

## **Ценовая политика Burger King и ее конкурентоспособность на российском рынке**

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### **Аннотация**

Индустрия быстрого питания - одна из самых быстроразвивающихся в мире, и удержать темп на таком насыщенном рынке может быть довольно сложно. Более того, поскольку российский рынок можно рассматриваться как развивающийся, существуют большие возможности для роста и развития. Именно поэтому хотелось бы определить место Burger King на российском рынке, определить его основные стратегии ценообразования и сопоставить их со стратегиями основных конкурентов - McDonald's и KFC, после чего мы сможем определить конкурентоспособность Burger King.

**Ключевые слова:** индустрия быстрого питания, ценовые стратегии, сеть ресторанов, рестораны быстрого обслуживания, Burger King, McDonald's, KFC, конкурентоспособность.

### **Burger King's pricing policies and their competitiveness in the Russian market**

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### **Abstract**

Fast food industry is one of the fastest developing in the world and it may be quite challenging to keep the pace on such a saturated market. Moreover, as Russian market can be considered as emerging, there are great opportunities for growth and development. This is why we would like to determine the Burger King's place in the Russian market, define its main pricing strategies and contrast them to the ones of main competitors which are McDonald's and KFC. Therefore, we shall determine the Burger King's competitiveness.

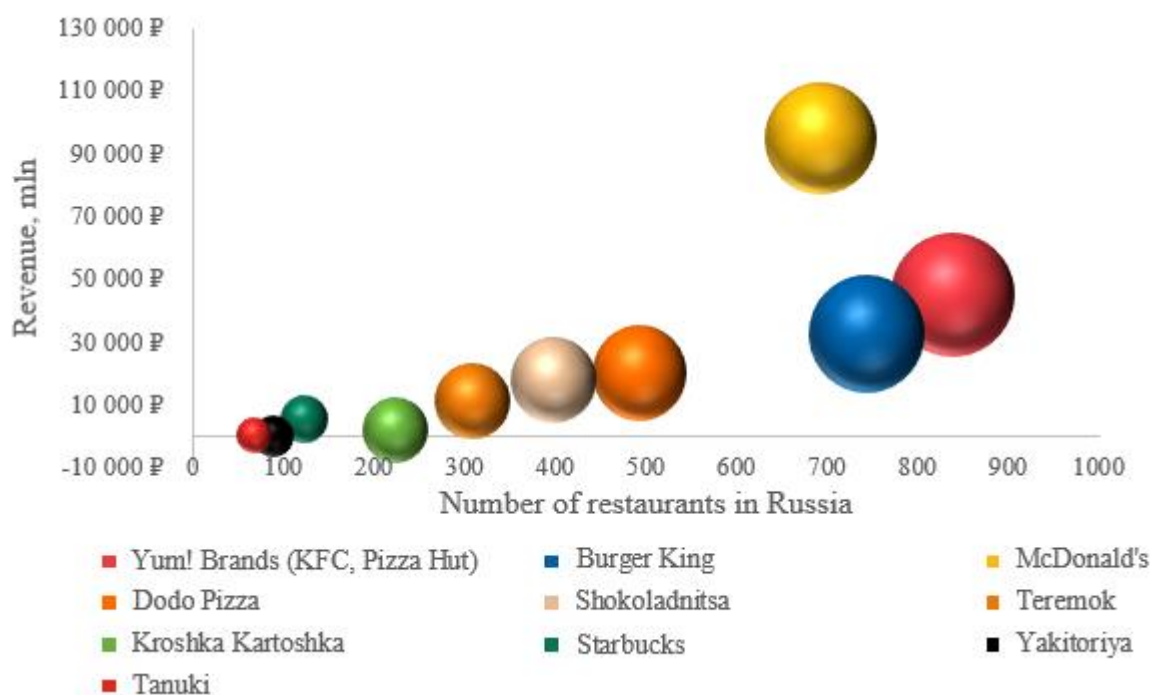
**Keywords:** fast food industry, pricing strategies, restaurant chains, quick service restaurants, Burger King, McDonald's, KFC, competitiveness.

In this article we shall consider the Russian market of fast food industry with its main players. We will define different segments within this industry and see which share is taken by which company. We will also take a closer look at the pricing strategies that are used by the three main restaurant chains in the fast food industry and define the most and least successful. Moreover, we shall determine ways of development of pricing policies for the Burger King company in order to increase their effectiveness. The methodological basis of this article was formed by neoclassical economic theory and the theory of finance. Structural and comparative analyses were used as research methods.

