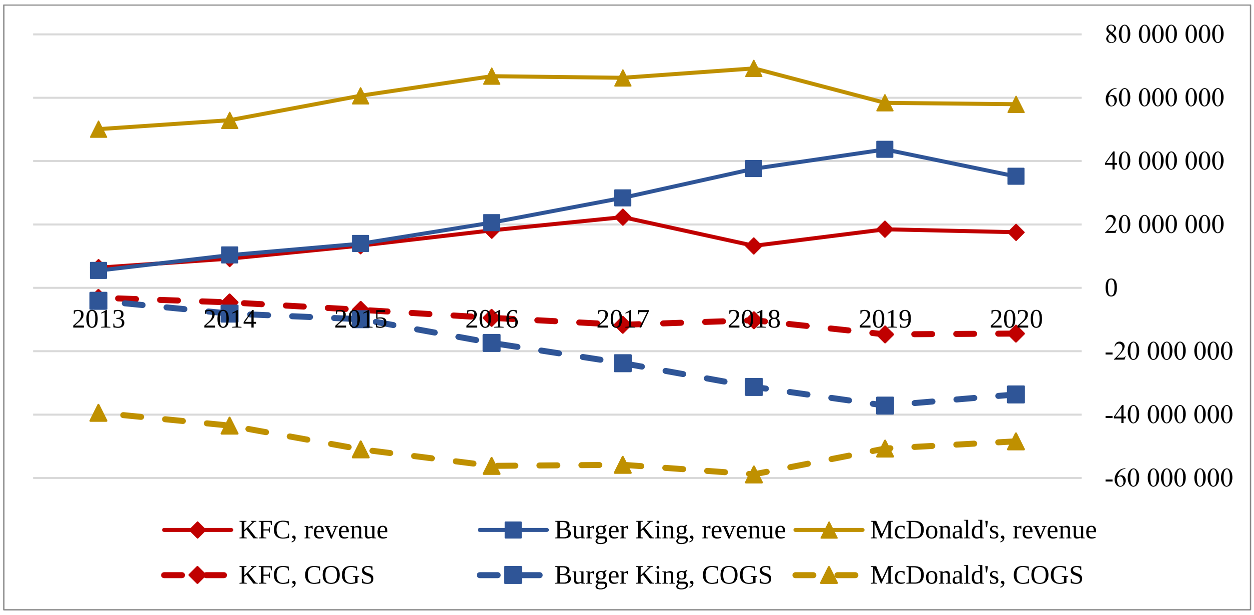

Figure 2. Revenue and COGS of the three fast-food chains in 2013-2020, th. rub

Source: Figure is prepared by the author based on the Federal State Statistics Service's data.

To see how efficient the companies were, we shall consider Gross Profit and Gross Profit Margin. Both show how much of the revenues is left after paying the direct costs associated with the manufacturing process. The only difference is that Gross Profit is the actual amount of money, while Gross Profit Margin is the percentage that Gross Profits takes from the total amount of the company's Revenue. Therefore, higher indicators will mean that a company is more efficient at lowering its costs while maintaining higher sales volumes.

In Figure 3 that is represented below, we can see that Gross profit was fluctuating for all three companies during the analyzed period. Starting from the leader – McDonald's – we shall admit that this company had the poorest maintenance of COGS. We can say so because for this fast-food chain Gross Profit was declining during the analyzed period. The only exceptions were the years 2016 and 2020 when the indicator increased by 10.6% and 25.3%. However, if we compare 2020 to 2013, we shall admit that Gross Profit at McDonald's decreased by 11%. KFC also had a decline of 5% during the analyzed eight years, but in this case, there were significant rises and equally significant declines. This quick-service chain was growing by 23-43% each year until a huge fall of more than 70% in 2018 that was followed by a 25% rise and almost a 19% decline in the next two years. Moving to Burger King, it was the only fast-food chain that managed to increase its Gross Profit by 15% in 2020 compared to 2013. Moreover, unless a decline of 22% in 2016 and a huge fall of 76% in 2020, the company's indicator was rising by 36-83% each year except for 2019 when the growth was only 3%.

To sum up, we can admit that McDonald's has the greatest Gross Profit but the lowest growth rate, while Burger King shows the highest increase in the indicator having the smallest value. KFC takes second place in both Gross Profit value and its trend.

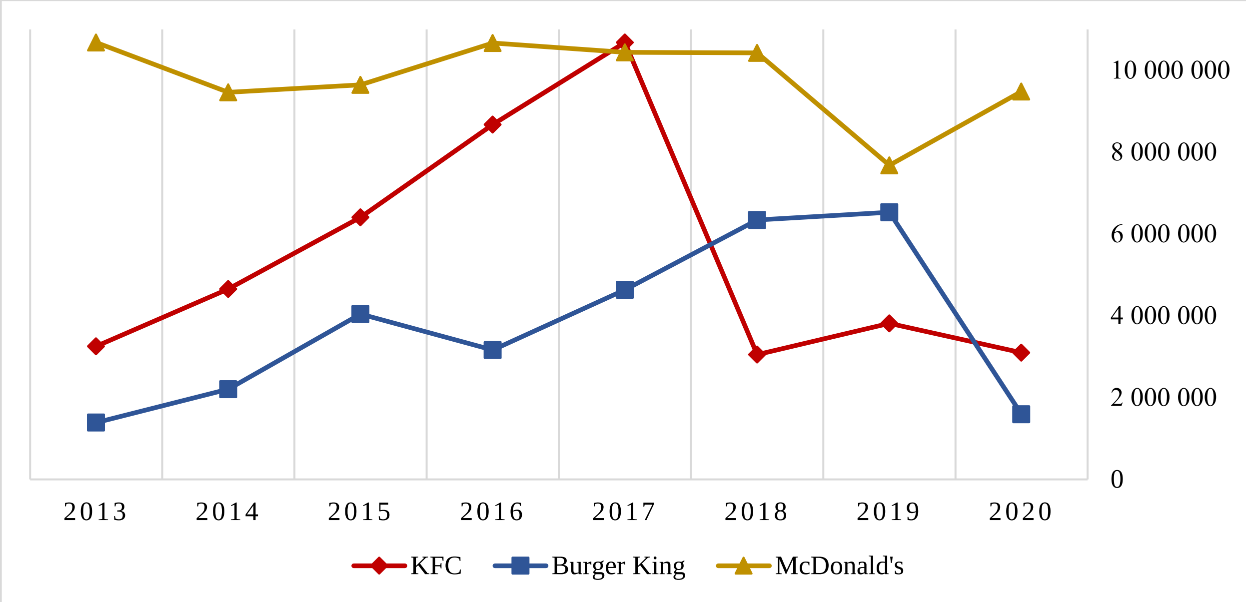

Figure 3. Gross Profit of the three fast-food chains in 2013-2020, th. rub

Source: Figure is prepared by the author based on the Federal State Statistics Service's data.

However, speaking about the company's efficiency we cannot consider only the value of its Gross Sales. Indeed, McDonald's, which has its Revenue 65-230% greater than its main competitors, should have a relatively higher the Gross Profit. So, we shall compare Gross Profit Margin of the three analyzed firms represented in the Figure below. In fact, KFC had the greatest Gross Profit Margin of 51% in 2013 that was constantly declining in the following years and first reached 48% in 2017 and then 17.7% in 2020. McDonald's had the same trend as its indicator decreased from 21% to 13% comparing 2013 to 2019. However, Gross Profit Margin increased last year and achieved the level of 16%. However, this indicator is still 5% less than the value in 2013. Burger King also had a negative trend in the Gross Profit Margin unless several rises in 2015 and years 2017-2018. Overall, the indicator decreased by 21% comparing 2020 to 2013. Therefore, we may admit that growth and greater values of the Gross Profit Margin are signs of a more efficient operation of a firm. At the same time smaller or/and declining indicator means that the company starts having financial troubles. We may also suppose that such a fall may indicate an extension of the product line with meals of low margin.

