Kyiv National University of Trade and Economics
Hotel and Restaurant Business Department

FINAL QUALIFYING PAPER

on the topic:

«DIVERSIFICATION OF SERVICES IN GASTRO-BAR «REBRA&KOTLETY», KYIV»

Student of the 2th year, group 2am,

Field of study 073 «Management»

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Kyiv National University of Trade and Economics
Hotel and Restaurant Business Department
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TASK
For a final qualifying paper

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1. Topic of the final qualifying paper:

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5. Contentsof a final qualifying paper:

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1.3. Approaches to assessment of diversification of services

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2.2. Analysis of the effectiveness of current development strategies in gastro – bar “Rebra&Kotlety”

2.3. Determination of the influence factore on the implement of the strategy of diversification of services in the gastro – bar “Rebra&Kotlety”

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3.1 Developing of new model of diversification of services in gastro – bar

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3.3. The prediction of the success of the strategy of diversification of services in the gastro- bar

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REFERENCES

APPENDECIES

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8. Scientific adviser of the research ____________ Margarita H. Boyko

9. Head of educational and professional program ____________ Nadiya I. Vedmid

10. The task received by the student ____________ Oleksandra Y. Illiashenko

11. Resume of a scientific adviser of a final qualifying paper:

Student Oleksandra Y. Illiashenko performed the final qualifying paper in a due time according to the schedule. According to content, structure and design the performed work meets the requirement. Final qualifying paper performed the actual theme. In the first chapter the theoretical position dedicated to theoretical and methodological based of diversification of the hotel and restaurant business, the aconomic essence and classification of diversification, approaches to assessment and components of diversification were determined.

In the second chapter of final qualifying paper practical aspects of the principles of implementation of the diversification of services in gastro- bar "Rebra&Kotlety" were analyzed. The efficiency of current development strategies were explored.

The third chapter is dedicated to the influence of new model of diversification of services in gastro - bar, which was checked. The purpose of the final qualifying paper was achieved and scientific tasks which were put met the execution. The work is recommended for the defense in the examination committee.

Scientific adviser of a final qualifying paper __________Margarita H. Boyko

13. Resume about a final qualifying paper:

A final qualifying paper of student Oleksandra Y. Illiashenko be admitted to defense to the Examination Commission

Head of educational and professional program ___________ Nadiya I. Vedmid

Head of the Department ___________ Margarita H. Boyko

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INTRODUCTION

Actuality of the topic. Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimizing risk. A smart way to balance downside risk and reward is to diversify investment portfolio to help reduce the volatility of returns over time. Diversifying means investing funds across several different asset classes, such as property, shares, bonds and money market funds, and within this a range of different regions, companies and securities.

Most large companies are not single homogenous units, but groups of subsidiary companies under a parent holding company. This contrasts with the small firms sector, which is assumed to consist mainly of single owner managed firms. This is normally the case in the smallest micro firms, but recent research has established that more complex organisational forms exist in the small firms sector as firm size increases. Multiple business ownership by serial and habitual entrepreneurs increases from a low rate amongst sole traders to over a third when limited companies are examined. More formal organizational forms involving holding companies, more in keeping with company groups found in the large firm sector, become more in evidence in the case of high growth medium sized firms.

The reasons for the formation and maintenance of company groups in the large firm sector have been linked to diversification processes and their impact on organisational structure and performance. Diversification in large firms have been particularly associated with managers' behaviour, and specifically to the their preference for growth. Within this perspective, the causes of diversification are classified in three broad classes: the market power view, the agency view and the resource-based view. It is generally accepted that the organizational setting through which diversification is carried out is that of the multidivisional structure (M-form). Having established a complex multidivisional structure (or complex federation of subsidiary companies), issues of organisational efficiency and corporate governance

become the primary areas of concern to the overall company and its performance.

Until recently, however, this literature has not taken into account the potential importance of entrepreneurship processes in shaping business cluster formation. The importance of such processes has been demonstrated in other large firm organizational context, such as management buyouts, also previously thought to be purely explainable in terms of agency and management organization theories.

Assuming entrepreneurial processes are potentially important in the context of business cluster formation, they can theoretically be of three kinds. Firstly they could be associated with the actions of a dominant "owner" entrepreneur who exploits new business opportunities and adds new products and value to the existing business.

This may result in new subsidiary companies being added to the group. Secondly they may be linked to new value being found from below, from the activities of "intrapreneurs". This again can result in companies spinning off to form or add to a group. Thirdly there is a combination of the two, when dominant CEOs though not owners may still indulge in entrepreneurial experimentation resulting in new ventures. There is now a widespread culture in larger organizations that a firm cannot stand still, and that the "status quo is not an option". The incentives to change can result in new entrepreneurial realignments of activities. As employees, accountable to shareholder owners, they may be intrapreneurs but in practice they act as entrepreneurs.

The importance of entrepreneurial processes in large firms has also been explored in the corporate entrepreneurship literature, which examines the way in which existing firms manage the process of innovation and new venture exploitation (Sharma and Chrisman 1999; Zahra, Jennings, and Kuratko 1999 review this literature). These researchers pay attention mainly to the conditions for fostering innovation and "intrapreneuship" and to the ways of managing the venture process. They pay less attention, however, to the factors affecting the organizational setting of the new venture, and specifically to the choice between the development of the new venture within or outside the legal boundaries of the existing firm [18].

The common wisdom is that "…the location and structure for a new venture will

depend on a number of factors, the most fundamental being how close the activities are to the core business" (Tidd, Bessant, and Pavitt 2001). As a result, the setting up or acquisition of a new subsidiary company is normally associated with unrelated diversification. Little work has also been done on the empirical analysis of the growth process of entrepreneurial firms and specifically about the impact of new venture exploitation on the direction of growth and on the organizational setting of these firms. By an entrepreneurial firm we mean a firm that is owned and controlled by the same entrepreneur or entrepreneurial team.

Similarly, although there has been a lot of work on corporate diversification and its relationship to company performance, little empirical work has been undertaken on how the process of diversification is related to the formation of groups. Moreover there is a paucity of research on the empirical complexities of diversification and how this impacts on our ability to measure it meaningfully [13].

Definitions

In order to avoid any misunderstanding in the terms we are going to use, from now on we will adopt the following definitions:

-Company (or business): a legal entity, normally a partnership or a limited company;

-Group (or cluster): a set of companies under common control;

-Entrepreneur (or entrepreneurial team): a person(s) controlling a company or a group (through ownership) and directly involved in the management of it.

The term firm is normally used as a synonymous of the legal unit (the company). Give its economic meaning it is most appropriate to associated it to the group, being the latter a set of activities under a unitary control (for the same reason that a multidivisional firm is considered a firm).

The purpose of the work. Define diversification strategy, describe some of the reasons why firms diversify, identify and describe different types of corporate diversification, and assess the advantages and disadvantages associated with each.

Having reviewed a number of papers related to diversification of services **the purpose** of the work is to define diversification strategy at "Rebra&Kotlety", Kyiv. Also, the development and implementation of new diversification strategies.

In order to address the purpose of the research the following **objectives** should be fulfilled while conducting this study:

- to research the economic essence and classification of diversification;
- to define principles of formation of diversification;
- to research methodological foundations of the diversification of services in the restaurant business;
- to define types of diversification of services;
- to see an assessment of diversification of services effectiveness;
- to show the principles of implementation of the diversification;
- to determine of the influence factors on the implement of the strategy of the diversification of service;
- to develop new model of diversification of service.

The **object** of the research is the diversification of services, its structural elements, as well as related business transactions.

Theoretical basis of research **methodology** is a systematic approach to the study of diversification of services, the performance of domestic and foreign scholars dealing with the nature of diversification. In the study it is identified the main approaches to the nature of diversification. General scientific methods, e. g. the methods of analysis and synthesis, are used to illustrate the diversification classification and its formation for needs of management and growth.

The comparison method is used to determine the most effective approaches to reflect information about diversification of services in restaurant business.

PART 1

THEORETICAL AND METHODOLOGICAL BASES OF DIVERSIFICATION OF THE HOTEL AND RESTAURANT BUSINESS

1.1. The aconomic essence classification of diversification

Corporate strategy forms the foundation when considering the strategic alternatives available to an organisation. The recent global financial crisis has resulted in many chief executives questioning the strategic intent and focus of their firms. Diversification and specialisation are two of the more popular configurations often proposed by corporate strategy theory in order to grow and sustain financial performance, particularly through difficult economic periods. The food economy is an important and unique part of the country`s economy. The performance of the food economy and the firms that operate in it are regularly described by widely read publications such as Business Week, Fortune, and Forbes. Food economy firms are uniquely different relative to other businesses. Sonka and Hudson identified the following five factors that make the food economy unique from other industries:

- the uniqueness of food for political and cultural reasons;
- uncertainty arising from the underlying biologic basis of crop and livestock production;
- the level of political intervention;
- institutional arrangements that place significant portions of the technology development process in the public sector;
- and differing competitive structures existing in the food economy [5].

Many food economy firms are widely diversified. Various explanations have been offered for this diversification. Many supply chains handling agricultural commodities have similar marketing, transportation, and processing characteristics which create economies of scope and leads to related diversification. Processors with consumer food brands may seek to extend their branding to other related and unrelated food products. For example, Ronald Cotterill notes that food retailers may be able to

achieve economies

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of scope in establishing a retail brand. Michael Lubatkin et al. analyzed three horizontal mergers in the food processing industry and found that economies of scope in marketing might help explain recent diversification efforts [10].

Why Firms Diversify:

- to grow;
- to more fully utilize existing resources and capabilities;
- to escape from undesirable or unattractive industry environments;
- to make use of surplus cash flows [1].

Business growth means an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output:

- increase in the total sales volume per annum;
- increase in the production capacity;
- increase in employment;
- an increase in production volume;
- increase in the use of raw material and power.

There are three types of "Growth Strategies":

- Intensive Growth Strategies
- Diversification Strategies
- Integration Strategies

Intensive growth strategies or intensification involves raising the market share, sales revenue and profit of the present product or services. The firm slowly increases its production and so it is called internal growth strategy.

Diversification strategies – the firm grows by diversifying into new businesses by developing new products for new markets. It is a corporate growth strategy in which a firm expands its operation by moving into a different industry. Finding new

values for new markets is a task of Proactive Strategic Marketing.

Integration strategies refers to the integration of firms involved in defferent stages of the supply chain and expanding the firm's operations through combining with competitors operating in the same industry&doing the same things.

Our objective is to analyze the value of diversification in the food economy and

it's four distinct sectors; food processing, wholesale grocery, retail restaurant. Prior research analyzing the value of diversification has focused on the Ukrainian economy as a whole and has suggested that diversified firms are valued at a discount compared to single-segment firms. [4].

Overview of Diversification and Firm Value Literature. Diversification is a corporate strategy to enter into a new market or industry in which the business doesn't currently operate, while also creating a new product for that new market. This is the most risky section of the Ansoff Matrix, as the business has no experience in the new market and does not know if the product is going to be successful.

Diversification is one of the four main growth strategies defined by Igor Ansoff's Product/Market matrix.

Figure 1.1 Product- Market Matrix and Growth Stratege (after H. Igor Ansoff)

Ansoff pointed out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, the diversification usually requires a company to acquire new skills and knowledge in product development as well as new insights into market behavior simultaneously.

This not only requires the acquisition of new skills and knowledge, but also requires the company to acquire new resources including new technologies and new facilities, which exposes the organisation to higher levels of risk. The notion of diversification depends on the subjective interpretation of "new" market and "new" product, which should reflect the perceptions of customers rather than managers. Indeed, products tend to create or stimulate new markets; new markets promote product innovation [9].

Theoretical arguments suggest that diversification can have both positive and negative effects on firm value. In general, the earlier research (prior to 1980) focused on the benefits of diversification while the most recent (post 1980) literature addresses the costs of diversification [7].

Potential Benefits of Diversification. Gains from diversification may arise from various sources. Economies of scope and managerial economies of scale can provide gains from diversification (Chandler). Wernerfelt and Montgomery suggest that firm-specific resources can be utilized in multiple industries and contribute to gains from diversification.

Another theoretical argument for diversification relates to capital markets and

resource allocation. The desire by firms to diversify and form internal capital markets reflects the idea that information held by managers of firms and the external capital market is asymmetric. Managers of firms have information advantages over the external capital market and therefore internal capital markets of diversified firms allocate resources more efficiently than external capital markets (Williamson, Stein) [21].

Weston suggests that internal capital markets of diversified firms are more efficient than external capital markets. Stulz extended this argument with the concept that diversified firms create larger internal capital markets and reduce the problem of underinvestment. According to this argument, segments of diversified companies invest in more positive net present value opportunities than comparable single segment firms .

Managers may have incentives to diversify and increase firm size even if it reduces shareholder wealth. Management motivation for mergers include risk reduction, greater power and prestige, and managerial compensation. Diversification reduces risk of a manager’s portfolio when multiple segments of a firm have imperfectly correlated earnings. In addition managerial compensation tends on average to be positively correlated with firm size, providing managers an incentive to increase firm size through diversification [8].

The strategies of diversification can include internal development of new products or markets, acquisition of a firm, alliance with a complementary company, licensing of new technologies, and distributing or importing a products line manufactured by another firm. Generally, the final strategy involves a combination of these options. This combination is determined in function of available opportunities and consistency with the objectives and the resources of the company.

There are three types of diversification: concentric, horizontal, and conglomerate.

Diversification

Figure 1.2 Types of diversification

Concentric diversification. This means that there is a technological similarity between the industries, which means that the firm is able to leverage its technical know-how to gain some advantage. For example, a company that manufactures industrial adhesives might decide to diversify into adhesives to be sold via retailers [26].

The technology would be the same but the marketing effort would need to change. It also seems to increase its market share to launch a new product that helps the particular company to earn profit. For instance, the addition of tomato ketchup and sauce to the existing "Maggi" brand processed items of Food Specialities Ltd. is an example of technological-related concentric diversification [31].

The company could seek new products that have technological or marketing synergies with existing product lines appealing to a new group of customers.This also helps the company to tap that part of the market which remains untapped, and which presents an opportunity to earn profits.

Horizontal diversification. The company adds new products or services that are often technologically or commercially unrelated to current products but that may appeal to current customers. This strategy tends to increase the firm's dependence on certain market segments. For example, a company that was making notebooks earlier may also enter the pen market with its new product. Horizontal diversification is desirable if the present customers are loyal to the current products and if the new products have a good quality and are well promoted and priced.

Moreover, the new products are marketed to the same economic environment as the existing products, which may lead to rigidity or instability. Another interpretation

horizontal integration occurs when a firm enters a new business (either related or unrelated) at the same stage of production as its current operations. For example, Avon's move to market jewellery through its door-to-door sales force involved marketing new products through existing channels of distribution. An alternative form of that Avon has also undertaken is selling its products by mail order (e.g., clothing, plastic products) and through retail stores (e.g.,Tiffany's). In both cases, Avon is still at the retail stage of the production process [17].

Conglomerate diversification (or lateral diversification). A conglomerate is the combination of two or more corporations engaged in entirely different businesses that fall under one corporate group, usually involving a parent company and many subsidiaries. Often, a conglomerate is a multi-industry company. Conglomerates are often large and multinational.

The literature also suggests that diversification may reduce shareholder wealth. Diversification can lead to inefficient cross-subsidization of poor performing business segments by profitable divisions within the same firm.

Jensen argues that an unprofitable business segment which is part a diversified firm invests in more negative net present value projects than their segments likely would as independent firms. Diversified firms have information asymmetry between corporate and division management creating higher administrative costs for diversified firms as compared to single segment firms [2].

Related and Unrelated Diversification. Prior research has also shown that the effect of diversification on firm value depends on the type of diversification. Diversification is related if it involves business segments that are components of the same supply chain (vertical coordination), supply similar markets, use similar distribution systems, posses similar production technologies, or engage in similar research and development. Results from prior studies have shown that firms that are diversified into related businesses were usually more profitable than other firms. Economies of scope may exist in some industries that allow firms to gain from

diversifying in related activities as opposed to unrelated activities. Diversification in related activities has a larger positive effect on firm value than unrelated diversification since human capital and other resources (economies of scope) can be used in related markets [12].

Similarly, a high quality reputation and branding in one market may be carried over to another related market which provides positive net benefits to the firm. For example, Starbucks Corporation buys roasts whole bean coffees and sells them along with rich, specialty coffees, pastries and confections, and coffee-related accessories and equipment through company-operated retail stores. It also sells premium coffee beans through other channels of distribution, including coffee distributors, hotels, retailers, warehouse clubs, and restaurants; which are collectively called Specialty Operations.

Starbucks has essentially exploited economies of scope, managerial economies of scale, and its reputation for delivering high quality premium coffee in their retail stores to expand sales in their Specialty Operations. Product characteristics, industry organization, and market structure may therefore affect the ability of firms to add value through diversification.

Goal of diversification. According to Calori and Harvatopoulos, there are two dimensions of rationale for diversification. The first one relates to the nature of the strategic objective: diversification may be defensive or offensive [3].