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, quick service restaurants segment took 42.59% share of the total global fast food market the same year [16, p. 10]. Speaking about the Russian market, we could see the same trend in 2019. Fast food restaurants accounted a share of 51% of total Russian restaurants' market [15, p. 10]. 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.

But let's now take a look at the best of the best. The Figure below represents top 10 restaurant chains by their revenue in the Russian market in 2019. This way we can see that top three market players are well-known McDonald's, Burger King and Yum! Brands Corporation that represents KFC and Pizza Hut brands in the Russian market. Moreover, even though both Yum! Brands and Burger King had a greater number of restaurants compared to McDonald's, the last one still gained more than twice as much revenue as any of the above-mentioned companies. Second three companies are Dodo Pizza, Shokoladnitsa and Teremok. And if we can see that Teremok was almost twice as small as Dodo Pizza in both number of locations and financial results, Shokoladnitsa and Dodo Pizza were at the same level of revenue in spite of the almost a 100 difference in the number of restaurants. However, the same difference in the number of selling points between Starbucks and Kroshka Kartoshka didn't show the same result. This way Starbucks' revenue was three times greater than Kroshka Kartoshka's. And the last two fast food chains are Yakitoriya and Tanuki that have approximately equivalent indicators.

However, as we look at all these 10 restaurant chains, we must admit that comparing any two restaurants might be not fair. As an example, McDonald's, that is widely spread around the world and has more than 70 years of history, and Teremok, that exists for a bit more than 20 years and is only trying to go abroad, have indeed different weight and should be analyzed within the different categories. Speaking about such categories we shall consider the two approaches for the classification:



**Fig. 1. Top 10 restaurant chains in Russia in 2019<sup>1</sup>**

I. **By country presence.** The first approach considers the number of markets a company is present on. Usually the greater this number the greater is the size of the company. Moreover, the process of internationalization is very challenging and might be a test of strength for a firm. As a rule, a company that wants to go international must be very popular and profitable in its domestic market, so, it can survive possible failure and continue developing within the home market. Speaking about our ten companies, we can separate them into the following three subcategories:

1. **Only domestic market.** These are the smallest players that have their restaurant only in the Russian market. Teremok and Yakitoriya are the only two fast food chains from our list that can be defined by this criterion. And if for Yakitoriya with less than 100 locations and a little bit more than 20 years of presence in this market its positioning is quite clear, then Teremok that took the sixth place among the companies we mentioned above, may cause some questions. Indeed, Teremok tried to internationalize and opened two restaurants in New York in 2016. Unfortunately, in 2018 the founder and the head of this fast food chain – Mikhail Goncharov – claimed that both restaurants were closed [14, p. 10].

2. **Russian and the Near Abroad markets.** It includes restaurant chains that started the first attempts of going abroad and have their locations not only in Russia but also in the so-called Near Abroad countries that are the former USSR members. As in previous case, only two companies Shokoladnitsa and Kroshka Kartoshka can be mentioned in this subcategory. Moreover, both of them

<sup>1</sup> Made by the author

have their restaurants in Russia and Ukraine. And although Kroshka Kartoshka went into Ukrainian market earlier than Shokoladnitsa, the history of the last one goes back to 1964 and therefore has greater brand awareness. This last point can be a great explanation on such a great number of restaurants and high level of revenue of Shokoladnitsa.

3. **International market.** And the last subcategory includes restaurant chains that are widely spread all over the world and as a rule have long history and are usually more sustainable compared to all above mentioned competitors. McDonald's, Burger King, Yum! Brands, Starbucks, Dodo Pizza and Tanuki are the ones that belong to this group. So, the first four mentioned restaurant chains are well-known worldwide and are operating for more than 50 years. The only exception in this list is Starbucks that still has more than 40 years history. However, Dodo Pizza that was founded by a Russian entrepreneur Fyodor Ovchinnikov in 2011, is a great competitor for the above-mentioned companies. Even now we can see that 2019 Dodo Pizza had a greater market share than Starbucks. Speaking about the countries of Dodo Pizza's presence we must mention Russia, Germany, the USA, China, the Great Britain, Kazakhstan, Kirgizia, Lithuania and Estonia [1, p. 9]. Therefore, we see that the company has a great potential and may soon take a greater market share and become even a stronger competitor. And the last company in this list is Tanuki. It is the smallest company in this subcategory by both the number of locations and revenue. Moreover, it had only eight restaurants in such countries as Ukraine, the USA, Kazakhstan and the UAE. All in all, Tanuki took the smallest market share compared to all the above-mentioned companies in 2019. This is why, it may be better for the company to focus at one market first and only then on all the others.