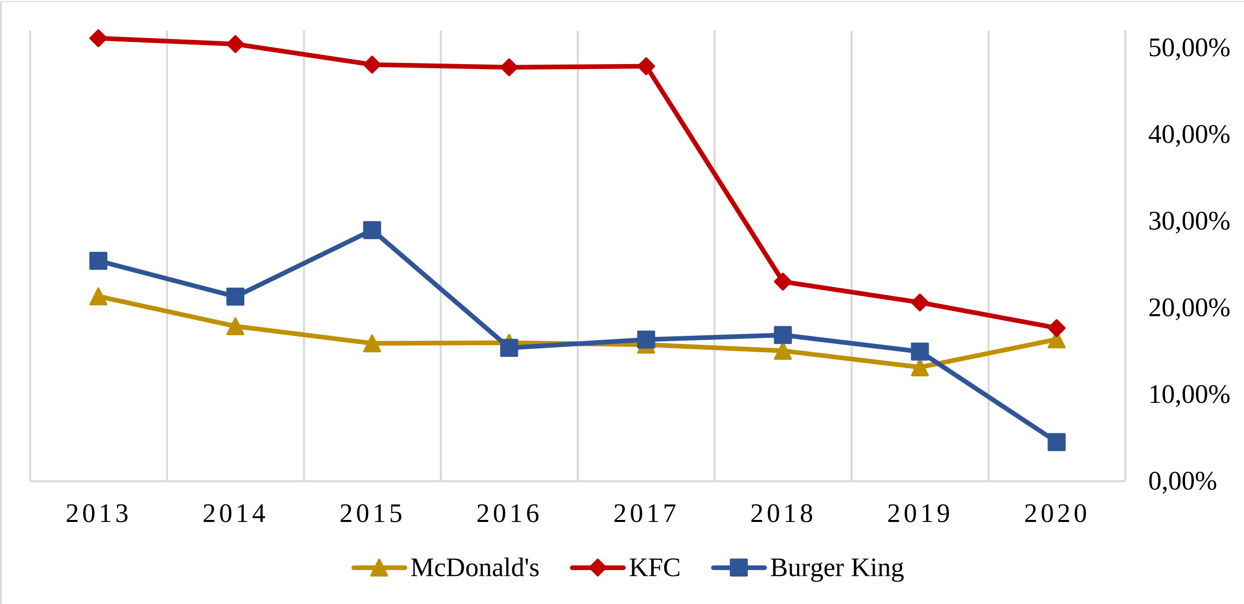

Figure 4. Gross Profit Margin of the three fast-food chains in 2013-2020, %

Source: Figure is prepared by the author based on the Federal State Statistics Service's data.

Finally, we shall consider Net Income that represents the total financial result of a company. Unfortunately, several companies had Loss in some periods, therefore, we shall refer to the indicator as either Income or Loss, depending on whether a firm was generating any profit or was loss-making. We shall also consider Net Profit Margin that shows how much Revenue collected by the company translates into Profit.

So, from the Figure below we can see that McDonald's was the only fast-food chain that got profit during the analyzed years. Therefore, we must admit that the performance of McDonald's was the strongest despite fluctuations in the total profit and margin values. Moreover, the Net Income graph resembles Gross Profit one but with more significant rises and falls. KFC had significantly lower Net Profits and was even loss-making in the years 2015, 2018, and 2020. On the contrary, Burger King had Net Income only in the years 2016-2018 and Net Loss in other periods. Net Profit Margins for these companies were fluctuating between -10% and 3%. KFC had its highest values in the years 2016-2017 when the company managed to achieve 8.6% and 7.5%. At the same time, Burger King set an anti-record of -15% in 2020. However, we see that companies' falls and rises in the indicator were not proportional and homogeneous. Therefore, market conditions shall not be considered as a primary reason for these changes. All in all, we see that McDonald's had the strongest financial health, while Burger King – the worst.

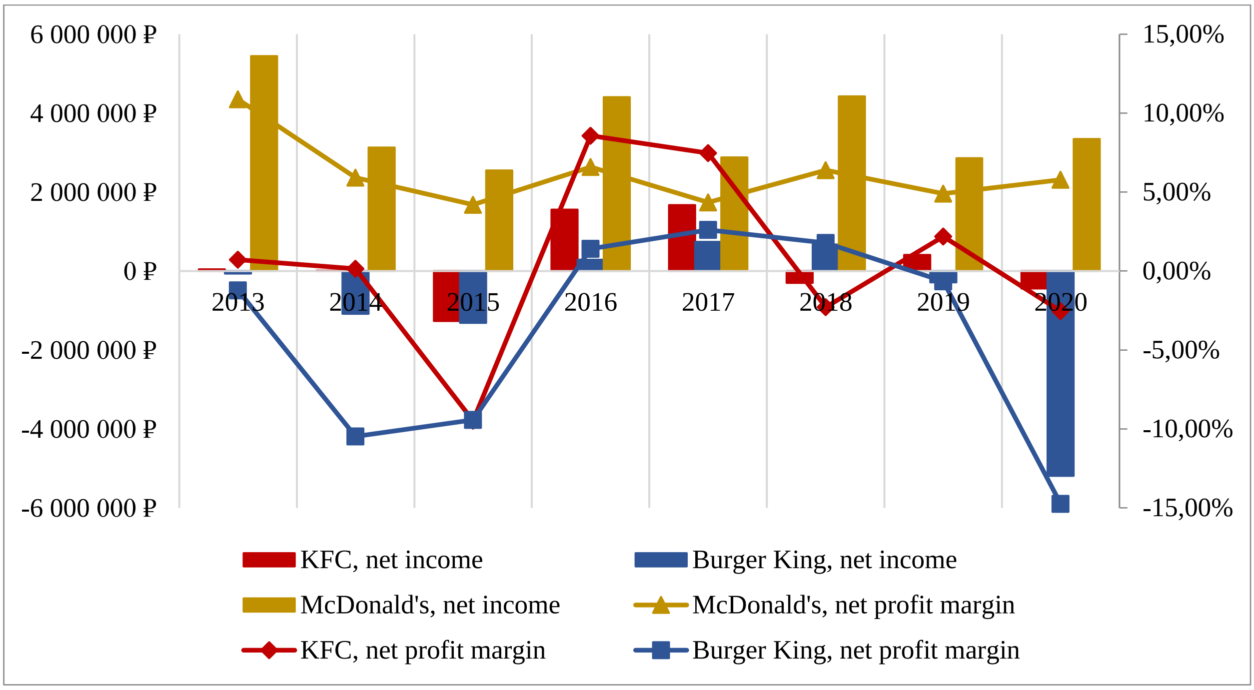

Figure 5. Net Income/Loss and Net Profit Margin of the three fast-food chains in 2013-2020

Source: Figure is prepared by the author based on the Federal State Statistics Service's data.

To sum up, we must admit that Burger King has the greatest growth rate compared to McDonald's and KFC. This is because the analyzed quick-service chain is relatively new and is still penetrating the Russian market by opening new restaurants. Therefore, the company is investing a great part of its funds into business development. As a result, to receive Net Income instead of Net Loss, Burger King should increase its Gross profit Margin. This is especially relevant for the company as it cannot decrease its expenditures connected with business expenditure and therefore, the company should concentrate on increasing margins by applying the right pricing policy.

2.2 Competitive analysis of pricing for substitute products in three fast-food companies

Moving to the analysis of the substitute products, we shall divide them into several parts. Firstly, we shall analyze similar products that can be found in the menu of all the three competitors. It is worth mentioning that KFC's main feature is selling products with chicken. Therefore, we shall consider meals with beef and fish only at Burger King and McDonald's. Ultimately, we shall look at the main dishes, snacks, beverages, and dessert pricing. All the data presented below was taken from the quick service restaurants' menus during a personal visit. The shopping center "Okhotny Ryad", which is located in the heart of Moscow and where all the three above-mentioned fast-food chains operate, was chosen for the data collection.

Main dishes.