Defensive reasons may be spreading the risk of market contraction, or being forced to diversify when current product or current market orientation seems to provide no further opportunities for growth.

Offensive reasons may be conquering new positions, taking opportunities that promise greater profitability than expansion opportunities, or using retained cash that exceeds total expansion needs.

The second dimension involves the expected outcomes of diversification: management may expect great economic value (growth, profitability) or first and

foremost great coherence with their current activities (exploitation of know-how, more efficient use of available resources and capacities). In addition, companies may also explore diversifica diversification just to get a valuable comparison between this strategy and expansion.

Risks. Of the four strategies presented in the Ansoff matrix, diversification has the highest level of risk and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering means a lack of experience in the new skills and techniques required.

Therefore, the company puts itself in a great uncertainty. Moreover, diversification might necessitate significant expanding of human and financial resources, which may detract focus, commitment, and sustained investments in the core industries [6].

Therefore, a firm should choose this option only when the current product or current market orientation does not offer further opportunities for growth.

In order to measure the chances of success, different tests can be done:

- The attractiveness test: the industry that has been chosen has to be either attractive or capable of being made attractive.
- The cost-of-entry test: the cost of entry must not capitalize all future profits.
- The better-off test: the new unit must either gain competitive advantage from its link with the corporation or vice versa.

Companies may become diversified by entering into new businesses on its own, by merging with another company or by acquiring a company operating in another field or service sector.

One of the challenges facing diversified companies is the need to maintain a strong strategic focus to produce solid financial returns for shareholders instead of diluting corporate value through ill-conceived acquisitions or expansions. Benefits of

diversification can be classified as operating and financial characters (Table 1.1)

Table 1.1

Benefits of diversification

Benefits of operating synergies are as follows:	Benefits of diversification from financial synergies are described as follows:
• Cost saving or benefits from economies of scale (Chandler, 1990) – may be as a result of a reduction in per-unit costs deriving from an increase in size or scale of a firm; • Benefits from economies of scope (PanzarandWillig1981)–arise when firms are able to share some inputs with other business segments in order to offer a broader range of services and products;	• Co-insurance effects – firms could obtain a diminished variability of corporate earnings through the portfolio diversification to unrelated businesses. Diversification could reduce the chances of bankruptcy by going into new products or markets because diversified firms pool unsystematic risk and reduce the voluntarily in operating cash flow. Firms could also be beneficial from unutilized debt capacity.

Continuation Table 1.1

Benefits of operating synergies are as follows:	Benefits of diversification from financial synergies are described as follows:
• Revenues enhancement – stems from the monopoly power or the advantage of the more complete product line. When firms encounter the mature stage of their market or industries, firms may need to find an alternative for continuing growth, new opportunity and/or more profitability; all of which can be achieved by pursuing corporate diversification;	• Internal capital market – diversified firms can allocate resources to their best use by forming an internal capital market where the internally generated cash flows can be pooled

The economic meaning of diversification, and its impact on the organizational setting of a firm, is related to the degree of “relatedness” or, specularly, of “diversity”

of the activity that a firm is going to add to the ones already in place. These attributes refer to the resources needed to implement the new activity and are strictly related to the technology used and/or the market addressed [11].

The degree of diversity (or the degree of relatedness) determines the extent of the synergies between the new and the existing activities and, consequently, the degree of integration or autonomy that should be accorded to the new venture. The strategic management literature is more interested in the categorical measure of diversification, as they can be associated to different strategic moves, while the economic literature is more interested in continuous measures of diversification to access the "degree" (and not the type) of diversification [43].

To obtain a richer pattern in this respect we started identifying all the possible "directions" through which growth can be achieved and the degree of "diversity" they introduce in the activities of the firm. When an entrepreneur seeks to expand the activities under his/her control he/she has the following alternatives:

1. to raise the share of existing products within the same geographic area (market penetration);

2. to serve new, foreign, markets (internationalisation);

3. to integrate activities along the production chain (vertical integration);

4. to expand in the market segments within the same sector (horizontal or vertical differentiation)

5. to enter into new sectors (diversification).

The key actors

- the protagonists of the process of economic diversification in the regional and local economy are not limited to companies, but include businesses and entrepreneurs, both currently operating entrepreneurs and "new generation" of entrepreneurs;

- decision-makers and politicians, whose strategies and decisions can better drive and stimulate the diversification process;

- the workers and the entire population who on one hand can benefit from this process (for example, finding new job opportunities and increasing their income), but on the other hand can be active in starting new businesses focused on new products or new services.

1.2. Management of the diversification activities in the restaurant business

The structure of management of any company covers the interrelated elements that are related together with the established horizontal and vertical connections, which are developed as a whole.

However, the relationship in the structure of management can be linear, which provide a smooth movement of management decisions and information between line managers and functional ones to ensure the movement of the information management decisions in accordance with the specific management functions. In traditional approaches to the adoption of a management decision to diversify the activities of the enterprise the main attention is paid to elaboration of rational managerial decisions and the organization of a body of units that form the management level.

Table 1.2

Analysis of recent researches and publications

№	Traditional approach
1.	The author [3] asserts that the formation of the management system of diversification activity is carried out on the basis of perfection of existing categories and the creation of new approaches: the analysis, forecasting and planning of innovative activities.
2.	The authors [4] affirm that “the important aspect of management decisions is the development of technological process of development of rational management decisions, which should be understood as the optimal alternatives. The management of a diversified company, according to authors [8] is

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	the definition of objectives, development and implementation of strategy on the three administrative levels: the corporate, business unit and functional ones.
3.	The authors [6] stated about the essential elements that form the management of a diversified enterprise. That includes: the latitude and the type of diversification; the conditions that bind diversification that defines the personality of the enterprise; the approach to the allocation of investments between areas; the efforts that are aimed at achieving the competitive advantage; the decision on refusal of nonprofit activity; the actions that are directed at creating new positions in attractive industries; the efforts that are aimed at increasing the profitability of the existing spheres of activity.

Continuation Table 1.2

№	Traditional approach
4.	The author [7] points out two stages of the process of managing by the diversified company: firstly the solution of questions of combination by product lines and markets and define the means of achieving the competitive advantages of the organization at the first organizational level, and the second one is based on the practical steps and measures of individual structural units.

The concept of managing the diversification of the activities of the enterprise according to the study [9] includes: the definition of the essence of diversification; the substantiation of the possibility and the need for diversification at the level of the individual enterprise; the identification of subject and object, the types of diversifications; the definition of the methodological foundations of governance in the terms of justified principles and methods of management; the development of the mechanism of management; the formulation of methodical bases of the formation and the implementation of diversification policy, the assessment of the socio-economic

impacts of this policy.

Nowadays, the practice is ahead of research management processes by the diversification activity of the enterprise. No thorough theoretical analysis of the main problems on the level of management of a diversified enterprise. The objectives is consider the main problems of management of diversified activities and to allocate the levels of management. And also to offer an innovative approach in the management of diversified activity of the enterprise.

The main problems of management of diversified companies are associated with the division of powers. Thus, the diversified activity of the enterprise cannot be managed from a single center, you should build such a system of directing that would delegate managers in a broad powers to proper control of their activity to the central leadership, correspond with functional division of labour and the scope of powers of employees of management, socio-cultural environment and the organizational structure of the enterprise.

The organizational structure of management by the diversified activity of the enterprise is determined by the horizontal multi-level relations, which have its hierarchical, in particular horizontal and vertical distribution. The effective management of diversified activities of the company provides each level of management that solves its own specific tasks and carries out the assigned functions.

Figure 1.3 Level of management of diversified activities

The highest level (top management). At this level functions the supervisory council and the board. The board of directors determines the overall strategy of the

company, the board is responsible for its implementation. The specific allocation of responsibilities between them is regulated by national legislation;

The average level (middle management). It is presented by the central management services, that carry out the most important management functions, so called functional services: service marketing, financial and planning, NDPKR, coordination, accounting, control, etc. They provide the preparation of information, making recommendations on all matters within their competence for decision-making of managers of higher level;

The lower level (lower management). It consists of the production units and the strategic business unit. The managers of this level have a certain autonomy, the boundaries of which depend on the system of enterprise management. The most specific is exactly on this level [28].

In the management of diversified activity of the enterprise it is important to use the approach to innovation with regard to its marketability. That is why the diversification is often considered as a global strategy that is aimed at radical changes in the organization and the structure of production. Thus, the innovative approach in the management of the diversified activities on the regional level includes:

- the research of the market of a new product, starting from the development of strategy of the region; the forecasting of activities, the nature and the stages of the life cycle of a new product;
- the determination of ways of promotion and sales of the new product in the region;
- the research of the market and finding resources subcontractors;
- the elaboration of a possible variants of cooperation with the partners;
- the implementation of the complex analysis on costs, prices, volumes of manufacture and sales of the new product and also the financial opportunities;
- the planning and the estimation of efficiency of innovations;

the analysis of risks, determination of methods of their minimization insurance and compensation;

- the choice of organizational form of the structure of creation, the development and putting on the market a new product [41].

In the process of diversifying the important is the intensification of a scientific-research and the experimental-design works. It will enable to develop the concept of new goods; to use the latest, flexible technologies; to remove promptly from the market and production of outdated products; to provide the necessary pace of reform supply line of the enterprise; to enter quickly to new markets; to concentrate efforts on solving the problems of selected groups of consumers; to spread its activities to other regions.

Therefore, for the effective management of diversified activities of the enterprise needs to be the following:

- to set the priorities among administrative tasks, namely: the establishment of institutional relations, the creation of satellite systems, the distribution of resources, etc.;
- to establish the correspondence between the strategy of diversification and the internal organizational processes, namely: the structure of the organization, the motivation system, the incentives and the staff qualifications, etc.;
- to align the selected strategy of leadership style.

In response to the decreasing food dollar and the empowered customer, restaurants are turning to innovative business and operating models to grab a greater share of the market.

In fact, more venture capital and tech company money is going to food business than any other industry except for healthcare. Most notably, competition for the consumer food dollar is not just from the traditional restaurant industry but is coming from new types of chains and delivery services.

Because the paths to growth are limited, restaurants are looking for growth through increased market penetration, innovative product development, new markets, diversified businesses, and new business models. For example, restaurants are redefining what is “fast” and “convenient” by offering fast-growing fast food chains, “do it yourself” (DIY) food delivery, and “do it for me” (DIFM) food delivery [30].

Fast-growing fast food chains: Fast-growing fast food chains are pursuing innovative ideas over the food concept, the restaurant experience, and technology enablement.

Chains are focusing on healthy food or changing the concept of fast food in new ways that is prepared fresh using natural, high- quality, locally sourced ingredients. They are also changing the restaurant experience and pursuing the “fast casual” concept that uses the line model and has transparent and customized food preparation, hip dining areas, and alcohol products.

DIY food delivery: Companies are innovating on “convenience” as there are emerging concepts in subscriptions for food boxes that provide everything needed to prepare a healthy, high-quality, home-prepared meal. This includes everything from meal replacement shakes to high-end recipes and focuses on healthy options that are sustainable and local and that also eliminate food waste.

DIFM food delivery: The concept of “fast” is also changing, as DIFM food delivery services emphasize easy and fast service that is local, provides specific subgroups of restaurant tastes, and comes from a curated restaurant list [29].

These services focus on niche value propositions such as extra quick delivery of everything, specialty meals delivery, free delivery, and real-time tracking.

These options just scratch the surface of what is possible for offering quick, convenient, and appetizing options that can keep up with the new consumer demand.

In my work with successful innovators across many industries, we have seen

two common factors in driving successful innovation.

Table 1.3

Common factors in driving successful innovatio

Step 1	Step 2
Facing the obstacles. The first step is in reducing the obstacles that typically crimp attempts to innovate.	**A framework for innovation.** The second is to employ a simple three-step framework to drive innovation efforts.

We believe the approach requires two essential and related steps: facing the obstacles to change and aligning the organization for fast-paced innovation. The power of an approach lies in the details [32].

Step 1: Facing the obstacles. Many in the restaurant sector recognize the multiple challenges facing their industry but have not yet fully come to terms with their effect on the ability to innovate. They understand completely that fast-paced innovation can be disruptive, and they understandably struggle to balance it with core businesses they must not change. And yet there are other cultural and institutional obstacles—many of them core strengths in the past—that impede innovation in the current ecosystem:

–Reward failure. Innovation is high-risk and requires failure—something that true innovators expect and celebrate—but industry tends to reward well-executed, low-risk change.

– Invest in risk. Innovation means making financial commitments according to compelling investment theses. This marks a difference from traditional industry approaches, which make business decisions based on carefully calculated ROI. For example, as a business decision, a concept like Uber would be turned aside.

– Think disruptively. The traditional industry often finds it difficult to embrace truly powerful innovation, refusing to examine it where the industry has been most

successful. That is different from the courage Apple showed to intentionally disrupt the iPod with the iPhone, producing a phenomenal result.

– Partner to innovate. Many industries instinctively prefer to build from within, cutting themselves off from the ideas of outsiders and the dynamism partnerships bring.

– Secure new talent. Many industries face a war on young talent at the same time their knowledge base is shrinking as older talent retires.

– Build global awareness of innovation. Industries need to capitalize on innovation anywhere, which means it needs better awareness of new centers of innovation everywhere from Tel Aviv to Berlin and from New York to Silicon Valley.

— Step 2: A framework for innovation. There is a means of addressing these challenges and achieving faster- paced innovation. First, however, a simple truth: There is no single answer to innovating successfully, no one-size-fits-all solution. No expert—no business professor, successful entrepreneur, author, or consultant— offers a prescription that works for every company and every solution. The most successful innovators today take different approaches. And successful innovators from the past do not offer an enduring lesson for all circumstances and all companies.

Of course, we have seen and believe in patterns and common elements to some approaches, but successful innovation fits the individual company and its culture. It must be customized [25].

A tailored approach works like an innovation engine with a three-stage assembly line: sensing unmet needs of the consumer from a profound awareness of the ecosystem and a leverage of the proprietary insights of the company, intensively investigating potential innovations from these insights, and creating market-changing innovations that are appropriate to the culture of the company. Admittedly, it is a complex process, but the result can enable a company to institutionalize faster innovation paces.

With a new capacity of faster innovation in place, there is still a critical step that remains and must not be overlooked. The processes for faster innovation must connect with the larger organization of the company. They must be integrated with existing processes that connect the company with its customers and, in turn, can help satisfy their appetite for change.

1.3. Approaches to assessment of diversification of services

The literature on diversification has focused its attention almost exclusively on large firms, following the seminal works of Penrose, Chandler and Rumelt.

Two aspects have concentrated the attention of this literature:

a) to explain the causes of diversification;

b) to analyse its consequences on firms' performance.

Diversification in large firms has been mainly considered as the resultof the separation of ownership and control and as a way through which manager pursue their own objectives at the expense of shareholders (agency costs perspective). For this reason researcher expect a negative relationship between the degree of diversification and firm's performance. This same result is also predicted by the "resource based view" that distinguishes between related and unrelated diversification; related diversification results from the utilization of the specific competencies developed by the firm, while unrelated diversification is undertaken by managers merely for growth. For these reasons, related diversifiers should exhibit superior performance that unrelated (conglomerate) diversifiers. Empirical evidence generally supports these conclusions, although several caveats and exceptions are reported in the literature [33].

Compared with the literature on large, managerial, firms, very few studies have addressed the theme of diversification in small entrepreneurial firms, both at a theoretical and empirical level. Diversification, it has been hypothesised, occurs:

a) as a survivalist strategy;

b) as a result of entrepreneurial "dynamics";

c) as the result of family capital accumulation.

Robson, Gallagher, and Daly find that in the case of very small firms (those with less than 30 employees) employment growth is higher for non-diversified than for diversified firms. For the other small firm classes (up to 200 employees) there is no significant difference in the rate of growth between diversified and undiversified firms.

From these results the authors draw two main conclusions [45].

The first is that in the case of very small firms, entrepreneurs lack the resources and managerial skills needed to manage activities in diversified business; diversification is than seen as a survivalist strategy in order to counterbalance the decline in the original business. In the case of larger firms they do not find that diversified firms show higher grow rates that undiversified firms, especially in the long run.

One of the main limits of this work is that they associate the firm to the legal entity. We know that when the size of the firm increases, growth is achieved not only through the expansion of the existing one but also through the setting-up or the acquisition of new companies. Growth appears to be mainly the result an entrepreneurial process "… in which the entrepreneur is constantly identifying and evaluating new opportunities … Over time a significant 'portfolio' of surviving ventures can be built up" [52].

Empirical research Rosa and Scott seems to demonstrate that related diversification is commonly associated with growth, that is when entrepreneurs seize opportunities arising from its existing activities. Unrelated diversification, where there is a sudden change of direction into a new business area, is relatively uncommon in the smaller business environment, and is less growth oriented. Rosa shows that both related and unrelated forms of diversification can lead to new businesses being added to the business group.