**II. By the menu.** The second approach considers the menu or, in other words, the cuisine of a restaurant chain that might reflect characteristic of a particular country or region. We will refer to such food as ethnic. All the rest restaurants may be considered as offering casual food. So, let's now see the distribution of our ten companies according to this classification.

1. **Ethnic food.** As it has been already mentioned above, ethnic food is food that is typical only for one special country or region. And although, nowadays there is less and less national food and more and more international one, we would like to look back in time and judge cuisines by their origin. This is why in our case the only possible subcategorizing is by country and is the following:

a. **American food.** This cuisine associates with burgers, French fries and soft drink. Typical representor of it are McDonald's, Burger King and Yum! Brands with its KFC. All of these companies had its origin in the United States and therefore represent its national food.

b. **Russian food.** This cuisine associates with borscht, pancakes, buckwheat and kvass. Teremok and Kroshka Kartoshka represent Russian national food.

c. **Italian food.** This cuisine associates with pizzas and pastas. Therefore, Yum! Brands with its Pizza Hut and Dodo Pizza should be mentioned in this subcategory. And although both of these companies have not Italian but American and Russian origins, we historically assume that pizzas were “born” in Italy and therefore should be considered as Italian national food.

d. **Japanese food.** This cuisine associates with sushi and rolls. Yakitoriya and Tanuki are not just restaurant chains that represent this type of national food but also have Japanese subtext in their names. This way, Tanuki are traditional Japanese werewolf animals, symbolizing happiness and well-being. And Yakitori is a Japanese dish made from chunks of chicken fried over coals on bamboo skewers.

2. **Casual food.** However, not all the restaurant chains have some ethnic specialization. And as far as nowadays almost all the different types of food are widely spread all over the world, a new international or casual cuisine is formed. Shokoladnitsa and Starbucks can be defined as such restaurant chain as the food that offer is unified and has some from every ethnic cuisine.

To sum up, looking at the top ten restaurant chains in Russia in 2019, we can admit that there is a great variety of different companies in the market. Some of these firms are great and well-known players with long history. Others are just beginning their way in the fast food industry and are trying to show that sometimes it's better to try something new instead of giving preference to one of the world-famous brands. The rest are the companies that found their unique niche in the industry and are now trying to take the best from other competitors. Moreover, there are fast food chains that would like to show to its clients some specialties of one nation's cuisine. Others prefer to stick to international standards and offer internationalized food which also can be called “casual”. A different combination of these two criteria which are size of the company and its menu can result in a great variety of possible combinations and therefore creates different segments on the fast food market. This is why, while analyzing the pricing strategies of Burger King and its main competitors, we would like to take into account this segmentation and talk about McDonald's and KFC as far as both of this companies are great multinational and offer American food.

So, moving to the pricing policies these three companies are using in the Russian market, we would like to point out the two different pricing approaches. The first approach includes pricing strategies that help to maximize profits on the total product mix. So, the following three are used in the fast food industry:

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 takes into account the cost differences between the products in this line, customer evaluation of their features, and competitors' prices. Speaking about the real examples, we may say

that all of the three companies (McDonald's, KFC and Burger King) use this policy for pricing their burgers. This way, the price depends on burger's size and products included. All of 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 as normal or usual and have their prices between the cheapest and most expensive products. This strategy is used in order 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 as for example, ice cream, snacks etc.

**2) Optional-product pricing.** This strategy considers optional or accessory products along with the main product. Great examples 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 addition toppings for ice creams as well as possibility of adding such extra products as cheese, bacon or jalapeno into your burger. Such options are created in order to make customers pay for additional ingredients to get a feeling of having special or unique product or just a better version of it. All of our 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 bundle of five products. Burger King has its Combos' of any size starting from the original combination of three products and ending six items ones that include a burger, fries, onion rings, nuggets, a soft drink and a dessert. Therefore, we can point out that although all the three companies are implementing this pricing strategy, McDonald's have the smallest and Burger King the greatest variety of offers. In addition, Burger King's offers are the best compared to its competitors in terms of price and number of items relationship.