Burgers and rolls can be considered as the main dishes in the fast-food industry. Most of the clients come to such restaurants for burgers. Rolls in turn are great substitutes to them that are of higher demand in case a person is in a hurry and has no time to sit and eat carefully. Therefore, we shall take a closer look at their prices first.

To start with, KFC specialty is using only chicken in their menu, so for this fast-food chain, we shall analyze prices on burgers with anything but chicken patty. Secondly, there are beef, chicken, and fish burgers in the menus of Burger King and McDonald's. As of 11th March 2021, there are 13 beef and three chicken burgers at McDonald's and 31 beef and ten chicken burgers at the Burger King's menu. Both restaurant chains have only two fish burgers, but since these burgers have different ingredients, they cannot be compared. So, in the following table, we can see the prices of beef burgers that represent the greatest parts of McDonald's and Burger King menus.

As mentioned above Burger King is implementing psychological pricing. The company's prices end with 0.99. On the contrary, McDonald's does not follow the same approach. Moreover, we can point out that as there are several different numerics at the end such as zero, five, seven, and nine. Therefore, using such an approach cannot be considered efficient. From the table above we can see that there are only two burgers on McDonald's menu (Hamburger and Big Mac) whose prices are lower compared to Burger King's substitutes. In both cases, Burger King's prices are 6% higher, which in the case of Hamburger is less than three rubles and therefore cannot be seen as significant. There is also a Cheeseburger that has a price difference of 0.01 rubles. While paying no attention to the three cases described above, we see that beef burgers at Burger King have on average 14,5% lower prices compared to McDonald's' substitutes. All in all, from this analysis, Burger King is more efficient in setting prices for its beef burgers.

Table 2

Prices on similar beef burgers at two fast food chains, rub[29]

Burger King		**McDonald's**	
Hamburger	52,99	50	Hamburger
Cheeseburger	54,99	55	Cheeseburger
Double Cheeseburger	109,99	125	Double Cheeseburger
Big King	144,99	137	Big Mac
Whopper with cheese	229,99	257	Big Tasty
Double Whopper with cheese	309,99	339	Double Big Tasty
Cheesy Joe	219,99	295	Big Tasty three cheeses
Whopper Junior cheese bacon	149,99	179	Royal Bacon

Moving to the chicken burgers, we can say that Burger King is not as competitive in this category as in previous. Only one out of four analyzed burgers represented in the table below has its price lower comparing with McDonald's and KFC's substitutes. This is Chickenburger and is 9% and 27.5% cheaper than the McDonald's and KFC analogs. Caesar King is less than a ruble more expensive than Chefburger Junior and therefore we cannot consider such a small price differentiation as competitive. Moving to the rest two burgers that are Chicken King and Grill Chicken Barbecue, they have a

[29] Composed by author.

significant gap in the price compared to the rivals' substitutes. This way, Chicken King is 38% and 12.4% more expensive compared to McChicken and Cheeseburger De Luxe, while Grill Chicken Barbecue costs 72% and 61% more than Chicken Premier Country and Chefburger De Luxe. To sum up, we see that Burger King is more competitive in the cheap chicken burger segment while the company's prices in premium chicken burgers are less attractive for price-sensitive customers.

Table 3

Prices on similar chicken burgers at three fast food chains, rub [30]

Burger King	**McDonald's**	**KFC**
Chickenburger 49,99	Chickenburger 55	Cheeseburger with onion 69
Caesar King 99,99	–	Chefburger Junior 99
Chicken King 144,99	McChicken 105	Cheeseburger De Luxe 129
Grill Chicken BBQ 239,99	Chicken Premier Country 139	Chefburger De Luxe 149

Rolls will be the last among the main dishes in this analysis. As in the case with burgers, rolls can have beef, chicken, fish patty inside, or even shrimps. During the lent to support fasting people, Burger King is offering special rolls with potatoes inside. However, other quick-service restaurant chains do not add any specific products connected to this religious custom in their menus. Comparing offers of the two restaurant chains represented in the table above, a bias situation can be seen.

Table 4

Prices on similar rolls at two fast food chains, rub [31]

Burger King		**McDonald's**	
Whopper Roll	189,99	189	Big Tasty Roll
Caesar Roll	189,99	177	Caesar Roll
Shrimp Roll	209,99	219	Shrimp Roll

[30] Composed by author.
[31] Composed by author.

While Whopper Roll is less than a ruble more expensive than Big Tasty Roll, Burger King's Caesar Roll has a 7.3% higher price compared to its McDonald's substitute. On the contrary, Shrimp Rolls is more than 4% cheaper in Burger King. To sum up, Burger King has lower prices on the premium roll while others are close to its competitor. We shall also mention that Burger King has seven different rolls on the menu against three in McDonald's which can be considered as a competitive advantage due to the highly diversified menu.

Snacks.

Fries, nuggets, wings, and cheese snacks usually accompany burgers and rolls. These are additional dishes that usually have a great impact on the company's revenue due to their high marginality. Starters can be a part of a combo or a bundle, but at the same time it can be a separate independent dish. Below, we shall consider only those snacks that can be found in the menus of all the three analyzed fast-food chains.

To start with, we would like to point out that snacks despite main dishes are sold in a set rather than as a single piece. However, while analyzing their pricing, we shall consider not only the prices of sets but the price per one piece as well. Such price can be found by dividing the total price by the number of units or pieces a set consists of. We shall start with the nuggets pricing represented in the table below.

Table 5

Prices on nuggets sets at three fast food chains, rub [32]

	Burger King	**McDonald's**	**KFC**
Nuggets 4 pieces	49,99	49	–
Nuggets 5 pieces	59,99	–	–
Nuggets 6 pieces	–	69	69
Nuggets 9 pieces	99,99	99	99
Nuggets 15 pieces	149,99	–	–
Nuggets 18 pieces	–	195	–
Nuggets 20 pieces	–	–	209

[32] Composed by author.

According to this table, Burger King's prices are not competitive in two cases which are sets of four and nine nuggets. However, the price difference is less than a ruble in these cases, so, we cannot consider it as significant. In all the other cases prices on Burger King's nuggets are lower compared to rival substitutes. This is especially evident while looking at the graph below where the price of one nugget in a set is represented. So, Burger King's prices are significantly lower than KFC and McDonald's as they are represented closer to the x-axis.

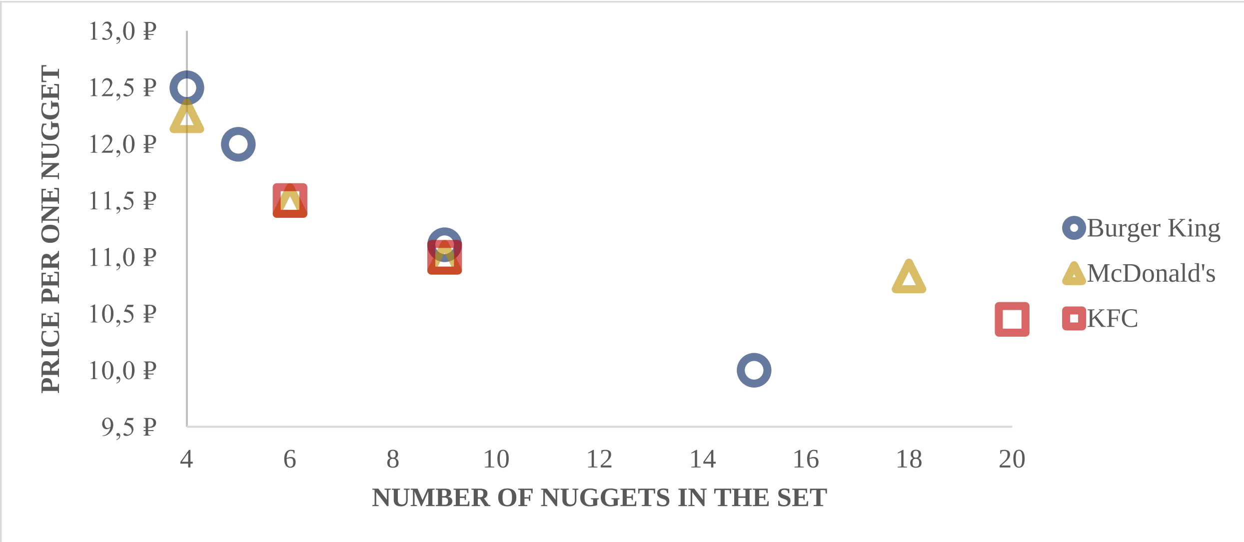

Figure 6. Prices on nuggets sets at three fast food chains

Source: Figure is prepared by the author.