Table 1.4

Analysis of recent researches

№	Author	Methodological approach
1.	Robson, Gallagher, and Daly	The first is that in the case of very small firms, entrepreneurs lack the resources and managerial skills needed to manage activities in diversified business; diversification is than seen as a survivalist strategy in order to counterbalance the decline in the original business. In the case of larger firms they do not find that diversified firms show higher grow rates that undiversified firms, especially in the long run. One of the main limits of this work is that they associate the firm to the legal entity.

Continuation Table 1.4

№	Author	Methodological approach
2.	Rumelt scholars (Bettis, Bettis and Hall, Christensen and Montgomery, Grant)	The theoreticalfoundation of the positive diversification effect was initially derived from the concept of economies of scale and scope.
3.	Lang, Larry and Stulz	This means that diversification enables multidivisions of a firm to invest up to the point at which the marginal return on capital equals the cost of capital and ensures that the cost of capital is

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		lower than an undiversified firm's cost of capital.
4.	Chatterjee and Wernerfelt, Makham, Montgomery, Palepu	The market power hypothesis held that diversified firms process market power, which allows them to engage in cross-subsidization, predatory pricing, and reciprocity in buying and selling.
5.	Meyer, Milgrom, and Roberts	Profitability could be enhanced through the reduced cost of capital and optimal investment. Additionally, because of the internal market efficiency, diversified firms can benefit when accessing external funds
6.	Similarly, Markides , Rajan, Servaes, and Zingales and Meyer, Milgrom, and Roberts	Thet indicated potential loss of control and effort in diversified firms.

Entrepreneurial firms present two main differences from managerial firms: ownership concentration and the direct involvement of the entrepreneur in the effective control of the firm (a company or a group). These characteristics eliminate one of the main causes of pursuing a diversification policy: i.e. the agency costs associated to the separation of ownership and control. At the same time there could be other reasons that could justify an unrelated diversification policy in entrepreneurial firms. The first is the sub-optimal portfolio diversification of entrepreneur's wealth. Because it is mainly concentrated in the activities he/she controls, this could induce him/her to diversify in unrelated business to reduce the risk specific risk [35].

Moreover the entrepreneurial growth process shows a lower degree of planning than one would expect in a managerial firm (the decision to pursue a diversified activity is often the product of serendipity and opportunism). This could result in a

higher probability of seizing opportunities with no relationships with the ones already established. Rosa shows, however, that the planning of new ventures is less intense when the entrepreneur is doing well. Serendipity and opportunism can lead to rapid decisions being taken to diversify into a new company. This is usually in a related area of activity. When economic conditions are less favourable, however, the entrepreneur usually stops diversifying and "tightens his or her belt". Rosa reported that an undiversified smaller firm was often a clue to underlying financial problems [14].

Only when problems become urgent did entrepreneurs pursue a strategy of survivalist diversification. This was usually a carefully planned process, and often involved unrelated diversification. This research thus points to complex diversification strategies followed by entrepreneurs in response to favourable and unfavourable economic climates. It predicts especially that if a business is located in a low growth or declining sector (such as traditional manufacturing sectors in some European countries) related diversification through opportunism should be less common and planned unrelated diversification more common than in growing sectors.

A few papers compared diversification strategies in large and medium sized firms. In general they adopted the agency costs view and focused their attention on the relationship between ownership concentration and diversification. Amihud and Lev find that ownership concentration is negatively associated with diversification, so confirming the agency costs hypothesis. Anderson, Bates et al. reach the same conclusion; however they suggest that firms can use alternative governance mechanisms as substitutes for CEO ownership and conclude that agency costs do not provide a complete explanation for the magnitude and persistence of the valuation discount associated to conglomerate diversification.

Aw and Batra study the relationship between size and diversification (product and geographical) and conclude that diversification is not a large firm phenomenon, although the most common form of diversification firms is geographic rather than product diversification. They found that the positive relationship between firm size and

product diversification, typically found in developed countries, is valid only for the largest exporting firms. Bethel and Liebeskind demonstrate that the legal organization of firms does influence the degree or diversification [34].

Specifically, firms organized as a group of subsidiary companies show a higher degree of diversification than firms organized as a single legal unit (multidivisional firms). It is unclear, however, whether the group organization is the result or the causes of diversification.

Overall we hypothesize that the growth process of entrepreneurial firms is primarily driven by a diversification process, although we expect that the degree of diversification, especially unrelated diversification, would be rather low.

Since Rumelt scholars have generally accepted the rationale that diversifiers outperform non-diversifiers (Bettis, Bettis and Hall, Christensen and Montgomery, Grant et al.).

However, the results of empirical studies have not proven consistent. The theoreticalfoundation of the positive diversification effect was initially derived from the concept of economies of scale and scope (Rumelt) [44].

Diversification might provide the opportunity for exploiting the economies of scale and scope, which lower the cost structure and increase profitability. On the other hand, the market power hypothesis, the synergy hypothesis, and the internal market efficiency hypothesis support the positive impact of diversification on profits.

The market power hypothesis held that diversified firms process market power, which allows them to engage in cross-subsidization, predatory pricing, and reciprocity in buying and selling (Chatterjee and Wernerfelt, Makham, Montgomery, Palepu). Along the same lines, Clarke contended that diversification could create synergy between existing and new business segments and might result in profit enhancement [37].

On the other hand, the internal market efficiency hypothesis (Higgins and

Schall, Lewellen, Scherer, Grant) argued that diversified firms could allocate their capital resources more efficiently than undiversified firms because of their efficient use of an internal capital market.

This means that diversification enables multidivisions of a firm to invest up to the point at which the marginal return on capital equals the cost of capital and ensures that the cost of capital is lower than an undiversified firm's cost of capital (Lang, Larry and Stulz). Thus, profitability could be enhanced through the reduced cost of capital and optimal investment. Additionally, because of the internal market efficiency, diversified firms can benefit when accessing external funds (Meyer, Milgrom, and Roberts) [22].

However, Datta et al. emphasized that diversification is not without costs. Jones and Hill and Porter argued that diversification could impose significant costs due to controls of multibusinesses and bureaucracy, and inefficiencies could arise from lack of adaptability to environmental changes (Bettis and Mahajan)

In contrast to the internal market efficiency hypothesis, Stulz contended that diversification could destroy firm value because it creates inefficient internal capital markets due to overinvestment in businesses with poor prospects. Similarly, Markides , Rajan, Servaes, and Zingales and Meyer, Milgrom, and Roberts indicated potential loss of control and effort in diversified firms.

On the other hand, Jensen and Amihud and Lev argue that managers of diversified firms may be prone to invest any free cash flow to reduce employment risk, resulting in possible organizational inefficiencies [14].

Much like the competing theoretical rationales, empirical results were also contradictory (Kaul, Mukherji). An initial study by Gort found no significant correlation between diversification and profits. Analogously, Beattie, Delios, and Beamish, McDougall and Round, Montgomery and Ravenscraft found insignificant diversification effects on firm performance.

However, some researchers found a positive influence of diversification on firm

performance (Chang and Choi, Carter, Grant et al., Jose et al.; Keats and Hitt, Miller, Page et al., Pandya and Rao, Picard and Rimmer, Rhoades, Skaggs and Droege).

Others found negative effects of diversification (Amit and Livnat, Comment and Jarrell, Hill and Snell, Hoskisson et al., Imel and Helmberger, Jahera et al., Lubatkin and Chatterjee, Markham, Montgomery and Wernerfelt, Rhoades, Servaes, Wan). Thus, the effects of diversification strategy remain ambiguous [20].

Conclusions to part 1

1. Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimizing risk. A smart way to balance downside risk and reward is to diversify investment portfolio to help reduce the volatility of returns over time. Diversifying means investing funds across several different asset classes, such as property, shares, bonds and money market funds, and within this a range of different regions, companies and securities.

2. Corporate strategy forms the foundation when considering the strategic alternatives available to an organisation. The recent global financial crisis has resulted in many chief executives questioning the strategic intent and focus of their firms. Diversification and specialisation are two of the more popular configurations often proposed by corporate strategy theory in order to grow and sustain financial performance, particularly through difficult economic periods.

3. Diversification is a corporate strategy to enter into a new market or industry in which the business doesn't currently operate, while also creating a new product for that new market. This is the most risky section of the Ansoff Matrix, as the business has no experience in the new market and does not know if the product is going to be successful.

4. Of the four strategies presented in the Ansoff matrix, diversification has the

highest level of risk and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering means a lack of experience in the new skills and techniques required. Therefore, the company puts itself in a great uncertainty. Moreover, diversification might necessitate significant expanding of human and financial resources, which may detract focus, commitment, and sustained investments in the core industries.

5. Managers may have incentives to diversify and increase firm size even if it reduces shareholder wealth. Management motivation for mergers include risk reduction, greater power and prestige, and managerial compensation. Diversification reduces risk of a manager's portfolio when multiple segments of a firm have imperfectly correlated earnings. In addition managerial compensation tends on average to be positively correlated with firm size, providing managers an incentive to increase firm size through diversification.

6. The economic meaning of diversification, and its impact on the organizational setting of a firm, is related to the degree of "relatedness" or, specularly, of "diversity" of the activity that a firm is going to add to the ones already in place. These attributes refer to the resources needed to implement the new activity and are strictly related to the technology used and/or the market addressed.

PART 2.

APPLIED PRINCIPLES OF IMPLEMENTION OF THE DIVERSIFICATION OF SERVICES IN GASTRO – BAR «REBRA&KOTLETY» , C. KYIV

2.1. Analysis of internal and external environment of the gastro-bar

«Rebra&Kotlety» is a new startup, which appeared on the market in 2018. "Rebra&Kotlety» - a true Kyiv gastro - bar on Podil. And this is for a reason. It was here, in the place of the historical strength of Kyivans, where the resolve and enthusiasm of two friends created a cult of the real Kyiv street food.

It is pumped up with the rhythm of modern Kyivan life, filled with various fillings and common sense. Now it's easy and tasty to eat on the go, if there is no time for knives and forks. There are more than 12 kinds of Kyiv-kotlets in the establishment. They can be eaten without knife and fork.

Mission of gastro-bar «Rebra&Kotlety»:

- to modernize Ukrainian food promote a modern chicken-kiev in Kiev;

-make a chicken-kiev on the main Ukrainian street food;

-make the gastro-bar «Rebra&Kotlety» the most delicious and most cozy place in Kyiv;

-to acquaint Ukrainians and foreigners with Kiev, as with the great city of Europe;

Gastro-bar "Rebra&Kotlety" is a real Kyiv gastro -bar, located in the Podilsky district of Kyiv. The general characteristics of the institution should be presented in the form of a table (Table 2.1).

The introduction of a new product is always accompanied by a high percentage of risk. There was no certainty that the chicken-kiev of a new format would appeal to visitors and become a self-sufficient dish, as planned by the chef and the owners of the establishment. Therefore, before the opening of the gastro bar, marketing cases were developed that aimed at introducing a new product for humans through a long-familiar and quite popular among the visitors of meat restaurants. This tested product was ribs made from pork, beef.

Table 2.1

Characteristics of gastro-bar «Rebra&Kotlety»

Positioning	The first Kiev gastro-bar of ribs and chicken-kiev in Kiev
Address	Borisoglebskaya 8/13

Work schedule	Mon-Thu: 11:00 – 23:00 Fri-Sat :11:00 – 02:00 Su 11:00. – 23:00
Interior (style)	The original interior of the gastro-bar is executed in the style of soft loft, where the brick walls are dominated by varnish, gray-black color scale, wood, concrete and metal
Area	250 m2
Legal form	LLC “Gastrosindikat”
Number of seats for guests	90
Specialization	Meat dishes
Cuisine	Ukrainian, European
Average check per guest	250 UAH

One of the main advantages of the establishment is an innovative product that is popular with visitors - it's a chicken-kiev. Innovation is that the establishment offers its guests a try for a completely new non-traditional chicken-kiev in a variety of variations. The basis of chopped chicken remains in double panning, which then fried with a large amount of vegetable oil, but all the rest is changed.

Firstly, the appearance of the traditional dish has changed, now it's not a cutlet on the stone with oil inside, now it's a kite in Kiev with a new comfortable "take away" format, which can be tasting in the walls of the gastro-bar "Rebra&Kotlety", and it is also convenient to take and walk. Secondly, henceforth is a chop not only with hot oil inside, now you can pick up the filling for any taste. To introduce a new model of diversification into the gastro bar of «Ribs&Kotlets», it is necessary to conduct the following economic analyzes:

1. Macro Assumption

2. Analyze competitors in the market

3. Analysis of financial results of the enterprise

4. Analyze the cost-based strategy

5. Analyze the prices in the menu of restaurants that have already signed contracts with GLOVO

6. Set the prices for menu items in GLOVO, taking into account packaging

macro assumptions. We rely on simple moving average and take already forecasted values by IMF (International Monetary Fund) for the exchange rates.

Nominal Gross Domestic Product (GDP) indicator has risen in the period 2015 - 2018, and for further forecasting the assumption is, that it will continue to grow with almost the same growth rates. GDP per capita continues to grow, what signals about improvements in Ukrainian economy. Consumption is increasing, relatively to 2015 year this indicator suggests positive trend. Investments have fallen from 2017 to 2018, but we assume that they will continue to rise [37].

Consumer price index (CPI) - the most important indicator shows positive trend, although with some fluctuations. Current Account Balance has been negative and will remain to stay negative (Table 2.2).

Table 2.2

Macroeconomic indicators

Macro indicators	Units	2015	2016	2017	2018
Nominal GDP	USD mln	84,48	90,66	102,73	115,90
GDP per capita	USD $	2,12	2,17	2,36	2,55
Consumption	% change	15,90%	1,40%	3,30%	3,50%
Fixed Investment	% change	-9,20%	20,10%	18,30%	10,20%
CPI	% change eop	43,30%	12,40%	10,00%	7,00%
Current Account Balance	% GDP	0,20%	-3,80%	-4,10%	-3,50%
External debt	% GDP	131,50%	119,80%	124,00%	129,20%
International Reserves	USD mln	13,30	15,50	15,45	18,41

Export	% change	-13,20%	-1,60%	4,80%	5,00%
Import	% change	-17,90%	8,40%	8,70%	3,60%
Budget expenditures	% GDP	43,20%	40,60%	44,00%	44,60%
Current expenditures	% GDP	41,00%	37,40%	40,20%	40,80%
Capital expenditures	% GDP	2,20%	3,10%	3,80%	3,80%
Interest rate	%	22,00%	14,00%	14,50%	17,10%
Deposit interest rate	%	13,01%	11,50%	9,13%	9,13%
Private sector credit	USD mln	534,45	445,89	362,89	389,09
Remittances	USD mln	1,70	1,82	1,95	2,01
Foreign Direct Investment	USD mln	3,05	3,44	3,61	3,74
Exchange rate to USD	UAH	23,44	26,29	27,57	26,18
Trade balance	USD mln	-1,70	5,47	-4,38	-3,69
Liquid liabilities	% GDP	37,60%	38,10%	37,90%	38,64%
Tax revenue	% GDP	20,45%	19,64%	20,23%	20,67%

External debt will continue to fluctuate, as we still take loans without repaying the previous ones. International Reserves will shorten a little, but not significantly.

Compound Annual Growth Rat (CAGR) is negative, but with the help of developing branches in our economy, will grow in future periods. Import will continue to increase due to the new reforms, easing the procedure [60].

Budget expenditures will slightly increase during the given time period. Current expenditures - the trend is fluctuating, but will still take negative CAGR. Capital expenditures will remain almost the same.

Interest rate - the most problematic indicator, but now it is and according to the assumption will stay more or less stable. Deposit interest rate will grow rapidly from 2021 to 2022. Private sector credit will decrease rapidly.

Remittances - fluctuations don't affect the overal well-being.

Foreign Direct Investment (FDI) - trend is increasing, but despite the macroeconomic stabilization and some improvements in the business environment in Ukraine, security issues are said to prevent FDI from recovering.

Exchange rate to USD - very volatile indicator, that will continue to fluctuate.

Trade balance - we had and will have a constant deficit, as we import much more, than export [53].

Liquid liabilities are also known as broad money, or M3. They are the sum of currency and deposits in the central bank (M0), plus transferable deposits and electronic currency (M1), plus time and savings deposits, foreign currency transferable deposits, certificates of deposit, and securities repurchase agreements (M2), plus travelers checks, foreign currency time deposits, commercial paper, and shares of mutual funds or market funds held by residents. This indicator is relatively good compare to the other countries.

Capital Investment - we assume a sustainable growth relying on the past positive expereince.

To determine the average annual rate of growth of the Kyiv gastrobar «Rebra&Kotlety» and the hard-core analysis of market share, we used the formula of CAGR (Compound Annual Growth Rate).

To calculate compound annual growth rate, divide the value of an investment at the end of the period in question by its value at the beginning of that period, raise the result to the power of one divided by the period length, and subtract one from the subsequent result [47].