Moving to the second pricing approach, it includes price adjustment strategies. The following four are used in the fast food industry:

**1) Psychological pricing.** This strategy is based on the theory that buyers reading a slightly undervalued price would treat it as lower than it actually is. As an example, we may take a look at the Burger King's prices for burger which are 69 P, 99 P, 149 P, 219 P etc. The same situation takes place in KFC's menu although there are some prices that end not only with "nine" as in previous example but also with "four" and even "five". Moving to the last of our three competitors – McDonald's – one can see even a more diversified price range with both round prices like 50 P and

100 P and the ones that end with “three” and all the above-mentioned numbers. This way, we must admit that the 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.

**2) Discount pricing.** This strategy involves decreasing a certain percentage off the original price of a product or service. Coupons is the main technique of this strategy implementation in the fast food industry. All of our three companies have coupons which represent a bundle or a single product at a reduced price. These coupons can be timed to a certain even, may be connected with achieving sales targets or might help attracting new customers. In addition to this, buying some products on an indicated sum of money, a customer will be given one of the agreed by coupon products for 1 P. Moreover, 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 in order to get a coupon reward or a discount. Unfortunately, KFC is slightly lagging behind its competitors and have loyalty program available only in some cities which are Pskov, Vologda, Cherepovets, Veliky Novgorod, Petrozavodsk and Samara.

**3) Promotional pricing.** This strategy is also sometimes called special event pricing. The main idea of it is that there is a temporarily reduce or a special pricing during certain seasons or events. This is usually done in order to draw in more customers. However, KFC doesn’t use this policy. At the same time McDonald’s sometimes creates a special event called McFest. The idea of it is that a customer can get one of the menu items at a discounted price during the week. Burger King is also actively using promotional pricing. Recently the company presented a number of special coupons that are timed to the current UEFA Nations League. Moreover, on the 7<sup>th</sup> of October there was a special offer called “good pie”. It was timed to the day of the fight against cerebral palsy. The money raised from the purchase of pies by a special coupon went to help sick children. Summing up, we can claim that Burger King has more timed events, moreover, due to them the company draws people’s attention to not only some events but also problems.

**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 level of wealth the same price might be considered as low, too high and normal in different regions. This is why all from the above-mentioned companies have slight differences in pricing of the same products in different cities. As an example, McDonald’s Triple Cheeseburger costs 169 P in Moscow and 175 P in Barnaul, prices for Big Tasty are 249 P and 259 P respectively. For Burger King prices for Shrimp King are the same no matter the location. However, Whooper Junior is worth 109 P in Moscow and 129 P 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 see that all the three companies are using almost the same pricing policies. Some of them are more efficient in ones, other companies take advantage implementing others. As we have seen from the examples above, KFC doesn't use such strategies as discount pricing and promotional pricing. These missed opportunities might be the reason why KFC along from the Yum! Brands takes the smallest market share compared to Burger King and McDonald's. At the same time it could be claimed that the although Burger King is using the same pricing strategies as McDonald's, their forms are more diversified and are aimed at not only attracting customers or increasing sales but also as in case with "good pie" for educating people and showing its corporate social responsibility.

To sum up, we can say, that in 2019 more than half of the fast food market was taken by McDonald's, Yum! Brands and Burger King. Other players like Dodo Pizza and Shokoladnitsa also had a significant level of revenue and might create even a tougher competition in the Russian market. However, while taking a closer look at the main three players and their pricing strategies, we must claim that product bundle and psychological pricing are the most effective policies. So, considering these strategies, we may admit that now Burger King is the most successful in implementing them. However, it does not mean there is no room for the development. Starting from the product bundling, as far as Burger King is developing and adding new products in the menu, the company can increase the number of products available for the Combos. At the same time, it may be a good idea to combine already existing products, for example, fries, nuggets and a sauce. As for psychological pricing, although Burger King is implementing the best approach using the prices that end with "nine", it is done not in every geographical region. So, it might be more attractive for the customers to see the above-mentioned prices all over the country. Moving to the other pricing policies, we may say that the company should continue interacting with customers via loyalty program and by increasing the number of special offers timed to a certain event.

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