Speaking about another chicken snack, we will analyze wings pricing. According to the information represented in the table below, we can claim that Burger King has the lowest prices on chicken wings. The only exception is the five pieces set pricing that is 10.99 rubles more expensive compared to its McDonald's substitute. The price difference in three pieces set is less than a ruble, so, we cannot consider it significant. It is also worth mentioning that Burger King offers four different sets while its rivals have only three possible options each.

Table 6

Prices on chicken wings sets at three fast food chains, rub [33]

	Burger King	McDonald's	KFC
Wings 3 pieces	124,99	124	134
Wings 5 pieces	189,99	179	–
Wings 6 pieces	–	–	199
Wings 7 pieces	–	249	–
Wings 8 pieces	249,99	–	–
Wings 9 pieces	–	–	274
Wings 15 pieces	369,99	–	–

Proceeding to the per-piece pricing, we can see this information in the figure below. So, as we mentioned before Burger King is not competitive only in one case with five pieces set. In all the other cases its prices are much lower than the competitors' as they are closer to the x-axis. Therefore, we shall admit that Burger King's pricing is more competitive than its rivals.

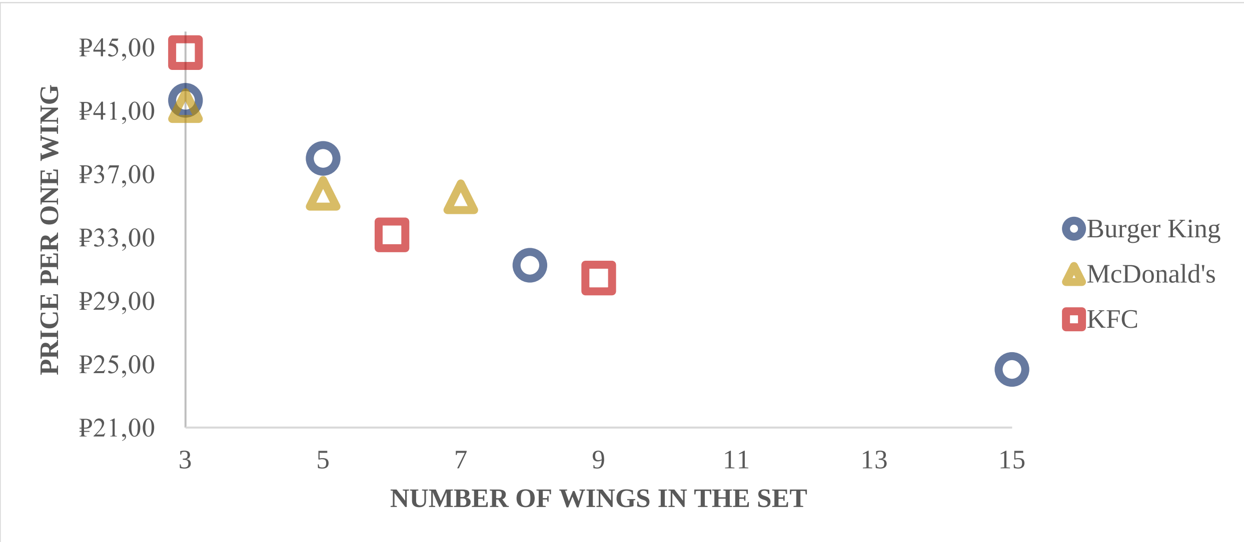

Figure 7. Prices on chicken wings sets at three fast food chains

Source: Figure is prepared by the author.

[33] Composed by author.

Moving to the last chicken snack, we shall consider pricing on stripes. Here we can see that Burger King's prices are much higher than the ones of its main competitors in all the sets. So, speaking about the reasons for such high pricing, we can suppose that this might be because both Burger King and KFC are using whole chicken muscle while McDonald's prefers to use chopped meat and then form it into stripes. By doing so, McDonald's decreases its cost significantly and therefore can set lower pricing. However, while Burger King uses frozen stripes, KFC buys marinated products and fries them in butter in every single restaurant. This way, we may admit that KFC uses a customer value-based pricing approach, while McDonald's concentrates on the cost-based method for its prices. Burger King implements a competition-based approach, as it tries to give its customers valuable products while setting competitive prices.

Table 7

Prices on stripes sets at three fast food chains, rub [34]

	Burger King	**McDonald's**	**KFC**
Stripes 2 pieces	99,99	–	–
Stripes 3 pieces	–	85	119
Stripes 5 pieces	199,99	139	–
Stripes 6 pieces	–	–	214
Stripes 7 pieces	–	189	–
Stripes 8 pieces	279,99	–	–
Stripes 9 pieces	–	–	274

Next, we shall analyze pricing on cheese snacks. From the table represented below, we can conclude that Burger King has the lowest prices compared to its main rivals. The company's prices are on average 25% smaller than at KFC and are more than twice as small as at McDonald's. Speaking about the last, it has only one cheese snacks set while both Burger King and KFC offer three possibilities for their clients.

[34] Composed by author.

Table 8

Prices on cheese snacks sets at three fast food chains, rub [35]

	Burger King	**McDonald's**	**KFC**
Cheese snacks 3 pieces	44,99	100	69
Cheese snacks 5 pieces	69,99	–	89
Cheese snacks 7 pieces	89,99	–	109

And the last but not the least snack we shall consider is Fries. French fries have been always accompanying burgers and can be claimed to be the first snack. Nowadays, we have rustic potatoes in addition to classical French fries. So, while analyzing the pricing of both, we can see that Burger King has the highest prices for all the dishes of all sizes. Moreover, an average potato snack at Burger King is 40% more expensive than its rivals' substitute. Speaking about the number of sizes available in the fast-food chains, it should be mentioned that KFC and Burger King have five various potato options, while McDonald's has only four.

Table 9

Prices on potato snacks at three fast food chains, rub [36]

	Burger King	**McDonald's**	**KFC**
French fries (small size)	80	48	50
French fries (medium size)	90	69	69
French fries (big size)	110	82	99
Rustic potatoes (small size)	95	–	50
Rustic potatoes (medium size)	105	78	79

[35] Composed by author.
[36] Composed by author.

Beverages.

A burger, French fries, and a soft drink. These products stood at the origins of the fast food. And as we have already mentioned the first two, we shall now look at the beverages pricing.

Firstly, we shall point out that there are cold beverages or soft drinks, hot beverages that include tea and coffee, and milkshakes. And as all the three analyzed companies have different options for drinks' volumes, we can consider pricing on only one or two volumes of each beverage that is present in each company's menu.

Table 10

Prices on beverages at three fast food chains, rub [37]

	Burger King	**McDonald's**	**KFC**
Tea 0,3 l.	79,99	70	69
Coffee 0,2 l.	44,99	55	49
Coffee 0,3 l.	99,99	80	79
Cappuccino 0,2 l.	49,99	59	49
Cappuccino 0,3 l.	109,99	99	99
Latte 0,2 l.	54,99	–	49
Latte 0,3 l.	109,99	99	99
Milkshake 0,25 l.	99,99	–	74
Milkshake 0,4 l.	129,99	99	99
Soft drink 0,5 l.	89,99	75	75
Soft drink 0,8 l.	109,99	–	105

From the table above we can see that prices in Burger King are on average 14% higher than at McDonald's or KFC. However, if we speak about small coffee, Burger King has 8% and 18% lower prices than the same product at KFC and McDonald's respectively. Moreover, we can observe a smallish difference of less than a ruble in Burger King and KFC pricing of small cappuccino and soft drink with 0.8 liters

[37] Composed by author.

volume. Thus, such a difference cannot be considered significant. At the same time, McDonald's' small cappuccino is 18% more expensive than the same product at Burger King. Medium size cappuccino and both lattes are priced on average 11% higher at Burger King than at its competitors' restaurants. At the same time, milkshakes and medium-sized soft drinks cost around 30% more in this fast-food chain than its rivals' analogs. And as in the majority of the cases Burger King's prices are the highest compared to rivals, the company cannot be considered competitive enough.