After analyzing restaurants and bars on Podil, competitors have become: MOMO, Starburger, Salateira, Porter Pub, Kin Kao, Aroma Kava, Nikolay and Argentina Grill.

Table 2.3

Market shares

Restaurant business establishment	**2018**	**2019**	**2020**	**2021**	**2022**	**CAGR 2018-2022**
Rebra&Kotlety	7%	9%	9%	11%	15%	20,99%
MOMO	8%	9%	9%	9%	9%	2,99%
Starburger	8%	8%	7%	6%	9%	2,99%
Argentina Grill	7%	6%	7%	7%	8%	3,39%
Porter Pub	18%	15%	15%	15%	10%	-13,67%

KIN KAO	14%	13%	10%	7%	5%	-22,69%
Aroma Kava	4%	4%	2%	4%	5%	5,74%
Nikolay	12%	15%	19%	19%	15%	5,74%
Salateira	22%	21%	22%	22%	24%	2,20%
Total	100%	100%	100 %	100%	100%	

Comment: «Rebra&Kotlety» - won't exceed 10% level, as menu is not well diversified, although price will still be low. MOMO - good value for money, but still not resistent to big competitors.

Starburger - the position will remain slightly the same, as it has good competitive positions and prices for the products are not too high. Argentina Grill - market share will fluctuate, but still will remain stable, as it is more restaurant type, than the café type which is very popular in Kyiv.

Porter Pub - a place for those, who love beer. This place won't lose the popularity among the customers, as they are very loyal to it, although some fluctuations might take place. KIN KAO - will loose its little market share, as prices are high there, new competitors will simply reduce its market power to the 0 level.

Nikolay - Good value for money, offering new tastes every year, so it will continue to invade even bigger market share.

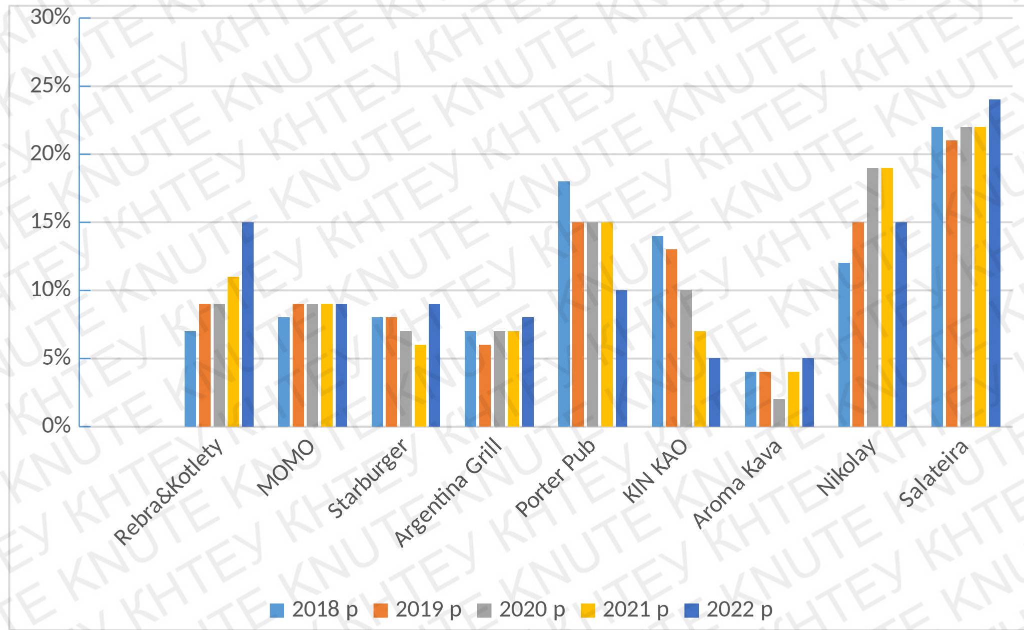

Figure 2.1 Market shares

The compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance assuming the profits were reinvested at the end of each year of the investment's lifespan.

To calculate the compound annual growth rate, divide the value of an investment at the end of the period by its value at the beginning of that period, raise the result to an exponent of one divided by the number of years, and subtract one from the subsequent result.

The formula for CAGR can be written as follows:

$$CAGR = \left(\frac{E.B.}{B.B.}\right)^{\frac{1}{Years}} - 1 \quad (2.1)$$

where EB – Ending Balance

BB – Beginning Balance

Years – Number of years

Restaurants often operate on a fairly thin profit margin. If owners don't have a good handle on their costs, profit margins can easily plummet. Some expenses, like rent, insurance and property taxes, are hard to control. However, managers have more

options to play with variable expenses like food and labor costs. An income statement reports profit over a predetermined period of time. Restaurant owners should scrutinize their income statement on a regular basis to ensure operating expenses aren't exceeding sales revenues.

Economic effectiveness of the enterprise - is the effectiveness of the actions of employees, determining the future financial results, expressed in cash flows. Economic efficiency is a type of efficiency that characterizes the performance of economic systems (enterprises, territories, national economy).

The main feature of such systems is the value of the means (expenditures, expenditures) for achieving the goals (results), and in some cases the goals themselves (in particular, profit generation); This is the return in the form of income of various resources of the enterprise, which is determined by the ratio of income to the cost of resources. In other words, the level of economic efficiency gives an idea of the cost at which costs the economic effect has been achieved [28].

The purpose of the activity of any enterprise is to generate profit. It is because of the size of the proceeds and profits that can be drawn from whether the enterprise distributes its resources effectively and whether the correct product policy is followed.

The objective assessment of the enterprise's performance characterizes the success of enterprise management in general, therefore, plays an important role, as well as shapes its image, facilitates access to capital markets and justifies the feasibility of investments.

Each of the goals facing the enterprise requires an analysis of a number of indicators, which allows you to make specific decisions about the behavior of the enterprise. The source of information is the company's accounting: annual balance sheet, statement of financial results, statement of cash flow, statement of cash flow, etc. On the basis of the reporting data, we can conclude on the final result of the enterprise in the form of build-up of equity for the reporting period. [24]

In the third part of this work, we will propose a new model for diversifying the

gastro-bar “Rebra&Kotlety” , so we need to analyze the financial results report (Appendices 2) and draw conclusions. Let's start with analyzing the dynamics of the main economic indicators of gastro-bar (Table 2.3)

Table 2.4

Dynamics of the main economic indicators of gastro - bar "Rebra&Kotlety", for 2016-2017 (million UAH)

Indexes	2016	2017	Absolute deviation	Growth rate, %	Rate of growth
			2017/2016	2017/2016	2017/2016
Income (sales revenue), million UAH	7 150,4	8222,9	1 072,5	114,9	14,9
Value Added Tax	1 430,1	1 644,6	214,5	114,9	14,9
Net income from sales of goods (goods, works, services), million UAH	5 720,3	6 578,3	858,0	114,9	14,9
Other operating income	-	-	-	-	-
Total net income	5 720,3	6 578,3	858,0	114,9	14,9
Cost of sold products (goods, works, services)	2 118,6	2 192,7	74,1	103,5	3,5
Operating expenses	1 650,0	2 304,2	654,2	139,6	39,6
Financial result from operating activities	1 951,7	2 081,4	129,7	106,7	6,7
Other usual expenses	1 800,0	1 900,0	100,0	105,6	5,6
Financial result before tax	151,7	181,4	29,7	119,6	19,6
Income tax	27,3	32,7	5,4	119,6	19,6
Net profit	124,4	148,8	24,4	119,6	19,9

Next we conducted an analysis of the turnover of gastro-bar "Rebra&Kotlety" (Table 2.4)

Table 2.5

Structure of the turnover of gastro- bar "Rebra&Kotlety", for 2016-2017

Indexes	Unit of measurement	2016	2017	Absolute deviation	Growth rate, %	Rate of growth
Gross turnover	thousand UAH	7 150,4	8 222,9	1 072,5	114,9	14,9
Retail turnover	thousand UAH	7 150,4	8 222,9	1 072,5	114,9	14,9
Turnover of production of own production	thousand UAH	3 932,7	4 522,6	589,9	114,9	14,9
Specific weight of products of own production	%	55	57	2	103,6	3,6
Turnover of purchases	million UAH	3 217,7	3 700,3	482,6	114,9	14,9
Specific weight of the turnover of purchases	%	45	43	-2	95,6	-4,4

Budgeting is a crucial part of running a business. It’s not something you do only when you create your business plan, but an ongoing process that you monitor to keep restaurant profitable. Reviewing budget on a regular basis helps to keep track of finances and achieve success.

Although many of us feel anxious or confused when we have to think about numbers, the process doesn’t have to be difficult and complicated. Monitoring cash flow and managing restaurant budget can be easily done with the right tools, and you’ll have peace of mind knowing you’re on top of everything.

Service and product business owners, managers expanding their business and entrepreneurs writing business plans all struggle with pricing.

Thankfully, when it comes to selling food, a few simple calculations can clear

much of the fog. The following steps are the foundation of the cost-based strategy most restaurants and food service businesses use to price their items and remain profitable.

Calculate COGS

Cost of goods sold (COGS) is the direct costs attributable to the production of the goods sold in a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good.

It excludes indirect expenses such as distribution costs and sales force costs. Cost of goods sold is the cost of acquiring or manufacturing the products that a company sells during a period.

Therefore, the only costs included in the measure are those that are directly tied to the production of the products, such as the cost of labor, materials, and manufacturing overhead.

It will be very hard to figure out how much profit is made from food sales if there no information on how much the food you're selling first, cost you. That's where the cost of goods sold ("cost of goods used" or "cost of usage") comes in. The formula for COGS is very simple.

The formula for calculate Cost of goods sold can be written as follows:

$$COGS = Beg.\,Invent. + Purch. - End.\,Invent. \qquad (2.2)$$

where Beg.Invent. – Beginning Inventory

Purch. – Purchases

End.Invent. – Ending Inventory

In the gastro-bar «Rebra&Kotlety» inventory is held once a month. An independent commission consists of three persons who are not included in the staffing of the staff. In order to be objective.

KNUTE KHTEY

Table 2.6

Indicators of data from July to September in the gastro - bar «Rebra&Kotlety»

	Beginning Inventory	Purchases	Ending Inventory	COGS
July	310 000,00	210 149,33	105 000,00	415 149, 33
Aug.	340 000,00	287 359, 25	140 000,00	487 359, 25
Sept.	320 000,00	282 174, 27	130000,00	472 174, 27

An accounting software helps to manage books and records, as well as inventory and transactions quickly and accurately. If POS system is peresent in the restaurant with inventory management capability that tracks all your inventory and purchases, you can simply sync data with accounting software and the rest will be taken care of.

However, the old-fashioned way includes few budgetary items to keep in mind:

- Track all of all the numbers. Whether POS system does it or not, prime cost or the ratio between sales and cost should be minded.
- Define the accounting period. While most restaurants follow a four-week accounting period, set it to whatever time length makes the most sense for the business.
- Set budget targets. Budgets aren't just reflections of what's happening in the restaurant—they should be guides that lead your restaurant to maximum efficiency.
- Focus on a weekly operational budget. High-level views of the restaurant's financial health are important, but there's something to be said for having a more granular view of the operations as well. It can help to track expenses more easily because the scale is smaller and more manageable.

Food Cost Percentage

Food cost percentage is the percentage of sales spend on food. Setting a target

food cost percentage is a very common way to make sure costs are controlled and profits are generated on both single-item and big-picture levels. Food cost, as the name suggests, does not take into account labor or other operational costs.

"Food costing" is understanding the ratio between the cost of raw materials that make up a dish and the revenue generated by that dish.

Calculating how much was spent, helps to understand the amount of actual profit you make on your sales. If the food cost is too high, it will be more challenging to make profit and keep business afloat, if the food cost is too low you may be turning off customers with high prices.

While other costs may be less flexible (like labor costs and fixed costs – rent, utilities, etc.), food costing needs to be compatible with the actual sales.

The formula for calculating Food Cost Percentage can be written as follows:

$$FC = \frac{COGS}{FS}$$

(2.3)

Where COGS - Cost of goods sold

FC – Food vost

FS – Food Sales

Some sources say that a profitable restaurant typically has a 20% – 33% food cost percentage. That can range from 20%-25% for a casual dining eatery and up to as much as 33% for a fine-dining establishment [58].

Table 2.7

Food Cost from July to September in the gastro - bar "Rebra&Kotlety"

	COGS	**Food Sales**	**Food Cost**
July	415 149, 33	1 383 831,10	0,3
Ayg.	487 359, 25	1 572 126, 61	0,31

Sept.	472 174, 27	1 475 544, 59	0,32

Food Cost it is a percent of sales that determines how much money we make or lose on what we sell. To be a little more precise, actual food cost breaks down adding your beginning inventory and purchases together then subtracting them from your ending inventory. Once this actual food costs or usage you then divide it from your total food sales which equals the food cost percentage.

The food cost is an integral ratio and key to the success of any restaurant or bar because of its direct impact on profitability.

Other sources say that a profitable restaurant typically generates a 28%-35% food cost. Add labor costs and these expenses consume 50%-75% of total sales. The impact that food cost makes on an operation is why it’s one of the first things you should examine if the venue is losing profits. Food cost can run amuck very simply. If you stop tracking inventory the food cost will begin to rise. It should be calculating the weekly food inventory on the same day so that if there is a problem - attack it right away [8].

Most chefs don’t really monitor the calculations in a way that allows them to grasp what the actual numbers are.

A good operation knows a few integral numbers:

1. How much inventory they have on hand.

2. How much they purchased.

3. How much they sold.

With food costs rising and customers spending less, restaurant and bar operators must check their menus to ensure they are profitable. Thousands of independent restaurants fail each year and nearly 92% of them because they did not manage food costs wisely. Therefore, know the food costs. What a plate is being sold for on a menu verses what it costs to prepare it can save a business.

Menu pricing is the engine behind the company's success, as sales are the restaurant's sole source of revenue. Pricing for food directly impacts how much money there are for literally everything in the business, including equipment, utilities, employees, furniture, ingredients, and more.

2.2. Analysis of the effectiveness of current development strategies in gastro-bar "Rebra & Kotlety".

At the moment, the gastro - bar «Rebra&Kotlety» does not have its own food delivery system, so guests simply order courier delivery by taxi service. Prices on the delivery menu do not differ from the prices in the menu of the gastro-bar. Thus, the price does not include packing and delivery. There is a problem pricing for a delivery service.

Menu costs refer to an economic term used to describe the cost incurred by firms in order to change their prices. How expensive it is to change prices depends on the type of firm. For example, it may be necessary to reprint menus, update price lists or re-tag merchandise on the shelf.

Even when there are few apparent costs to changing prices, changing prices may make customers apprehensive about buying at a given price, resulting in a menu cost of lost sales.

The net result of menu costs is that prices are sticky. That is to say, firms are hesitant to change their prices until there is a sufficient disparity between the firm's current price and the equilibrium market price. In theory, a firm should not change its price until the price change will result in enough additional revenues to cover the menu costs [55].

In practice, however, it may be difficult to determine the equilibrium market price or to account for all menu costs, so it is hard for firms and consumers to behave precisely in this manner.

The concept of menu costs was originally introduced by Sheshinski and Weiss in 1977. The idea of applying it as a general theory of nominal price rigidity was simultaneously put forward by several New Keynesian economists from 1985 to 1986. George Akerlof and Janet Yellen, for example, put forward the idea that due to bounded rationality, firms will not want to change their price unless the benefit is more than a small amount. This bounded rationality leads to inertia in nominal prices and wages which can lead to output fluctuating at constant nominal prices and wages.

There is debate over whether menu costs are truly large enough to cause business cycles. However, there is empirical evidence from studies that menu costs are indeed large enough to cause business cycles. In one study, store-level data from five multi-store supermarket chains was examined to directly measure menu costs. The study found that menu costs per store averaged more than 35 percent of net profit margins – indeed large enough to have macroeconomic significance [39].

Furthermore, studies found that menu costs may cause considerable nominal rigidity in other industries or markets, thus amplifying the effects on business cycles. These menu costs can vary largely due to local regulations, which may require, for instance, a separate price tag on each item, thus increasing menu costs.

The formula for calculating Menu Price can be written as follows:

$$Menu\,Price = \frac{COGS}{TFCP} \qquad (2.4)$$

where COGS – Cost of goods sold

Target FCP – Target Food Cost Percentage

On the example of the most popular dish in the gastro-bar «Rebra&Kotlets» chicken kyiv with blue cheece and raspberries, consider the menu price.

Table 2.8

Menu Price for chicken kyiv in the gastro - bar "Rebra&Kotlety"

	COGS	Target Food Cost Percentage	Menu Price
Chicken Kyiv	25 UAH	20%	125 UAH
Chicken Kyiv	25 UAH	30%	83 UAH
Chicken Kyiv	25UAH	40%	62,5 UAH

In the menu of the gastro – bar the price for chicken kyiv with blue cheece and raspberries is 127 UAH and that means that we are use 20% Target Food Cost.