Desserts.

Ice creams, pies and bakery products are great addition to a hot drink or a great idea to finish a meal with. Therefore, McDonald's has a special sub-brand devoted to coffee and bakery product which is called McCafé. It is a separate section in lots of McDonald's restaurants where customers can get specific types of coffee with additional toppings or flavors as well as a greater choice of pies and bakery products compared to usual McDonald's restaurants.

Speaking about Burger King and KFC, none of them have such a sub-brand as McCafé. However, considering the dessert prices presented in the table below, there are not only bakery products but also ice creams and pies.

Table 11

Prices on desserts at three fast food chains, rub [38]

	Burger King	**McDonald's**	**KFC**
Brownie with ice cream	144,99	–	109
Donut	89,99	95	74
Cherry pie	59,99	50	50
Soft Serve Cone	29,99	33	29
Soft Serve Cup	89,99	73	70
Mcflurry type ice cream	109,99	104 or 115	99 or 109

[38] Composed by author.

So, speaking about the brownie pricing, we can see that the one at Burger King is 25% more expensive than its KFC analogue. However, Burger King's donut and soft serve cone are 18% and 3% more expensive than its KFC's substitutes, but 5.5% and 10% cheaper than its McDonald's analog. However, when it comes to a cherry pie, we can see that all restaurants have approximately the same pricing and a price differentiation of less than one ruble cannot be considered significant. Analyzing Burger King's soft-serve cup, it is on average 20% more expensive than its rivals' analogs. And last but not the least is Mcflurry type of ice cream. As both McDonald's and KFC use different prices for different toppings for this type of product while Burger King sets single price for any flavors, we shall consider top prices in each restaurant chain. Therefore, we can see that McDonald's has the most expensive pricing that is 5% higher than at its main rivals' restaurants. Burger King and KFC have a small price differentiation and can be judged equally competitive.

Drawing a small conclusion, it can be pointed out that Burger King has the most diversified menu with lots of different options of products and their sizes. It is also worth mentioning that the company is using not round numbers while pricing products. Such psychological pricing has a great impact on price-sensitive customers making them feel buying such a product is a great fortune. Therefore, this pricing policy is a great strategic decision in the quick-service restaurant industry.

The overall pricing strategy implemented by Burger King can be found competitive. However, that does not mean that there is no space for improvement. Starting from the advantages, it could be seen that Burger King has lower prices for beef burgers, low-cost chicken burgers, rolls, nuggets, wings, cheese snacks, and some beverages and desserts while comparing them to substitutes from McDonald's and KFC. At the same time, premium chicken burgers, chicken roll, stripes, potato snacks, and some beverages and desserts cost much more compared to rivals' products.

To sum up, we looked into the financial indicators of the three greatest fast-food chains on the Russian market that are McDonald's, KFC, and Burger King. The last takes the second greatest market share in both the number of restaurants and revenue.

Moreover, Burger King had the fastest growth rate in the last eight years due to its high level of investments in the development. Therefore, the company is straggling with getting Net Income instead of Loss. As a result, we believe that Burger King should concentrate on increasing its margins through implementation of an appropriate pricing policy.

In the next chapter we would like to see if there is a correlation between the price and sales volumes. Analyzing this, we would like to see whether the company can influence its clients using suitable pricing strategies at the right times. As a result of this and above-mentioned analyses, we shall propose our recommendations that might help Burger Rus to improve its financial performance.

CHAPTER 3. PERSPECTIVES FOR THE DEVELOPMENT OF PRICING POLICY OF BURGER RUS LLC

3.1 Analysis of the price changes' impact on the sales of Burger Rus LLC

Firstly, we shall analyze the price elasticity of demand. For this, we shall consider the sales volume of five different products and their price fluctuations. Data for the years 2018 and 2019 were taken into account as sales volumes in 2020 were highly dependent on government regulations, moreover, the economic situation was not stable.

Speaking about the correlation between the price and sales volumes, we assume that the lower prices would increase sales. Therefore, we must observe a negative correlation, and the price elasticity of demand would be close to -1.

This analysis was divided into several parts. Firstly, we have chosen five products from Burger King's menu. They include one premium and two medium-priced burgers with both chicken and beef patty. These burgers are Whopper, Grill chicken BBQ, and Big King extra. We also picked two snacks of medium size that are French Fries and Nuggets. Therefore, we shall consider price elasticity on the medium and highly-priced menu items to be sure we have a negative correlation between prices and sales volumes for any products. Next, we were given the corresponding data for the given period. This data included information about the average price of the menu item in all the restaurants within one day and the sales volume of this product. However, we would not be totally satisfied with this data as customers tend to buy more during the weekend regardless of the price changes. As a result, we broke down this information into daily, weekly, and monthly changes. To fulfill the last two analyses, sales were summed up on weekly or monthly bases, and average prices for a week or a month were considered. This way, we got free different correlations for each of the five analyzed products. So, the final results of the price elasticity of demand are represented in the Figure below.

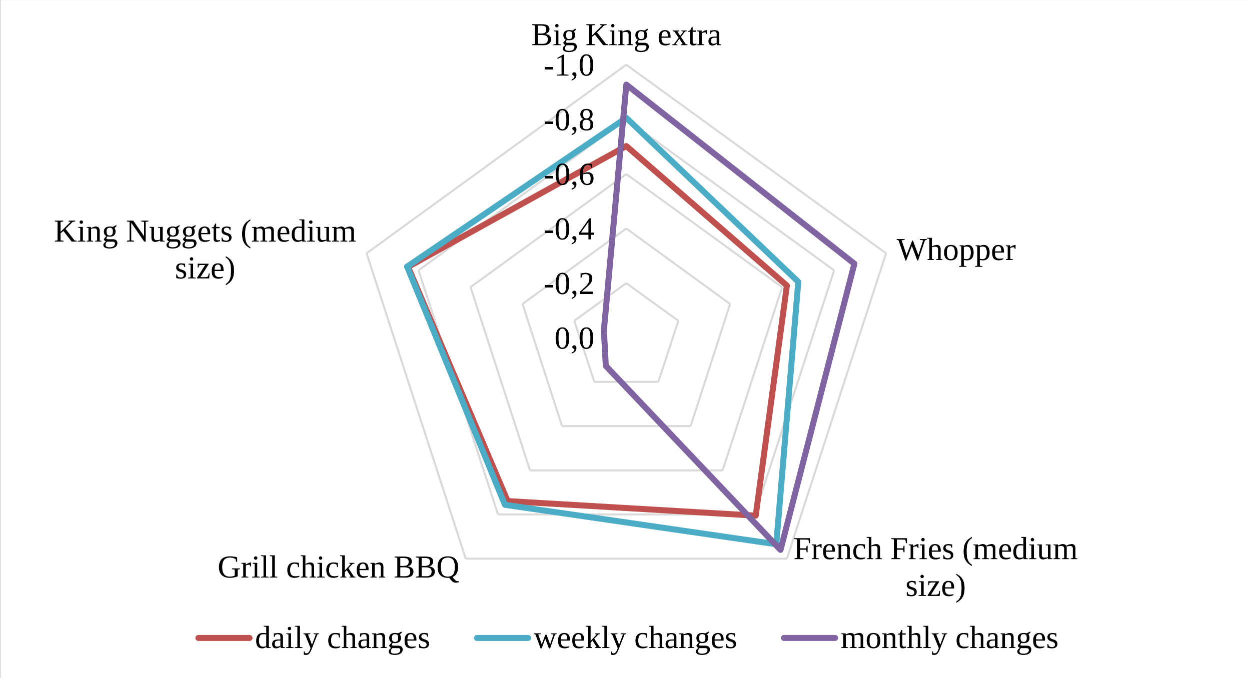

Figure 8. Price elasticity of five products in the years 2018-2019

Source: Figure is prepared by the author based on the confidential data of the Burger Rus LLC.

All in all, we see that the price elasticity of demand is lower than -0.6 in most cases. Moreover, as it was mentioned above, while considering data on the weekly basis, we varnish the fact that people tend to buy more products during the weekend. At the same time, considering data on the monthly basis is too vague and not precise. As a result, we shall analyze the price elasticity of demand calculated based on weekly changes. So, in all the cases we may observe the correlation between -0.87 and -0.75 except Whopper with a price elasticity of demand of -0.66. Therefore, we proved that price-sensitive customers tend to buy cheaper products in greater volumes.

Speaking about the significance of this correlation, we shall analyze the Whopper price and sales volume fluctuations as this product showed the greatest price elasticity of demand. So, from the graph below, we can see that unless the last quarter of 2019, price and sales graphs were almost perfectly mirrored. We shall also mention that sales during summer 2018 were influenced by the FIFA World Cup that took place in Russia. However, later this factor will be eliminated to get unbiased results.

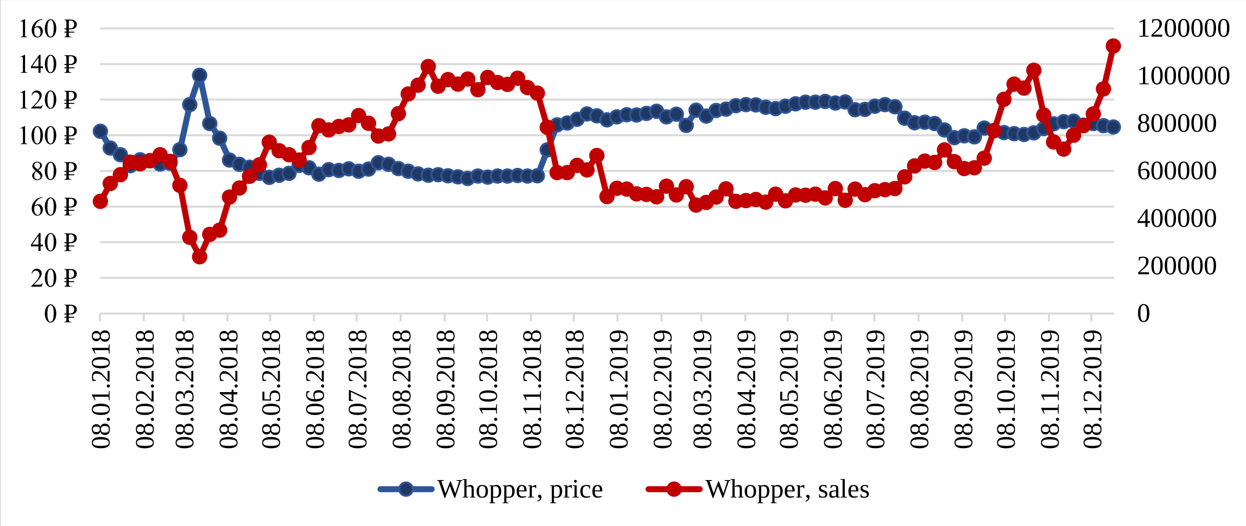

Figure 9. Whopper price and sales volume fluctuations in 2018-2019

Source: Figure is prepared by the author based on the confidential data of the Burger Rus LLC.

Speaking about the numbers, the greatest fall in price was 20.3% and resulted in a 39.3% increase in sales and took place on the week 26.03.2018. At the same time, the greatest rise in price was 27.3% and caused a 40.5% decline in sales on the week of 12.03.2018. In general, a 1% change in price caused a 5.58% change in sales volume. Speaking about the other four analyzed products, a 1% decrease in their prices on average increase the sales by 7.35% and 7.88% for Grill chicken BBQ and King Nuggets. For French fries and Big King extra, these fluctuations were even higher and amounted to 16.08% and 34.96% respectively.

Moving to the last part of the analysis, we shall look at the combos' sales share in the overall volume. As it was mentioned above there is a number of different coupons, special discounts, and offerings when product prices are decreased. The primary purpose of such price reductions is to increase sales. Therefore, we would like to see how often Burger King uses this strategy. Whopper, Caesar Roll, and medium-sized Cappuccino were chosen for this analysis. These meals are medium-priced and are usually included in the discount, allowance, and promotional pricing. Sales volume of the products at a reduced or combo and usual prices are shown in the Figure below.

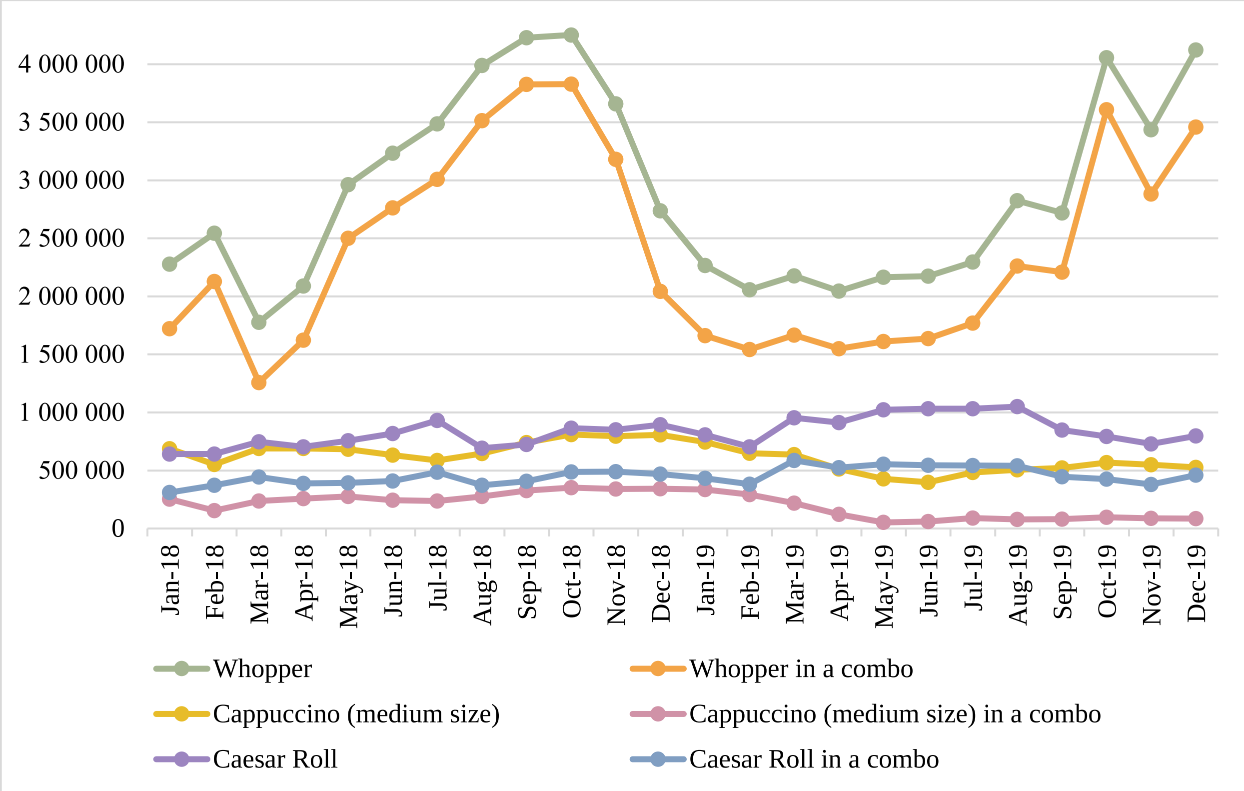

Figure 10. Three products' sales volumes in 2018-2019

Source: Figure is prepared by the author based on the confidential data of the Burger Rus LLC.