Markup

Markup percentage is a concept commonly used in managerial/cost accounting work and is equal to the difference between the selling price and cost of a good, divided by the cost of that good. This guide outlines the markup formula and also provides a markup calculator to download.

Markup percentages are especially useful in calculating how much to charge for the goods/services that a company provides its consumers. A markup percentage is a number used to determine the selling price of a product in relation to the cost of actually producing the product. The number expresses a percentage above and beyond the cost to calculate the selling price. Markups are common in cost accounting, which focuses on reporting all relevant information to management to make internal decisions that better align with the company's overall strategic goals [49].

Markups and food cost percentages are two sides of the same coin. While target food cost percentages generally fall between 20-40%, markups are usually around 300%. While the percentages sound wildly different, they bring the same results.

The formula for calculating Markup can be written as follows:

$$Menu\ Price = COGS + (Markup \times COGS) \qquad (2.5)$$

where COGS - Cost of goods sold

Menu Price for Chicken Kyiv = 25 UAH + (4 x 25UAH) = 125 UAH

Understanding markup is very important for a business. For example,

establishing a pricing strategy is one of the most important parts of strategic pricing. The markup of a good or service must be enough to offset all business expenses and generate a profit.

Margin

There are two profit margins widely used by accounting professionals: gross profit margin and net profit margin. Confusingly, some restaurant journalists write about profit margins without specifying which. Worse, when you read these articles carefully, you see that some use "profit margin" to refer to the gross profit margin and some use the same phrase to refer to net profit margin. There's a huge difference!

Gross profit, is what is left after deduction of the direct costs of goods sold -- such as food costs and labor costs directly associated with preparation and serving. It's a useful statistic for professionals evaluating a restaurant's efficiency and profitability, but it's not at all the same thing as net profit -- which includes all costs -- among them are administrative expenses, building costs, taxes and interest. Net profit is what you put into the pocket.

Gross profit margin equals the revenue minus the cost of goods sold divided by revenue. Net profit margin equals revenue minus all costs, direct and indirect, divided by revenue.

When you want to know whether a restaurant is likely to succeed or go under, the best first place to look is at its net profit margin. If the net profit margin is 10 percent -- this means that out of every dollar the customer spends -- the restaurant pays 90 cents for all expenses, and retains ten cents in profit – which, incidentally, isn't at all bad. The average net profit margin for all S&P 500 companies is a little over 8 percent

Full-service restaurants are basically what's left after the subtract fast food, fast casual and casual restaurants. This market segment includes fine-dining restaurants, but it also includes less elegant places where, as in the fine dining segment of the industry, you're ushered to a table and handed a menu.

The difference between fine-dining and other full-service restaurants isn't that the approaches are entirely different – both are "full-service" – but in the degree of refinement and, yes, how much it costs. The Houston's restaurant chain is probably right at about the dividing line between "full-service" and "fine-dining.

In 2017, full-service restaurants had average profit margins of 6.1 percent, essentially the same margin as fast-casual and casual restaurants.

Margin is another way of talking about profit and figuring out price.

The formula for calculating Margin can be written as follows:

$$Margin = Selling\ Price - FC \qquad (2.6)$$

where FC – Food Cost

Margin for chicken kyiv = 127UAH – 25UAH = 102 UAH

The formula for calculating Margin Percentage can be written as follows:

$$MP = \frac{Margine}{SP} \qquad (2.7)$$

where MP – Margin Percentage

SP – Selling Price

Margine Percentage = 102UAH/127UAH = 0,80

Margine Percentage for chicken kyiv = 80

Food Pricing Tips

Calculating the food costs and target percentages gives you a foundation for your pricing strategy. As getting a handle on the COGS and profit margins, it's important to not forget the following considerations.

Higher demand for specific items gives a room to raise the prices on those items.

Control the cost of extras. Create guidelines with a separate menu and set of POS charges for extras like condiments and sides to share with your staff.

Keep the portion sizes consistent. Consider creating a manual for kitchen staff to ensure accuracy.

Usually staff have great power over COGS. Help them reduce waste, ensure portion consistency, and up-sell profitable items by training them thoroughly and sharing your pricing strategy.

Pricing is a task that needs to be periodically revisited to respond to changes in the industry, fluctuating market prices and the mood of customers. Setting prices involves considering many factors, including the cost of food, cost of labor, what the competition is doing and what your target customers are willing to pay.

Food Costs

Food costs are one of the first considerations that go into restaurant pricing. This is simply what it costs to procure the ingredients used in a dish. There is a reason why steak and lobster tend to cost considerably more on a restaurant's menu than items like french fries or green salads.

The cost of purchasing these ingredients is much higher. Buying very high quality, local, organic or sustainable ingredients can boost pricing as well. Break down the costs of the ingredients that go into each dish and use this as a base for setting the menu pricing. It's important to keep in mind that there are more factors involved with pricing.

Market Changes

Food prices can fluctuate substantially. A natural disaster can drive up the cost of seafood. Poor growing seasons can affect the price of certain fruits and vegetables. Consider building some flexibility into the menu pricing to accommodate changes in the market. High-end seafood at a formal restaurant can be priced on a day-by-day basis depending on what it cost to bring them in fresh that day. Take the time to add a note of explanation for customers when menu pricing should be adjusted in reaction to market changes [51].

Customer Base. Know who your customers are. If it is a quick-service restaurant, cater to a younger audience that doesn't have a lot of discretionary funds. If it is a formal fine dining restaurant, cater to older customers with more open pocketbooks. Consider the people you are targeting when setting menu pricing.

This reflects the image of the restaurant and can play a role in bringing in repeat customers. Customers at all levels want to feel like they are receiving good value for their money. Keep an eye on how pricing changes affect your customers. Surveys can be a good way to keep the finger on the pulse of customers' attitudes toward the business.

Competition

Restaurants are often up against stiff competition to attract the same customers. Do some reconnaissance work to see what your competition is charging for similar menu items. It is not important to always have to beat their prices. Make up for pricing differences by offering better customer service, higher quality ingredients or a more engaging dining atmosphere. Look for ways to set the restaurant apart from the competition. Pricing can be a big part of that strategy.

2.3. Determination of the influence factors on the implement of the strategy of diversification of services in the gastro-bar "Rebra&Kotlety"

There is no question restaurants are innovating—but are they moving fast enough to stay relevant in the face of evolving consumers' tastes and preferences.

This is a particular challenge for established companies where risks are magnified — there are enormous profits, thousands of jobs, and publicly traded share prices on the line.

Like many industries, the restaurant industry faces a variety of challenges keeping up with the rapid pace of change driven by the consumer trends and changing

demographics. Growing preferences for healthier food options, concerns over environmental sustainability, increased competition from grocery stores, heightened consumer expectations, and rapidly advancing technology are reinventing the traditional dining experience and forcing change on how the industry operates. And the rising spending power of the millennial generation of consumers is accelerating the industry's response to such trends [50].

At the same time, economic forces continue to have an industry impact. GDP growth is slowing while the average household income is decreasing, leaving consumers with less to spend. Food accounts for nearly 30 percent of a restaurant's costs, and unfavorable weather and macroeconomic conditions can result in a substantial increase in food prices. However, fear over weakening their market position often prevents restaurant operators from increasing their menu prices in the same proportion.

Against this backdrop, most economists agree that this new normal environment is not one where secular growth can satisfy most company growth needs. As restaurants juggle a variety of challenges, they must seek to innovate and adapt nimble business strategies that enable them to cost-effectively compete in an ever- changing tech environment.

As they rethink business approaches, they must also factor in new regulation as well as economic and competitive market forces.

No industry is immune to these forces. But to remain competitive and succeed, restaurants must be able to adjust and figure out how to meet and exceed consumer expectations. That does not necessarily mean being the first to innovate in your market. There are benefits in being a fast follower. In fact, many restaurateurs may have better results as a fast follower.

The challenge in a disruptive world is to be courageous. This is easier for small companies. It's harder to do when the numbers are very big, and the risks are very big.

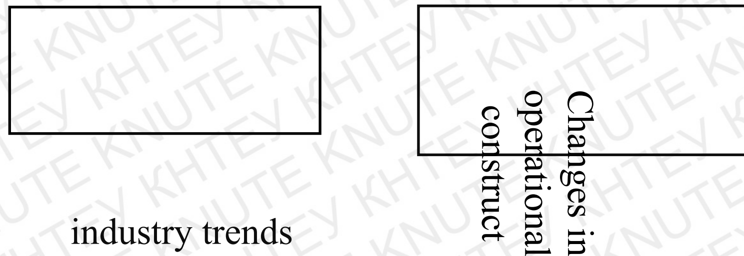

Figure 2.3 Restaurant industry trends

Trends that should be at the heart of an innovation strategy:

Preferences for healthier food options

— Consumers prefer to eat at home and, if dining out, are inclined to consume healthier and less processed foods.

— Restaurants have been making attempts to influence consumption patterns by deploying attractive pricing and marketing techniques.

Modification of menu items driven by regulatory norms

— With nutrition labeling requirements being enforced by the Affordable Care Act, restaurant operators are obligated to make changes to menus to show the calorie counts of their products.

— Restaurant chains are focusing on narrower and more specialized menus—with an objective to enhance quality standards, speed, and service [4].

Increase in food service options

— Restaurants have been losing market share to supermarkets, which have started stocking wide ranges of ready-to-eat meals; further, an increasing number of them have added eat-in areas.

— Additionally, an increase in the number of players offering similar products clustered in the same location is leading to saturation—resulting in fewer unique consumers per outlet.

Technological advancements

— Restaurant chains are adopting new technologies for ordering, payment, and loyalty programs to offer convenient and intuitive applications for customers.

— Analysts foresee creative uses for Google Glass, such as glass-wearing servers using face recognition technology to quickly locate patrons in crowded bars. Data from Apple Pay and other electronic wallet solutions will also make it easier to personalize customer experience.

Environment sustainability

— Restaurants have been focusing on reducing food waste to manage rising costs and to "go green".

— Rising awareness of sustainability, especially among millennials, is forcing restaurants to implement environment- friendly and sustainable practices.

Inclination towards global cuisines

— Increase in preferences for global/ethnic cuisines is prompting restaurants to diversify their businesses.

— According to a survey by the NRA, 80 percent of consumers eat at least one ethnic cuisine per month.

The millennial generation has changed and impacted the entire span of the whole consumer mind-set, regardless of demographic. Consumers are constantly connected and have high expectations regarding quality, sustainability, and convenience.

This cultural mind-set has a greater value on "experience" and "convenience." These empowered consumers shop anytime and anywhere, meaning that companies must get products to consumers where and when they want them in order to stay relevant [53].

Consumers continue to raise the bar for what is considered "fast" and

“convenient,” and restaurants and food delivery companies are reacting with enhanced business operating models to create customized, technology-enabled experiences. With the rapid adoption of even more connected mobile devices across multigenerations, consumer expectations on their path to purchase are evolving quickly into a complex, multifaceted process. For example, today, there are over 64 different paths to purchase versus just 1 in the past 10 years.1 Social sharing has a large impact on decisions and peer-to-peer reviews carry a lot of weight. All consumer-focused companies must understand and react to this power shift. Restaurant operators are emphasizing the quality of service while increasing the direct interaction with customers.

Restaurant chains, especially fine and casual dining, are also attempting to increase foot traffic by expanding their social media presence [1].

Meanwhile, brand and food expectations are also changing. Convenience and health are important, and people want to know where products are coming from. Consumers do not trust traditional media but instead look to reviews before purchasing. In addition, the barrier to enter the market is lower than ever. This presents a challenge for established brands. Small companies are now taking market share, and big brands are not guaranteed to dominate in the same way anymore.

Therefore, with all the myriad challenges facing the industry—changing demographics , advancing technology risks and opportunities, increasing regulations—restaurant companies need to keep a primary focus on innovation. Whether that means being a “first mover” or a “fast follower” in the marketplace is less important than being agile and ready to move fast. It means being aware of the weak signals in the marketplace and having a framework for innovation embedded in your organization in order to be in a position to move when the time is right.

Conclusions to part 2

1. «Rebra&Kotlety» is a new startup, which appeared on the market in 2018. "Rebra&Kotlety» - a true Kyiv gastro - bar on Podil. And this is for a reason. It was

here, in the place of the historical strength of Kyivans, where the resolve and enthusiasm of two friends created a cult of the real Kyiv street food.

2. The diversification strategy achieves growth by developing new products for completely new markets, also, diversification can occur at two levels: at the business unit or at organizational level. The three approaches to diversification or integration are: full diversification, backward diversification, and forward diversification. This type of radical diversification can work if the company is cash rich and feels as though they would benefit from investing in a completely different type of business, perhaps, one that they believe has a better long-term future than their current enterprise.

3. Mission of gastro-bar «Rebra&Kotlety»:

- to modernize Ukrainian food promote a modern chicken-kiev in Kiev;
- make a chicken-kiev on the main Ukrainian street food;
- make the gastro-bar «Rebra&Kotlety»;
- the most delicious and most cozy place in Kyiv; to acquaint Ukrainians and foreigners with Kiev, as with the great city of Europe;

4. To introduce a new model of diversification into the gastro bar of «Ribs&Kotlets», it is necessary to conduct the following economic analyzes:

- Macro Assumption
- Analyze competitors in the market
- Analysis of financial results of the enterprise
- Analyze the cost-based strategy
- Analyze the prices in the menu of restaurants that have already signed contracts with GLOVO
- Set the prices for menu items in GLOVO, taking into account packaging

5. Menu costs refer to an economic term used to describe the cost incurred by firms in order to change their prices. How expensive it is to change prices depends

on the type of firm. For example, it may be necessary to reprint menus, update price lists or re-tag merchandise on the shelf. Even when there are few apparent costs to changing prices, changing prices may make customers apprehensive about buying at a given price, resulting in a menu cost of lost sales.

6. Like many industries, the restaurant industry faces a variety of challenges keeping up with the rapid pace of change driven by the consumer trends and changing demographics. Growing preferences for healthier food options, concerns over environmental sustainability, increased competition from grocery stores, heightened consumer expectations, and rapidly advancing technology are reinventing the traditional dining experience and forcing change on how the industry operates. And the rising spending power of the millennial generation of consumers is accelerating the industry's response to such trends.

7. Consumers continue to raise the bar for what is considered "fast" and "convenient," and restaurants and food delivery companies are reacting with enhanced business operating models to create customized, technology-enabled experiences.

8. Therefore, with all the myriad challenges facing the industry—changing demographics , advancing technology risks and opportunities, increasing regulations—restaurant companies need to keep a primary focus on innovation. Whether that means being a "first mover" or a "fast follower" in the marketplace is less important than being agile and ready to move fast. It means being aware of the weak signals in the marketplace and having a framework for innovation embedded in your organization in order to be in a position to move when the time is right.

PART 3.
WAYS OF IMPROVEMENT DIVERSIFICATION OF SERVICES IN GASTRO-BAR REBRA&KOTLETY

3.1. Developing of new model of diversification of services in gastro- bar

Consumers are dining out more than ever –and grocery shopping less –and their expectations when it comes to what they want from a restaurant are changing. They want their experiences to be quick, casual and flexible, and they often want to "dine out" without actually leaving the house.

Technological innovation has helped online ordering and payments; mobile ordering, payments and engagement; and delivery service all play key roles in the restaurant experience. It has offered new ways to order, pay and engage, and operators are now needing to adapt to changing demand in entirely new ways.

The definition of service has changed. Changes are apparent within restaurants, too. Tech-savvy consumers have altered ideas of what it means to be served well, even in the absence of traditional table service.

Innovation in mobile ordering and delivery capabilities has brought the benefits of fast food to a wider variety of potential competitors, including both restaurants and other types of meal providers. Virtual, delivery-only restaurants are already leveraging lower operating costs to compete with bricks-and-mortar outlets, while boutique chains

are partnering with delivery platforms such as UberEats to expand virtually instead of through new outlet locations. Chains no longer compete only with outlets in their physical proximity, and a premium location will not guarantee traffic generation.

Getting to financial steady-state for new organizations and/or maintaining incremental positive growth for mainstay companies is becoming more difficult, however, because:

- Competition from Internet/mobile-born startups are quick to innovate and can change priorities on a dime
- Changing consumption demands from a changing consumer market will make or break product success far faster than ever
- Explosion of massive automation techniques, like robotics and artificial intelligence, is reducing the human effect of customer service
- Globalization and ubiquitous information sharing are creating real-time service comparison and global rating systems

Digital transformation – which is largely divided into these three categories:

1. Operations and processes: Take a ground-up re-evaluation of the services you deliver to dramatically change the time to market delivery of your products (from months to hours)
2. Customer experience: Purposely identify and understand new customer behaviors and buying expectations with a consumer mindset of replaceability
3. New business models: Shift from “sell product” to “sell service” to “sell usage” to “sell outcome” to “sell network”

Figure 3.1 Three categories of digital transformation

Many of the digital disrupters, including your digital competition, likely have a significantly different business model. We could go in depth in terms of the various characteristics of your business model, including value proposition, customer segments, partner relationships, key assets and activities, etc., which would certainly show major differences:

- Major hotel chains have trillions of dollars worth of property, while online room rental capabilities have none
- Big-box retailers cater to a diverse set of customer demographics, while drone-based delivery retailers focus on urbanites
- Large manufacturers require hundreds of partners to deliver an array of complex machines, while a niche manufacturer only needs a 3D printer and time on its hands
- Major technology companies rely on a solid brand for continued patronage, but new entrants need some samples that fit into the trunks of their car

For the most part, financial model largely fits into this generic description:

Sell product or service; make money – spend money to make product or deliver service – invest profit to make new product or service

It's tried and true, and you can create and deliver a variety of products and services that fit this model. The more profit made, the faster debt is paid, the happier

investors become.

But what happens when your customers are looking for choice and find the exact same product or service available from your competition in dramatically different financial models, including ones that suit their particular financial needs much better? Let's explore those other models:

Sell product – make money then sell service – make money

Not a huge difference from the generic model, but it does create potential for new and recurring revenue. Adding the ability to sell add-on post-sale services not only creates new revenue, but also a level of "stickiness" with the customer due to the ongoing interaction. Instead of buying once and hoping they come back for a newer model later, the continued interaction keeps the brand front and center. The negative of course, is that a poor or declining customer experience will have a dramatically negative effect. It's almost impossible to bring back a customer with a poor experience.

Sell product as a service – make money over time

This model is the big shift from CAPEX to OPEX for all participants. For a customer, it's replacing the financial burden of an upfront cash outlay with ongoing expenses over a period of time (a contractual term or when they stop the service). For the company, it means changing the spending model by taking on the upfront risk of product or service creation and availability, with the potential return of more profit per product over time. This model is preferable for customers looking to manage a predictable cash flow.

Sell product as a service – make money based on usage

While still an OPEX model, the difference in that the burden of profitability is entirely on the shoulders of the company to create enough customers with enough usage over time to compensate for the upfront initial investment in the product creation and expenses over its lifespan. The potential return, however, is a far higher potential

of profit if usage becomes popular. This model has created many cash cows. For customers, the expense is directly controllable and they can spend as little or as much as they need at their discretion.

Sell product as a service – make money based on outcome

As an extension to the usage model, the outcome model helps balance the risk between the seller and the consumer for the cost of the product. The burden of the product investment is still with the company, and the usage over time will still dictate the amount of potential profit, but that risk is now reduced with each customer interaction by jointly taking on the risk for the ongoing or end price. This is the model of "everybody roll up your sleeves" to create an average transaction price that's lower for the consumer [21].

Sell platform services – make money from all participants:

This is a dramatic shift from creating and selling products to creating a network of buyers and sellers for a particular set of products or services. From the consumer perspective, and even your brand recognition as a whole, you may be seen as a provider, but this model is only about making offerings available from a variety of different sellers and earning revenue transactionally as part of the buying experience. The burden of product investment remains with the sellers. The burden of creating a marketplace (both the platform and relationships with all parties) becomes exclusively yours. The time and investment required to create these platforms will be a significant burden, and the potential of failure is significantly high. However, once the network is thriving, net new revenue can be earned by creating new and innovative value for each of the participants in the network and creating logarithmic profits by the simple organic growth of the network alone. The value for the customer, of course, is creating the ultimate venue for choice [57].

Consumer spending on Eating Out in Europe in 2016: USD 881 billion (PPP), representing 27% of global consumer spending on Eating Out [23].

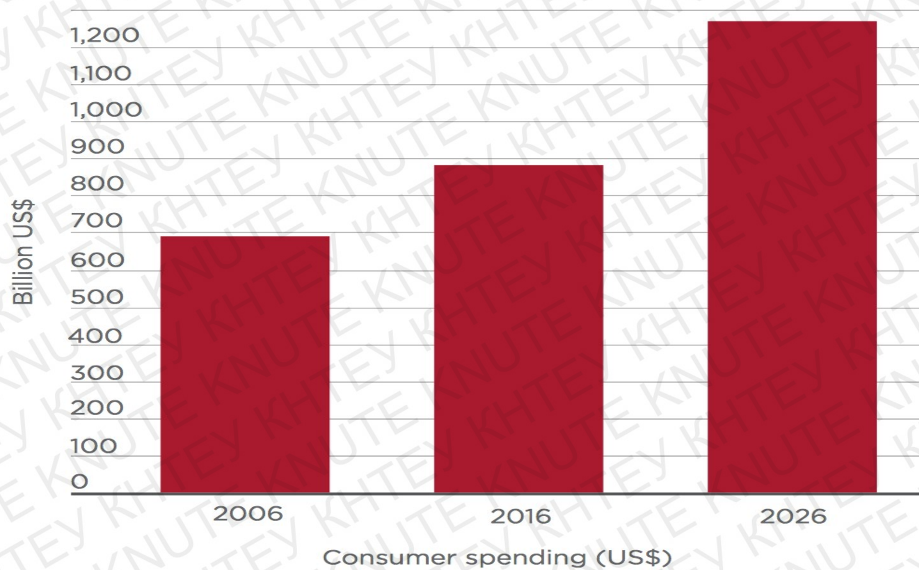

Figure 3.2 Evolution of consumer spending on eating out

In the majority of European countries, the quality of food o er has become increasingly important, in part due to growing nutritional awareness and current preferences (local food, slow food, fresh and organic food). Modern food places need to show a wide variety of features to be successful. Quality and variety of food are the most important, but there are many other features that customers also value [16].

These include design, stylish interiors and distinctive architecture, as a well as natural light, short waiting times and access to terraces and open air tables. The availability of Wi-Fi and free charging for mobiles and laptops is also very important.

With the huge growth in the amount of F&B space, operators are looking for unique, interesting and bespoke locations to di erentiate themselves from their competition. Developers are looking to create di erent zones for fast casual, casual, premium casual and contemporary casual operators. We are also seeing a continued trend of including a unique F&B anchor, whether this is a roof top restaurant or food market. It is clear that landlords are trying hard to stay ahead of the competition.

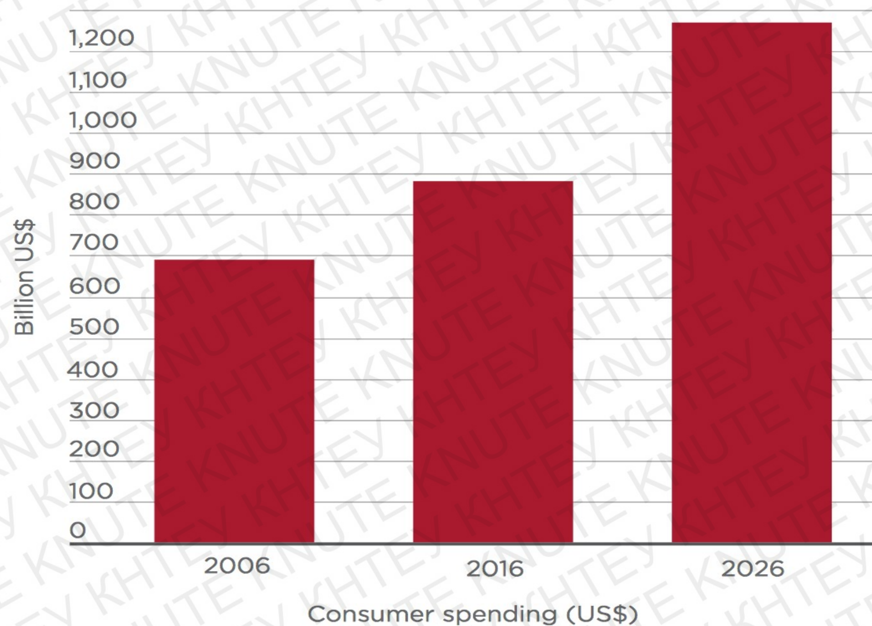

Figure 3.3 Evolution of consumer spending on eating out

While the development of F&B in shopping centres and high streets has been seen across the whole of Europe, the modern food hall market is still in its infancy in a number of countries. Food halls normally integrate traditional fresh food sellers with catering operators. The latter are a mix of multiple retailers already present in other retail formats (shopping centres and/or high streets), independent concepts created speci cally for the food hall and well-known ne dining restaurants that adapt their concepts to the scheme. The combination of newly built food halls and refurbished food markets has become a successful format and should continue to grow, as landlords become more con dent of success and create the best possible space [15].

3.2. Justification of the program of measures on realization of strategy of diversification of services in the gastro-bar

In the second section, an analysis of the pricing policy of restaurants, which have already signed a contract with GLOVO. And also an analysis of competitors menu. I want to suggest placing only top positions in the menu and calculating prices

including packaging and the percentage that the gastro-bar must pay according to the contract.

Online restaurant delivery service has become so popular among consumers. To start, these services are incredibly convenient because they allow consumers to order from home or work without having to travel. Additionally, these services encourage people to browse menus of restaurants they hadn't heard of previously and can also lead to them trying new businesses and cuisines.

According to several studies, as GLOVO delivery continues to grow, it will have a positive impact on the sales and profits of businesses that adopt it.

Figure 3.4 Logo of the delivery conpany

Glovo is a Spanish start-up founded in Barcelona in 2015. It is an on demand service that purchases, picks-up and delivers anything that is ordered through the app. The service is carried-out in less than an hour by independent couriers, called Glovers. Its service is currently available in Spain, France, Portugal, Itale, Chile, Argentina, Morocco, Brazil, Guatemala, Costa Rica, Turkey, Panama, Romania, Peru, Egypt, Ecuador and Ukraine. The app is available for free download for both in the iOS App Store and for Android in the Play Store. It is also usable on the web through website.

The application allows customers to order whatever they want that fits in a motorbike. It has different categories depending on the type of product: food, pharmacy, groceries, courier, etc. Once the Glovo (order) is made, the customer can see by geolocation which glover will deliver the order, where it is

located and the route the Glover will follow. All in real time. The vast majority of the glovers use motorbikes and bicycles.

Summary: It has flat and geometric illustrations with a lot of colors and details. Bluish-green as corporate color, yellow icons and white backgrounds. Animations in tutorials and opening menus.

It allows to select the item and bring it to the basket with a single click. From the list of products which people can see what they have added to the orders and the quantity.

Table 3.1

Benefits associated with partnering with a GLOVO delivery service

№	Advantages	Decryption
1.	Home and drawer menu	– Menu with sections in circles forming a flower. – Use of icons in full color and very detailed. – Search field in navbar. – Delivery location at the bottom. – Drawer menu with Orders, Profile, Promotional code, Invite your friends, FAQ and Contact us.
2.	List of restaurants	– Search for restaurants in navbar. – Filter of type of food as tags with icons underneath. – List of restaurants with professional image as background and info on semitransparent black mask. (Name of the restaurant, short description, delivery time and cost per shipment). – The masks have a gradient on the top and bottom.
3.	Restaurant detail	– Header with image and search field to find dishes inside the restaurant.

		– Card with some info about the restaurant: name, shipping cost and estimated time. – List of dishes divided into sections such as Top sales, Starters, Salads, Meats, etc (headlines). – List with name of the dish, description, price and a button to add immediately to the basket. – Once clicked, the amount, the extras and the option to reduce or eliminate the dish appear.

Continuation Table 3.1

№	Advantages	Decryption
4.	List of the basket	– Quantity, name, short description of the dish, price and buttons to add or remove units. – Delivery address. – Delivery time with a switch to activate “as soon as possible” or “for later”. – Telephone contact. – Price of products + delivery price + total. – Button to finish the order (it is not activated until all fields are completed).

There are a number of benefits associated with partnering with a GLOVO delivery service. (Table 3.1) In addition to increasing brand's visibility and boosting sales, these companies allow to minimize losing customers due to busy signals on phones or long wait times. Hiring a GLOVO service is also a smart choice for businesses with managers and owners who don't want the responsibility of hiring and training an in-house delivery team.

Customers will also appreciate that GLOVO services allow them to place repeat orders and may even have apps that save their credit card information for effortless ordering in the future. Many of these companies are also in competition with each

other in order to attract more businesses, which can also drive down service charges and commissions.

I want to propose such a model of diversification, according to which the owners of the gastro-bar «Ribs&Kotlets» become shareholders of GLOVO. They have a percentage of the number of contracts entered into with restaurants. In turn, the gastro-bar of the «Ribs&Kotlets» sign a contract with GLOVO and adjusts the delivery service. Since in the gastro-bar already exist the delivery service of EDA.UA, but it is not profitable and negatively affects the reputation.

Adding delivery service to the restaurant will help distinguish one from the competition - or at least keep up with them. Delivery will only grow brand if the restaurant already have market presence and a loyal customer base. Potential customers can't order from the restaurant if they've never heard about them.

An analysis of competitors who are already cooperating with the delivery service GLOVO.

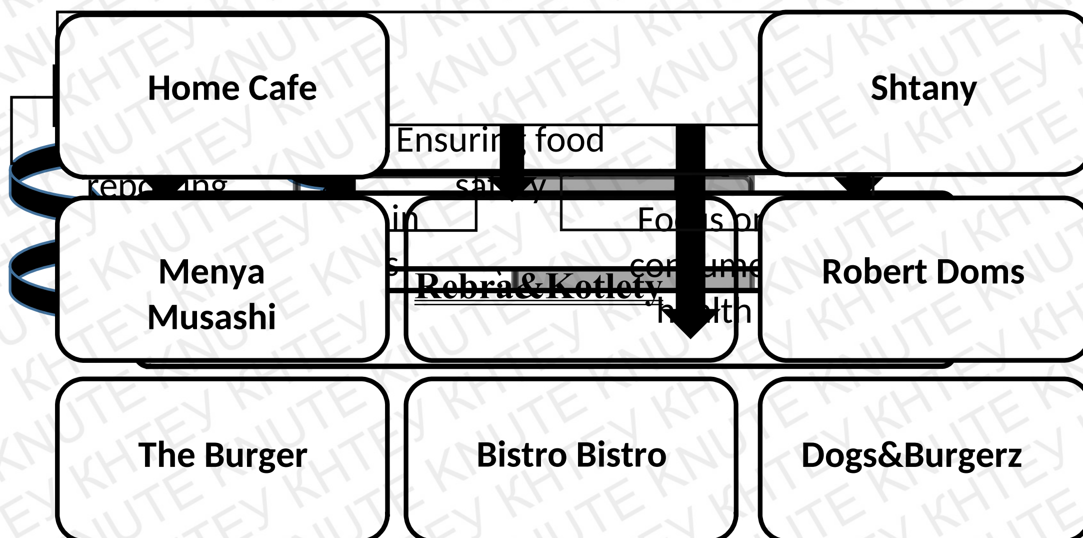

Figure 3.5 Conpetitors in delivery service GLOVO

After analyzing competitors who have already signed a contract with GLOVO (Figure 2.2), it can be seen that restaurant which offer similar products are absent. What is a great advantage for the gastro-bar «Rebra&Kotlety».

Customers drawn to the new online food-delivery platforms have a different set of needs and expectations (Table 3.1)

The opportunity for new delivery is to extend food delivery to a new group of restaurants and customers. Rather than competing directly with the aggregators, new-delivery players are expanding the overall market. However, it is possible that in the future even lower-end traditional-delivery restaurants will migrate to new delivery because they will find it more cost efficient to outsource logistics; thus, new delivery poses at least a potential threat of disruption to the aggregators.

The growth in new delivery is driven by two sources of consumer demand. This first is as a substitution for dining in a restaurant. With new delivery, consumers can dine at home with the same quality food they would enjoy at a fine restaurant.. The second source of demand is as a substitution for meals prepared and consumed at home.

Table 3.2

Customers needs and expectations from new online food-delivery platforms

Customers needs	Decryption
Platforms are sticky	New-delivery platforms, which personalize the ordering experience by storing relevant customer data, are sticky. Once customers sign up, 80 percent never or rarely leave for another platform, creating a strong winner-take-all dynamic, in which the reward goes to the player who can sign up the most customers in the shortest amount of time.
Time is critical	Time is critical. Speed of delivery is the biggest variable in customer satisfaction, with an average 60 percent of consumers across markets citing it as a key factor. The optimal wait time is no more than 60 minutes.

Meals are for home	Meals are for home. Most orders—82 percent—were placed from home, while only 16 percent were placed from the workplace
Orders spike on weekends	Orders spike on weekends. The highest-volume days for the online platforms were Friday, Saturday, and Sunday, when 74 percent of orders were placed.

Worldwide, the market for food delivery stands at €83 billion, or 1 percent of the total food market and 4 percent of food sold through restaurants and fast-food chains. It has already matured in most countries, with an overall annual growth rate estimated at just 3.5 percent for the next five years.

By far, the most common form of delivery is the traditional model, in which the consumer places an order with the local pizza parlor or Chinese restaurant (although many other kinds of restaurants, particularly in urban areas, now offer delivery) and waits for the restaurant to bring the food to the door. This traditional category has a 90 percent market share, and most of those orders—almost three-quarters—are still placed by phone.