We see that Whopper lines are the closest to each other. Indeed, the sales volume of this product being sold in combos is on average more than 80%. At the same time for Caesar Roll, this is only around 55%. Cappuccino has the smallest share of reduced pricing items sold. Its share is around 31%. Therefore, we may conclude that more than 80% of sales of Whopper comes from the discount, allowance, and promotional pricing, while for Caesar Roll these types of pricing bring only half of its sales volume. For medium-sized Cappuccino, this policy brings less than a third of its total sales. As a result, we may admit that the impact of discount, allowance and promotional pricing will vary for different products but will still have a significant impact on the company's Revenues and via it on Net Income.

3.2 Ways of improvement of pricing strategies of Burger Rus LLC

Burger King is a company that claims to specialize in beef burgers. And as we have seen above, this type of burgers is the most competitive compared to rival substitutes. Here and further by competitive, we shall mean products that have lower prices. As we proved earlier customers in this industry tend to buy cheaper products. Other meals that according to our opinion have competitive pricing are low-cost chicken burgers, rolls, nuggets, wings, cheese snacks, some beverages and desserts. Speaking about the products that are the least advantageous from the customers' perspective, we may say that they are premium chicken burgers, chicken roll, stripes, potato snacks, some beverages and desserts. We collected the results of our analyses and represented them on the graph below.

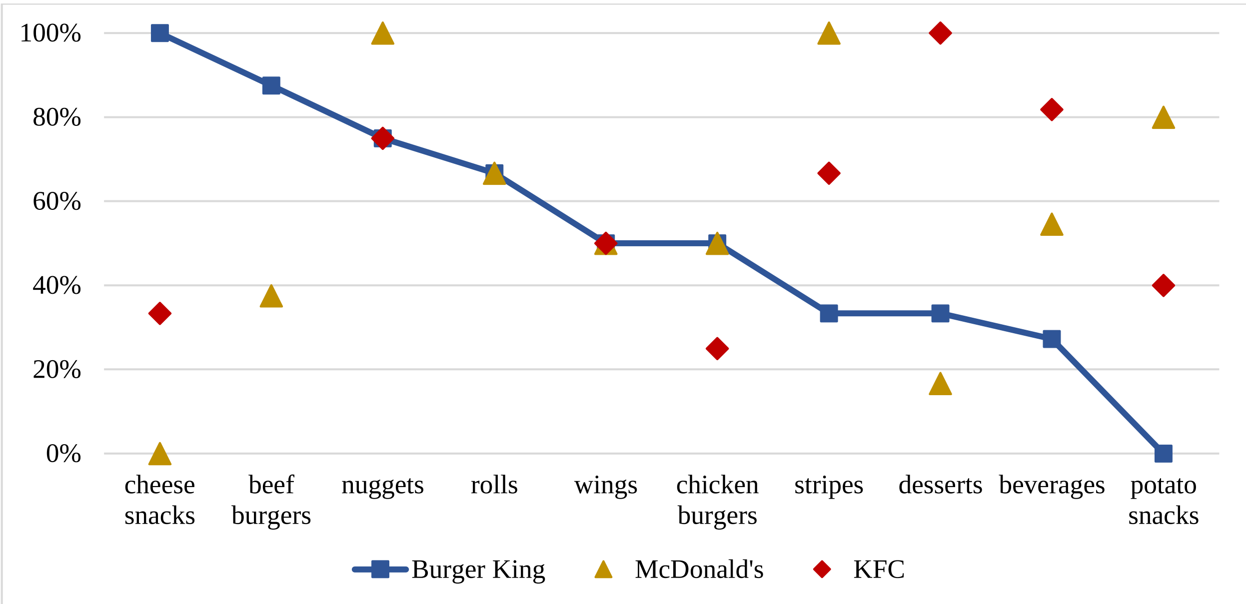

Figure 11. Effectiveness of the current pricing in the three fast-food chains

Source: Figure is prepared by the author.

From the Figure, we can see the effectiveness of the current pricing of Burger King, McDonald's, and KFC. We decided to measure this effectiveness as a percentage. Therefore, 100% means that all the considered meals had lower prices than the rivals' analogs, and 0% means that all the menu items were overpriced. We represented meals on the x-axis from left to right from the most to the least competitive. Drawing a line via all the points, we get the scale of the overall competitive ability of the Burger King’s menu. Moreover, points that are located above this graph represent categories of products that look more advantageous from the customers’ perspective, while those that are below the graph can be considered as least advantageous. All in all, a higher position on the y-axis shows more attractive products.

So, we can see that only half of Burger King’s menu can be considered as competitive. Therefore, we must take a closer look at the nuggets, stripes, desserts, beverages, and potato snacks. Starting from the last two menu items, we shall point out that higher pricing on these goods can be explained by so-called combos. A combo is a bundle of a burger, potato snack, and beverage at a reduced price. Some of such offers are time-limited, others can be found in the menu as well as normal products. By buying such a combo, a customer would pay 20% less if buying the same products separately. Therefore, such a bundle is more attractive for clients that would like to have a nutritious meal. Moreover, this situation can be considered a win-win because Burger King encourages its clients to buy more and by this, increases both turnover and sales. So, even though Burger King’s potato snacks and beverages pricing are not as favorable for customers as at McDonald’s or KFC, it is still working for the benefit of the company.

We have the same attitude towards desserts pricing, as they are usually considered by clients as supplementary products. Moreover, Burger King’s pricing is stronger than McDonald’s’. And we would like to concentrate on the cases where the pricing of the analyzed quick service restaurants chain is weaker than both of its main rivals.

Finalizing our recommendations, we move to the chicken products. Nuggets, chicken burgers, stripes, and wings are priced not competitive enough. We believe that increasing the number of different options for chicken burgers and lowering their pricing would be very beneficial for the company. In other words, expanding the product line of this type of burger while maintaining their prices at the same or lower level than the company’s competitors would give a great boost to Burger King’s sales. Moreover, as we have seen earlier, a 1% decrease in prices of Grill Chicken BBQ or

King Nuggets will be followed by a corresponding increase in sales by 7.35% and 7.88%. And as we saw from the financials, Burger King's net profit was significantly lagging behind its closest rival in 2020. So, we consider strengthening the chicken product line might give our company additional trigger to fight KFC which specializes in chicken products. Therefore, by keeping the main core on beef burgers while developing chicken part of the menu, Burger King may take the second place of the most profitable Russian fast-food chains.

To sum up, we would like to keep current pricing for desserts, potato snacks, and beverages. It is also crucial to continue offering a great number of different combos and coupons that make up to 80% of the total sales for a certain category of products. At the same time, we suggest Burger King to expand its chicken burgers product line while maintaining its and other chicken prices at the same or lower level.

Moving to the implemented pricing strategies, we may admit that the current policy is well used and meets the strategic goals of Burger Rus. We see that the menu architecture is well-balanced. In other words, there is a wide choice of low-, medium and high-priced products in each category of the menu. Therefore, we recommend continuing to develop the product line and optional-product pricing. We also believe that product-bundle pricing can be improved. In the past few months, Burger King has decreased the number of different combos and other product-bundles. Moreover, there used to be a greater choice of products that were available for bundling. We consider product-bundle pricing one of the most important and therefore believe that Burger Rus should increase the number of offers in this menu category.

Speaking about the price adjustment strategies, we must admit that Burger Rus should implement this type of policy better. Starting from the promotional pricing, Burger King has a wide range of coupons but no special event. We suggest the company create such an event that could become an analog to the yearly held McFest at McDonald's. It would stimulate and increase Burger Rus' sales as well as increase customers' loyalty. Moving to the discount and allowance pricing, Burger King offers its clients' loyalty program and mobile application with the greatest number of features compared to its main rivals. Moreover, while writing this paper, we found out that Burger King's customers can pay for their order price not only with Sberbank but also with VTB bonuses.[39] This way, the analyzed fast-food restaurant chain has a great advantage over its competitors. To keep this advantage, Burger King should continue developing various partnerships with Russian leading banks. Moreover, if the Russian government changes its attitude towards cryptocurrencies, it would be beneficial to accept them as means of payment. So far, this is not possible and is prohibited by law.[40] As for the psychological pricing, Burger King should make sure all its prices in all the restaurants end with nine. This is because prices are perceived to be smaller if the left-most digit changes to a lower level compared to if the left-most digit remains unchanged. Also, we believe that the implement Geographic pricing should not be changed. At the moment this strategy is based on adjustments of prices for different parts of the country. So only in case transportation, any other costs, and/ or social indicator change in a region, Burger King should adjust its pricing policy respectively to these changes.

Moving to the trends of the company's further development, we shall speak about its goals and objectives. The main goal of the Corporation is to be the most profitable fast-food restaurant business, through a powerful franchise system and great staff, serving the best burgers in the world. The mission statement is to deliver high-quality services and offer the highest quality goods that are affordable to all customers around the world. Franchisees are following these goals as well. Moreover, when we talk about Burger Rus LLC, its mission is to be the most favorite restaurant chain in Russia. To accomplish this goal, the organization has a strategy to become the best restaurant chain in service, quality, and hospitality.

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[39] Клиенты ВТБ смогут оплатить заказы в Бургер Кинг бонусами, 17 марта 2021 // Пресс-служба ПАО Банк ВТБ [Электронный ресурс] Режим доступа: https://www.vtb.ru/o-banke/press-centr/novosti-i-press-relizy/2021/03/2021-03-17-klienty-vtb-smogut-oplatit-zakazy-v-burger-king-bonusami/#! (дата доступа: 07.05.2021)

[40] Федеральный закон "О цифровых финансовых активах, цифровой валюте и о внесении изменений в отдельные законодательные акты Российской Федерации" от 31.07.2020 N 259-ФЗ [Электронный ресурс] / Консультант-плюс. – 1997–2021 – Электрон. дан. – Режим доступа: http://www.consultant.ru/ (дата доступа: 07.05.2021)

Moving on to the actual steps taken by the corporation to accomplish its objectives, we must admit that the dedication to the food served is what distinguishes the business and is at the core of the promise made by the brand. Detailed nutrition information is given to the guests so that they can make better decisions about their meals. In addition, Burger King's product innovation teams are continuously working to explore innovative options that include a range of great food tastings while satisfying guests' changing lifestyle needs. As an exceptional employer, the company maintains that its workers are committed and engaged. In fact, teams are constantly researching and developing ways to make improvements that would have a beneficial effect on the workplace without sacrificing organizational quality. Burger King Worldwide has a deep-rooted corporate governance and compliance program. The aim is to constantly improve processes and practices to ensure consistency with the legislation, as well as integrity and responsibility. The basic ethics and governance concepts of the Burger King Corporation begin at the top. The Board sets the tone by cultivating an ethical community that recognizes and supports both employees and stakeholders and promotes conformity with all regulations and business policy. As a condition of doing business within the Burger King system, any licensed supplier shall comply with the Code of Business Ethics and Conduct for Vendors. Through thousands of restaurants and millions of guests around the world, the corporation recognizes that even minor improvements will have a significant impact. While developing best practices and educating and interacting with staff and corporate partners, Burger King will continue to take action to make positive contributions to neighborhoods across the globe.

As we have seen before, price-sensitive clients consider price as one of the most important signs. While developing a loyal customer base, Burger King should ensure lower and by this competitive pricing. We already suggested some changes in the current menu prices, now we would like to move to other ways of more effective pricing.

As the major pricing strategy implemented in the fast-food industry is competitive-based pricing, Burger King should always control changes in prices of its main rivals. Therefore, it is of paramount importance for the company to follow any changes in its main competitors' prices and adjust its own policy to stay competitive. We believe that one of the best ways to watch closely for this type of news is to track information on the official websites of the rivals as well as social media. Moreover, we may suggest using Artificial Intelligence (AI) for this purpose due to the great number of data that should be processed to get some valuable information. According to John Doe[41], several companies already have AI that can read texts and answer questions based on these texts. These advances are all impressive and could all be put to use in applications that help humans handle more and more information. So, we can develop such an AI and/or learn it to look through enormous data on a daily basis while searching for a particular type of information. That shall be more effective than using human beings but at the same more costly. Therefore, we shall consider the costs of such an implementation and the possible return on investment.

Using this technology, we move to our final recommendation that is the introduction of dynamic pricing. The main goal of dynamic pricing is to adjust prices continually to meet the characteristics and needs of the individual customer and situations. Here AI can be a great tool while analyzing competitors' actions, news within the fast-food industry, country, and overall information that can be considered relevant and can influence either competition or clients' behavior. Creating a dynamic pricing system would automatically adjust the price downwards if there is excess capacity and bring it up if demand is high. These criteria of price change can be changed depending on the company's goal and current financial situation. This way, we can teach the system to understand the relationship between supply and demand. It would help to avoid cutting prices unnecessarily low in which the company is making almost no margin or the inverse of setting them so high that Burger Rus loses out to all its competitors and end up with too much extra capacity to make any money.

[41] Doe, J. Algorithms can beat humans at reading comprehension, but they still don't understand language, December 5, 2018 // Mind AI [Electronic resource] URL: https://medium.com/mind-ai/algorithms-can-beat-humans-at-reading-comprehension-but-they-still-dont-understand-language-1735bd12201a (access date: 07.05.2021)

To sum up, we believe that Burger Rus has some competitive advantages, but there is still room for development and improvement. We suggest Burger King expand its chicken burgers product line while maintaining its and other chicken prices at the same or lower level. We also believe that product-bundle pricing can be improved by increasing the number of offers in this menu category. Moving to the possible implementations, we would like to point out that dynamic pricing can be a great tool while adjusting prices following demand and supply and direct and indirect costs and social indicators change within different regions of the Russian Federation. Pricing adjustment can provide Burger Rus an ideal solution during different economic situations and stabilize the company’s profit.

CONCLUSION

In accordance with the goal and objectives of the thesis research, an analysis of the economic essence of price, main pricing strategies, their peculiarities, objectives, features, and use in the highly saturated fast-food market made it possible to draw the subsequent conclusions. The profitability and financial health of the analyzed company, its ability to function well, and therefore the stability of future development are largely determined by the effective implementation of pricing strategies which is the key factor to success or failure.

It is necessary to know that pricing is critical for successfully operating and thus, companies should consider their pricing policies as well as the ones of their main competitors. This is especially crucial in case a company wants to achieve specific strategic goals with the help of such a powerful tool as pricing.

Price remains the most important element in determining market share and profitability as a small percentage improvement in price can generate a large percentage increase in profitability. Therefore, the financial health of a company is a reflection of the effectiveness of implemented pricing strategies.

In this thesis the degree and level of the pricing strategies use and implementation was studied on the example of the Burger Rus LLC, which is a master franchisee of Burger King Corporation and operates under the Burger King brand on the Russian market since 2010.

The analysis of the financial performance of the company and its main competitors showed that the current situation is not beneficial for Burger Rus. McDonald’s is the strongest player in the quick-service market while Burger King and KFC have financial problems. The last two companies generated no profit in 2020. Moreover, Burger Rus was loss-making in 2019 as well. Despite this, the company takes the second greatest market share in both the number of restaurants and revenue. In addition, Burger King had the fastest growth rate in the last eight years due to its high level of investments in the development. Moreover, the overall pricing strategy implemented by Burger King can be found competitive. However, that does not mean that there is no space for improvement.

Based on the results received during the analysis and evaluation of the company the following recommendations were given: the company should make chicken products prices more attractive for its clients, increase the number of product-bundle offers, and implement dynamic pricing.

Overall, the company is taking a significant market share and had a positive trend in the Revenue increase except for 2020. However, in order to increase its profitability by improving financial performance, the effective use of current pricing strategies and implementation of dynamic pricing needs to be ensured.

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