However, as in so many other sectors, the rise of digital technology is reshaping the market. Consumers accustomed to shopping online through apps or websites, with maximum convenience and transparency, increasingly expect the same experience when it comes to ordering dinner.

3.3. The prediction of the success of the strategy of diversification of services in the gastro-bar

All kinds of small businesses are being impacted by growing technological

changes within their industries and restaurants are no different. The overall trend that we are seeing is that the pace of change with technology is increasing dramatically which means that it is more important than ever to really understand what the big trends are going to be, so that the restaurant can plan appropriately [24].

There is always competition in Restaurants, but the competition is fiercer than ever

Fierce competition is being bought on buy not only the number of restaurants out there, but the increasing segmentation of the marketing. This means that a generalist family restaurant is having it's fairly large possible market being targetted by restaurants picking off small niches of the target market – vegans, family specific, gluten free, grown local, community, one item speciality, and delivery to name a few of the niches that restaurants are diving into to increase their revenue and profit.

Restaurant Home Delivery

2016 has seen a huge amount of change with delivery. GLOVO has increased market share dramatically in urban centres that they are serving and the introduction of GLOVO has introduced the concept of delivery to many restaurants who last year would never of thought of doing home delivery.

Given the rise of the second generation of online ordering companies, we have seen a lot of change in the market.

The logistics companies require a density of drivers, restaurants and customers and the further from large cities they go, it becomes harder to generate the work and orders to make it cost effective.

Even if you aren't contemplating delivery, the fact that more restaurants are now offering delivery is something that the restaurant need to be aware of, because for some of those customers, they could have been a dine in customer, but instead, they have decided to eat in, making it just that little bit harder to hit the revenue numbers.

Projection of sales in gastro-bar «Rebra&Kotlety» based on scenario approach.

Table 3.3

Assumptions about the introduction of the delivery of the service GLOVO

	The number of orders	Average order check	Expected Order Revenues
Option 1	Min 10	325 UAH	3 250UAH
Option 2	Average 15	450 UAH	6 750 UAH
Option 3	Max 20	520 UAH	10 400 UAH

From this table we can see three scenarios of development. The first is based on the number of orders. (Figure 3.6).

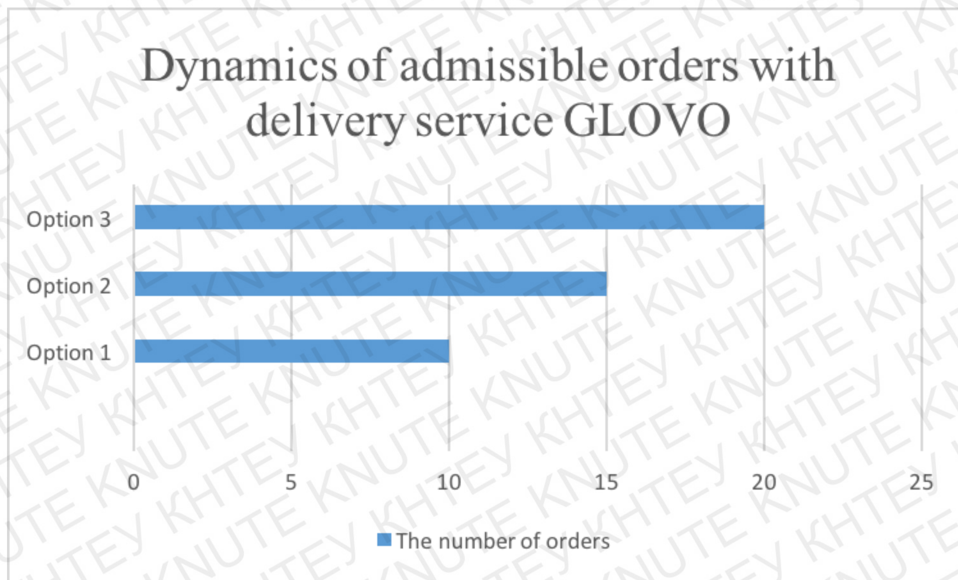

Figure 3.6 Script for revenue generation by order quantity

The second one is based on the average check of the order in delivery GLOVO (Figure3.7).

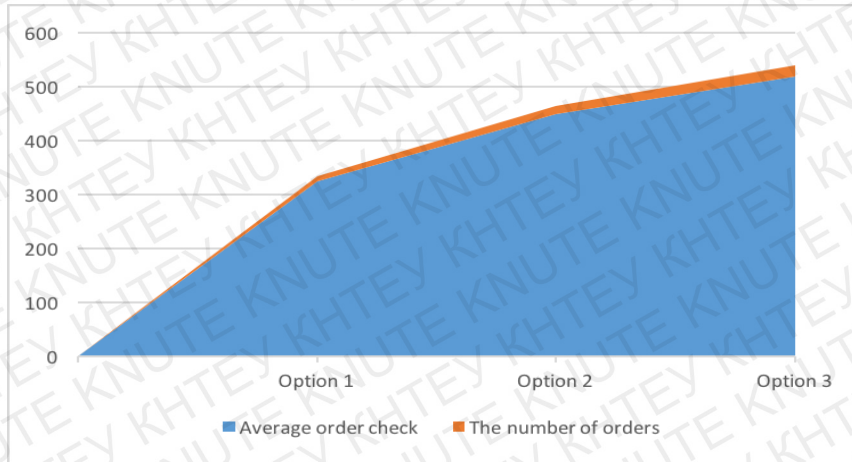

Figure 3.7 Dependence of average revenue

on the number of orders and average check

The third is based on income, which will germinate the gastro - bar «Rebra&Kotlety» (Figure3.8)

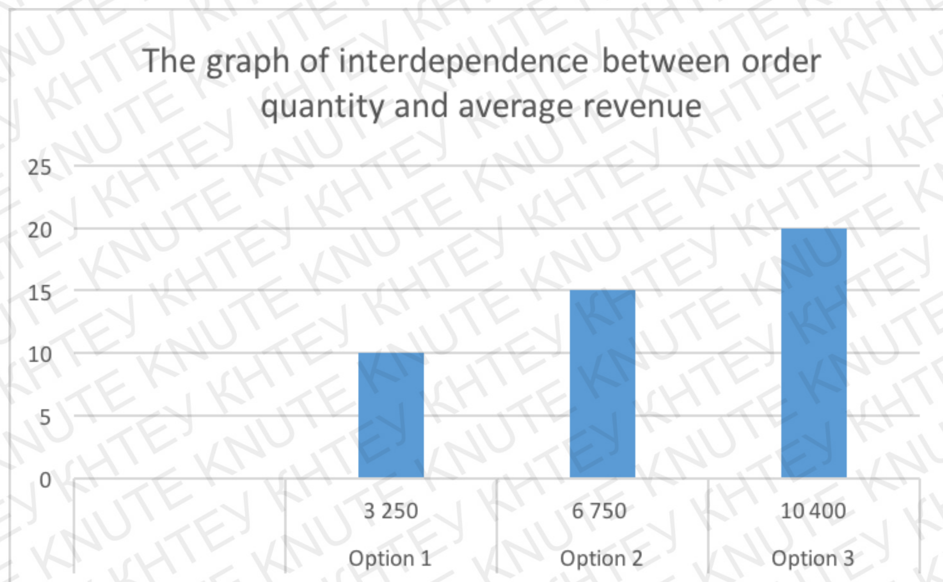

Figure 3.8 Interdependence between order quantity and average revenue

The percentage payable by the gastro-bar of the delivery service is 12%, hence it turns out that the proceeds from the sale of dishes by the delivery service (Table 3.3)

Table 3.4

	Expected Order Revenues	Percentage paid by the gastro – bar Rebra&Kotlety	Estimated earnings after paying the percentage of delivery service

Option 1	3 250UAH	12%	2 860 UAH
Option 2	6 750 UAH	12%	5 940 UAH
Option 3	10 400 UAH	12%	9 152 UAH

Estimated earnings after paying the percentage of delivery service is from

2 860UAH – to 9 152 UAH.

Advantages of signing a contract with a company delivering food GLOVO: there are no costs for the purchase and maintenance of transport, used to transport food from the gastro-bar; no costs for staff maintenance; there is no cost to buy special thermo boxes for food transportation

Disadvantages of Outsourcing to Third Party Delivery Services

Lower profits

Outsourced delivery companies charge a percentage on each ticket they deliver on your behalf. Thirty percent of each bill is fairly typical in this industry, meaning you'll definitely want to consider how many deliveries the business will be making, and the average ticket price. For instance, $10 for homemade hamburger and fries would result in $7 to the restaurant, after the delivery company takes their fee, and before subtract overhead. On the other hand, a $100 order would result in a loss of $30 potential profit, meaning you'll need to seriously consider the margins offered on the delivery menu items offered.

Less control of service variables

Once the gastro-bar hand off a delivery to a third party, there is a lot that they don't have control over. They could mishandle the food, take too long to deliver, or treat customers rudely. Customers will only see your brand when they get bad delivery service. Consider too, that most dissatisfied customers will flat never order again, rather than calling you directly to inform you of their service woes. They'll also refer to your restaurant directly when telling their friends about the cold chicken they received, or the aggressive delivery driver who acted menacingly when they didn't like

the tip offered [33].

Potential brand confusion

A third party delivery can indeed boost business by showcasing your restaurant and menu on their platform. However, this can create a disconnect between gastro - bar and customers, as they're more likely to associate "Herb's Delivery" with providing the best pasta in town, rather than "Luigi's Fine Italian Cuisine." Since third parties take care of the entire ordering and delivery process, it can be hard to distinguish yourself with customers. This can also create obvious issues if they need to switch providers, as their customers will leave with them.

Advantages of Outsourcing to GLOVO Delivery Services

Expand customer base

Consider people who exclusively order delivery or are new to town, who find the restaurant based on a category such as "Southern Barbecue" or "Organic". Many third parties have a loyal customer base and offer filtering/suggestion tools like GLOVO to help clients find the kinds of foods that tickle their fancy. If people never offer a delivery service, or strictly offer in house service relying on the own marketing, these customers might never find this business. This benefit also helps to capture delivery-minded travelers who make a quick stop in the area for an evening or two, and don't have the time or desire to travel to the restaurant and wait to be seated and served.

Increased Revenue Potential

Given a third party service can offer clientele may have otherwise never had access to, it should be a given that revenues can actually rise higher than they would have if they handled own deliveries. By leveraging a reputable third party's customers and resources, can focus on balancing in house and delivery orders for maximum

customer satisfaction. Outsourcing deliveries empowers management to focus on making sure all in house processes are running as smoothly and efficiently as possible [27].

Fewer staffing headaches

Quite simply, GLOVO delivery services handle all the staffing hiccups on their end. Nobody won't have to worry about calling in drivers when the opener calls in sick. This helps all parts in house operations run more smoothly. Front of house staff don't have to deal with increased phone calls related to delivery orders. Lack of delivery staff hanging out on premises means fewer distractions for everyone, including management and kitchen staff. In addition, the restaurant do not liable for issues like automobile accidents or drivers being abused by mean customers.

Conclusions to part 3

1. Consumers are dining out more than ever –and grocery shopping less –and their expectations when it comes to what they want from a restaurant are changing. They want their experiences to be quick, casual and flexible, and they often want to "dine out" without actually leaving the house.

2.Technological innovation has helped online ordering and payments; mobile ordering, payments and engagement; and delivery service all play key roles in the restaurant experience. It has offered new ways to order, pay and engage, and operators are now needing to adapt to changing demand in entirely new ways. The definition of service has changed. Changes are apparent within restaurants, too. Tech-savvy consumers have altered ideas of what it means to be served well, even in the absence of traditional table service.

3.In the majority of European countries, the quality of food o er has become increasingly important, in part due to growing nutritional awareness and current preferences (local food, slow food, fresh and organic food). Modern food places need

to show a wide variety of features to be successful. Quality and variety of food are the most important, but there are many other features that customers also value.

4.Glovo is a Spanish start-up founded in Barcelona in 2015. It is an on demand service that purchases, picks-up and delivers anything that is ordered through the app. The service is carried-out in less than an hour by independent couriers, called Glovers. Its service is currently available in Spain, France, Portugal, Itale, Chile, Argentina, Morocco, Brazil, Guatemala, Costa Rica, Turkey, Panama, Romania, Peru, Egypt, Ecuador and Ukraine. The app is available for free download for both in the iOS App Store and for Android in the Play Store. It is also usable on the web through website.

Conclusions and suggestions

1. Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimizing risk. A smart way to balance downside risk and reward is to diversify investment portfolio to help reduce the volatility of returns over time. Diversifying means investing funds across several different asset classes, such as property, shares, bonds and money market funds, and within this a range of different regions, companies and securities.

2. Corporate strategy forms the foundation when considering the strategic alternatives available to an organisation. The recent global financial crisis has resulted in many chief executives questioning the strategic intent and focus of their firms. Diversification and specialisation are two of the more popular configurations often proposed by corporate strategy theory in order to grow and sustain financial performance, particularly through difficult economic periods.

3. Diversification is a corporate strategy to enter into a new market or industry in

which the business doesn't currently operate, while also creating a new product for that new market. This is the most risky section of the Ansoff Matrix, as the business has no experience in the new market and does not know if the product is going to be successful [29].

4. Of the four strategies presented in the Ansoff matrix, diversification has the highest level of risk and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering means a lack of experience in the new skills and techniques required. Therefore, the company puts itself in a great uncertainty. Moreover, diversification might necessitate significant expanding of human and financial resources, which may detract focus, commitment, and sustained investments in the core industries.

5. Managers may have incentives to diversify and increase firm size even if it reduces shareholder wealth. Management motivation for mergers include risk reduction, greater power and prestige, and managerial compensation. Diversification reduces risk of a manager's portfolio when multiple segments of a firm have imperfectly correlated earnings. In addition managerial compensation tends on average to be positively correlated with firm size, providing managers an incentive to increase firm size through diversification.

6. The economic meaning of diversification, and its impact on the organizational setting of a firm, is related to the degree of "relatedness" or, specularly, of "diversity" of the activity that a firm is going to add to the ones already in place. These attributes refer to the resources needed to implement the new activity and are strictly related to the technology used and/or the market addressed.

7. This means that diversification enables multidivisions of a firm to invest up to the point at which the marginal return on capital equals the cost of capital and ensures that the cost of capital is lower than an undiversified firm's cost of capital (Lang, Larry and Stulz). Thus, profitability could be enhanced through the reduced cost of capital and optimal investment. Additionally, because of the internal market efficiency,

diversified firms can benefit when accessing external funds (Meyer, Milgrom, and Roberts)

8. In the case of very small firms, entrepreneurs lack the resources and managerial skills needed to manage activities in diversified business; diversification is than seen as a survivalist strategy in order to counterbalance the decline in the original business. In the case of larger firms they do not find that diversified firms show higher grow rates that undiversified firms, especially in the long run.

9. Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimizing risk. A smart way to balance downside risk and reward is to diversify investment portfolio to help reduce the volatility of returns over time. Diversifying means investing funds across several different asset classes, such as property, shares, bonds and money market funds, and within this a range of different regions, companies and securities.

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11. Diversification is a corporate strategy to enter into a new market or industry in which the business doesn't currently operate, while also creating a new product for that new market. This is the most risky section of the Ansoff Matrix, as the business has no experience in the new market and does not know if the product is going to be successful.

12. Of the four strategies presented in the Ansoff matrix, diversification has the highest level of risk and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering means a lack of experience in the

new skills and techniques required. Therefore, the company puts itself in a great uncertainty. Moreover, diversification might necessitate significant expanding of human and financial resources, which may detract focus, commitment, and sustained investments in the core industries.

13. Managers may have incentives to diversify and increase firm size even if it reduces shareholder wealth. Management motivation for mergers include risk reduction, greater power and prestige, and managerial compensation. Diversification reduces risk of a manager's portfolio when multiple segments of a firm have imperfectly correlated earnings. In addition managerial compensation tends on average to be positively correlated with firm size, providing managers an incentive to increase firm size through diversification.

14. The economic meaning of diversification, and its impact on the organizational setting of a firm, is related to the degree of "relatedness" or, specularly, of "diversity" of the activity that a firm is going to add to the ones already in place. These attributes refer to the resources needed to implement the new activity and are strictly related to the technology used and/or the market addressed.

15. This means that diversification enables multidivisions of a firm to invest up to the point at which the marginal return on capital equals the cost of capital and ensures that the cost of capital is lower than an undiversified firm's cost of capital (Lang, Larry and Stulz). Thus, profitability could be enhanced through the reduced cost of capital and optimal investment. Additionally, because of the internal market efficiency, diversified firms can benefit when accessing external funds (Meyer, Milgrom, and Roberts)

16. In the case of very small firms, entrepreneurs lack the resources and managerial skills needed to manage activities in diversified business; diversification is than seen as a survivalist strategy in order to counterbalance the decline in the original business. In the case of larger firms they do not find that diversified firms show higher grow rates that undiversified firms, especially in the long run.

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Appendices

Appendices A

Article «Total Quality Management in hospitality industry»

КИЇВСЬКИЙ НАЦІОНАЛЬНИЙ ТОРГОВЕЛЬНО-ЕКОНОМІЧНИЙ УНІВЕРСИТЕТ

INTERNATIONAL HOTEL BUSINESS AND TOURISM

Articles of master programs students
Specialty 073 «Management» (specialization «Hotel and Restaurant Management», «Tourism Management»), 241 «Hotel and Restaurant Business» (specialization «International Hotel Business»), 242 «Tourism» (specialization «International Tourism Business»)

Київ 2018

KNUTE KHTEY

Kyiv National University of Trade and Economics
Hotel and Restaurant Business Department
Tourism and Recreation Department

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THE BENEFITS OF DIVERSIFICATION

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У статті досліджено суть диверсифікації послуг. Проаналізовані різні види диверсифікації. Визначено стратегію диверсифікації та її ефективність. Досліджено переваги та недоліки, пов'язані з кожним видом корпоративної диверсифікації.

Ключові слова: *диверсифікація, стратегії диверсифікації, матриця Ансоффа, Стратегія зростання, види диверсифікації.*

In this article was research the essence of diversification of services. Different types of diversification are analyzed. It is defined the diversification strategy and its effectiveness. The advantages and disadvantages of each kind of corporate diversification are researched.

Key words: *diversification, diversification strategies, Ansoff matrix, Growth Stratege, types of diversification.*

Actuality of the topic Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimizing risk. A smart way to balance downside risk and reward is to diversify investment portfolio to help reduce the volatility of returns over time. Diversifying means investing funds across several different asset classes, such as property, shares, bonds and money market funds, and within this a range of different regions, companies and securities.

The purpose of the article Define diversification strategy, describe some of the reasons why firms diversify, identify and describe different types of corporate diversification, and assess the advantages and disadvantages associated with each.

Research result The food economy is an important and unique part of the country`s economy. The performance of the food economy and the firms that operate in it are regularly described by widely read publications such as Business Week, Fortune, and Forbes. Food economy firms are uniquely different relative to other businesses. Sonka and Hudson identified the following five factors that make the food economy unique from other industries:

- the uniqueness of food for political and cultural reasons;

- uncertainty arising from the underlying biologic basis of crop and livestock production;
- the level of political intervention;
- institutional arrangements that place significant portions of the technology development process in the public sector;
- and differing competitive structures existing in the food economy [5].

Many food economy firms are widely diversified. Various explanations have been offered for this diversification. Many supply chains handling agricultural commodities have similar marketing, transportation, and processing characteristics which create economies of scope and leads to related diversification. Processors with consumer food brands may seek to extend their branding to other related and unrelated food products. For example, Ronald Cotterill notes that food retailers may be able to achieve economies of scope in establishing a retail brand. Michael Lubatkin et al. analyzed three horizontal mergers in the food processing industry and found that economies of scope in marketing might help explain recent diversification efforts [10].

Why Firms Diversify:

- to grow;
- to more fully utilize existing resources and capabilities;
- to escape from undesirable or unattractive industry environments;
- to make use of surplus cash flows [1].

Business growth means an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output:

- increase in the total sales volume per annum;
- increase in the production capacity;
- increase in employment;
- an increase in production volume;
- increase in the use of raw material and power.

There are three types of «Growth Strategies»:

- Intensive Growth Strategies
- Diversification Strategies
- Integration Strategies

Intensive growth strategies or intensification involves raising the market share, sales revenue and profit of the present product or services. The firm slowly increases its production and so it is called internal growth strategy.

Diversification strategies – the firm grows by diversifying into new businesses by developing new products for new markets. It is a corporate growth strategy in which a firm expands its operation by moving into a different industry. Finding new values for new markets is a task of Proactive Strategic Marketing.

Integration strategies refers to the integration of firms involved in defferent stages of the supply chain and expanding the firm's operations through combining with competitors operating in the same industry&doing the same things.

Our objective is to analyze the value of diversification in the food economy and it's four distinct sectors; food processing, wholesale grocery, retail restaurant. Prior research analyzing the value of diversification has focused on the Ukrainian economy as a whole and has suggested that diversified firms are valued at a discount compared to single-segment firms. This study addresses the value of diversification with a more narrow focus, the food economy, rather than the entire economy [4].

Overview of Diversification and Firm Value Literature. Diversification is a corporate strategy to enter into a new market or industry in which the business doesn't currently operate, while also creating a new product for that new market. This is the most risky section of the Ansoff Matrix, as the business has no experience in the new market and does not know if the product is going to be successful.

Diversification is one of the four main growth strategies defined by Igor Ansoff's Product/Market matrix.

Markets		Products: Present	Products: New
	Present	Market penetration	Product development
	New	Market development	**Diversification**

Figure 1. Product- Market Matrix and Growth Stratege (after H. Igor Ansoff)

Ansoff pointed out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, the diversification usually requires a company to acquire new skills and knowledge in product development as well as new insights into market behavior simultaneously. This not only requires the acquisition of new skills and knowledge, but also requires the company to acquire new resources including new technologies and new facilities, which exposes the organisation to higher levels of risk. The notion of diversification depends on the subjective interpretation of «new» market and «new» product, which should reflect the perceptions of customers rather than managers. Indeed, products tend to create or stimulate new markets; new markets promote product innovation [9].

Theoretical arguments suggest that diversification can have both positive and negative effects on firm value. In general, the earlier research (prior to 1980) focused on the benefits of diversification while the most recent (post 1980) literature addresses the costs of diversification [7].

Potential Benefits of Diversification. Gains from diversification may arise from various sources. Economies of scope and managerial economies of scale can provide gains from diversification (Chandler). Wernerfelt and Montgomery suggest that firm-specific resources can be utilized in multiple industries and contribute to gains from diversification.

Another theoretical argument for diversification relates to capital markets and resource allocation. The desire by firms to diversify and form internal capital markets reflects the idea that information held by managers of firms and the external capital market is asymmetric. Managers of firms have information advantages over the external capital market and therefore internal capital markets of diversified firms allocate resources more efficiently than external capital markets (Williamson, Stein). Weston suggests that internal capital markets of diversified firms are more efficient than external capital markets. Stulz extended this argument with the concept that diversified firms create larger internal capital markets and reduce the problem of underinvestment. According to this argument, segments of diversified companies invest in more positive net present value opportunities than comparable single segment firms .

Managers may have incentives to diversify and increase firm size even if it reduces shareholder wealth. Management motivation for mergers include risk reduction (Amihud and Lev), greater power and prestige (Jensen and Stulz), and managerial compensation (Jensen and Murphy). Diversification reduces risk of a manager's portfolio when multiple segments of a firm have imperfectly correlated earnings (Lewellen). In addition managerial compensation tends on average to be positively correlated with firm size, providing managers an incentive to increase firm size through diversification (Jensen and Murphy) [8].

The strategies of diversification can include internal development of new products or markets, acquisition of a firm, alliance with a complementary company, licensing of new technologies, and distributing or importing a products line manufactured by another firm. Generally, the final strategy involves a combination of these options. This combination is determined in function of available opportunities and consistency with the objectives and the resources of the company.

There are three types of diversification: concentric, horizontal, and conglomerate (Figure 2).

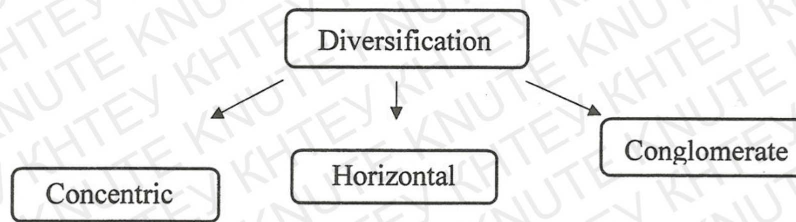

Figure 2. Types of diversification

Concentric diversification. This means that there is a technological similarity between the industries, which means that the firm is able to leverage its technical know-how to gain some advantage. For example, a company that manufactures industrial adhesives might decide to diversify into adhesives to be sold via retailers. The technology would be the same but the marketing effort would need to change. It also seems to increase its market share to launch a new product that helps the particular company to earn profit. For instance, the addition of tomato ketchup and sauce to the existing «Maggi» brand processed items of Food Specialities Ltd. is an example of technological-related concentric diversification. The company could seek new products that have technological or marketing synergies with existing product lines appealing to a new group of customers.This also helps the company to tap that part of the market which remains untapped, and which presents an opportunity to earn profits.

Horizontal diversification. The company adds new products or services that are often technologically or commercially unrelated to current products but that may appeal to current customers. This strategy tends to increase the firm's dependence on certain market segments. For example, a company that was making notebooks earlier may also enter the pen market with its new product. Horizontal diversification is desirable if the present customers are loyal to the current products and if the new products have a good quality and are well promoted and priced. Moreover, the new products are marketed to the same economic environment as the existing products, which may lead to rigidity or instability. Another interpretation horizontal integration occurs when a firm enters a new business (either related or unrelated) at the same stage of production as its current operations. For example, Avon's move to market jewellery through its door-to-door sales force involved marketing new products through existing channels of distribution. An alternative form of that Avon has also undertaken is selling its products by mail order (e.g., clothing, plastic products) and through retail stores (e.g.,Tiffany's). In both cases, Avon is still at the retail stage of the production process.

Conglomerate diversification (or lateral diversification). A conglomerate is the combination of two or more corporations engaged in entirely different businesses that fall under one corporate group, usually involving a parent company and many subsidiaries. Often, a conglomerate is a multi-industry company. Conglomerates are often large and multinational.

Potential Costs of Diversification. The literature also suggests that diversification may reduce shareholder wealth. Diversification can lead to inefficient cross-subsidization of poor performing business segments by profitable divisions within the same firm (Meyer, Milgrom, and Roberts). Jensen argues that an unprofitable business segment which is part a diversified firm invests in more negative net present value projects than their segments likely would as independent firms. Diversified firms have information asymmetry between corporate and division management creating higher administrative costs for diversified firms as compared to single segment firms (Harris, Kreibel, and Ravis; Myerson) [2].

Related and Unrelated Diversification. Prior research has also shown that the effect of diversification on firm value depends on the type of diversification (Rumelt; Christensen and

Montgomery; and Palepu). Diversification is related if it involves business segments that are components of the same supply chain (vertical coordination), supply similar markets, use similar distribution systems, posses similar production technologies, or engage in similar research and development (Salter and Weinhold). Results from prior studies have shown that firms that are diversified into related businesses were usually more profitable than other firms (Christensen and Montgomery; Palepu; and Rumelt). Economies of scope may exist in some industries that allow firms to gain from diversifying in related activities as opposed to unrelated activities. Diversification in related activities has a larger positive effect on firm value than unrelated diversification since human capital and other resources (economies of scope) can be used in related markets.

Similarly, a high quality reputation and branding in one market may be carried over to another related market which provides positive net benefits to the firm (Nayyar). For example, Starbucks Corporation buys roasts whole bean coffees and sells them along with rich, specialty coffees, pastries and confections, and coffee-related accessories and equipment through company-operated retail stores. It also sells premium coffee beans through other channels of distribution, including coffee distributors, hotels, retailers, warehouse clubs, and restaurants; which are collectively called Specialty Operations. Starbucks has essentially exploited economies of scope, managerial economies of scale, and its reputation for delivering high quality premium coffee in their retail stores to expand sales in their Specialty Operations. Product characteristics, industry organization, and market structure may therefore affect the ability of firms to add value through diversification.

Goal of diversification. According to Calori and Harvatopoulos (1988), there are two dimensions of rationale for diversification. The first one relates to the nature of the strategic objective: diversification may be defensive or offensive [3].

Defensive reasons may be spreading the risk of market contraction, or being forced to diversify when current product or current market orientation seems to provide no further opportunities for growth. Offensive reasons may be conquering new positions, taking opportunities that promise greater profitability than expansion opportunities, or using retained cash that exceeds total expansion needs.

The second dimension involves the expected outcomes of diversification: management may expect great economic value (growth, profitability) or first and foremost great coherence with their current activities (exploitation of know-how, more efficient use of available resources and capacities). In addition, companies may also explore diversifica diversification just to get a valuable comparison between this strategy and expansion.

Risks. Of the four strategies presented in the Ansoff matrix, diversification has the highest level of risk and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering means a lack of experience in the new skills and techniques required. Therefore, the company puts itself in a great uncertainty. Moreover, diversification might necessitate significant expanding of human and financial resources, which may detract focus, commitment, and sustained investments in the core industries [6].

Therefore, a firm should choose this option only when the current product or current market orientation does not offer further opportunities for growth. In order to measure the chances of success, different tests can be done:

• The attractiveness test: the industry that has been chosen has to be either attractive or capable of being made attractive.

• The cost-of-entry test: the cost of entry must not capitalize all future profits.

• The better-off test: the new unit must either gain competitive advantage from its link with the corporation or vice versa.

Companies may become diversified by entering into new businesses on its own, by merging with another company or by acquiring a company operating in another field or service sector. One of the challenges facing diversified companies is the need to maintain a strong strategic focus to

produce solid financial returns for shareholders instead of diluting corporate value through ill-conceived acquisitions or expansions.

Benefits of diversification can be classified as operating and financial characters.

Benefits of operating synergies are as follows:

- Cost saving or benefits from economies of scale (Chandler, 1990) – may be as a result of a reduction in per-unit costs deriving from an increase in size or scale of a firm;
- Benefits from economies of scope (PanzarandWillig1981)–arise when firms are able to share some inputs with other business segments in order to offer a broader range of services and products;
- Revenues enhancement – stems from the monopoly power or the advantage of the more complete product line. When firms encounter the mature stage of their market or industries, firms may need to find an alternative for continuing growth, new opportunity and/or more profitability; all of which can be achieved by pursuing corporate diversification;

Benefits of diversification from financial synergies are described as follows:

- Co-insurance effects – firms could obtain a diminished variability of corporate earnings through the portfolio diversification to unrelated businesses. Diversification could reduce the chances of bankruptcy by going into new products or markets because diversified firms pool unsystematic risk and reduce the voluntarily in operating cash flow. Firms could also be beneficial from unutilized debt capacity or reduced tax liabilities of an acquired firm subsequent to diversification by merger.
- Internal capital market – diversified firms can allocate resources to their best use by forming an internal capital market where the internally generated cash flows can be pooled.

Conclusions. Consistent with the general consensus of prior research, we find that firms in the food economy choose to diversify and related diversification enhances firm value. Besanko et al. noted that firms who diversify according to a core set of resources and integrate the business that is being acquired tend to outperform firms that are not able to achieve these synergies between diversified businesses units. This suggests that these successful firms are able to achieve economies of scope which allow them to reduce transactions costs and make it efficient to organize diverse business units within one business. The reduction of transactions costs through diversification suggests that these diversified firms may be more profitable than single industry firms. Future research on the food economy should include further analysis of firms that are able to repeat their performance over time to determine whether diversification remains profitable in the long-run.

Processing firms are most likely to diversify which suggests greater opportunities for economies of scope or scale. The processing sector had the greatest amount of assets per firm and large and persistent sector effects which may suggest greater economies of size as well. Restaurants firms were least likely to diversify. This sector had the greatest amount of entry and exit, fewer assets, and the lowest profits relative to the other three sectors in the food economy.

The amount of leverage (debt-to-asset ratio) has a negative effect on excess value in the retail sector suggesting that increased amount of debt results in negative excess value. This finding was positive for the wholesale and restaurant sectors. The retail sector has more leverage, assets, and sales relative to the other three sectors which suggest that this sector has unique characteristics. Thus, it is important to look at individual sectors within the entire economy when evaluating the impact of diversification rather than aggregated sectors in an economy. Industry characteristics such as asset size and barriers to entry may influence whether firms in that industry choose to diversify.

There are also important implications regarding public policy for firms interested in diversifying laterally into related food industries or vertically up and down the food chain. If the market perceives diversified firms as a greater value, then there may be potential benefits associated with consolidation and merger activities in the food economy. The results from this study suggest that diversification in the food sectors contributes to positive excess firm value.

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INTERNET MARKETING IN UKRAINE: PROBLEMS AND PROSPECTS

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У цій статті розглянуто поняття інтернет-маркетингу, його елементи і характеристики. Проаналізовано перспективи та проблеми інтернет-маркетингу в Україні. Вивчено ціни на вітчизняному онлайн-ринку та визначено домінуючі тенденції.

Ключові слова: *Інтернет-маркетинг, онлайн-ринок, домінуючі тенденції, ціни.*

In this article was considered the concept of Internet marketing, its nature and characteristics. The prospects and problems of Internet-marketing in Ukraine are analysed. Prices in the domestic online-market are studied and the dominant trends are set out.

Key words: *Internet marketing, online-market, dominant trends, prices.*

Appendix B

Financial Statement for year 2017

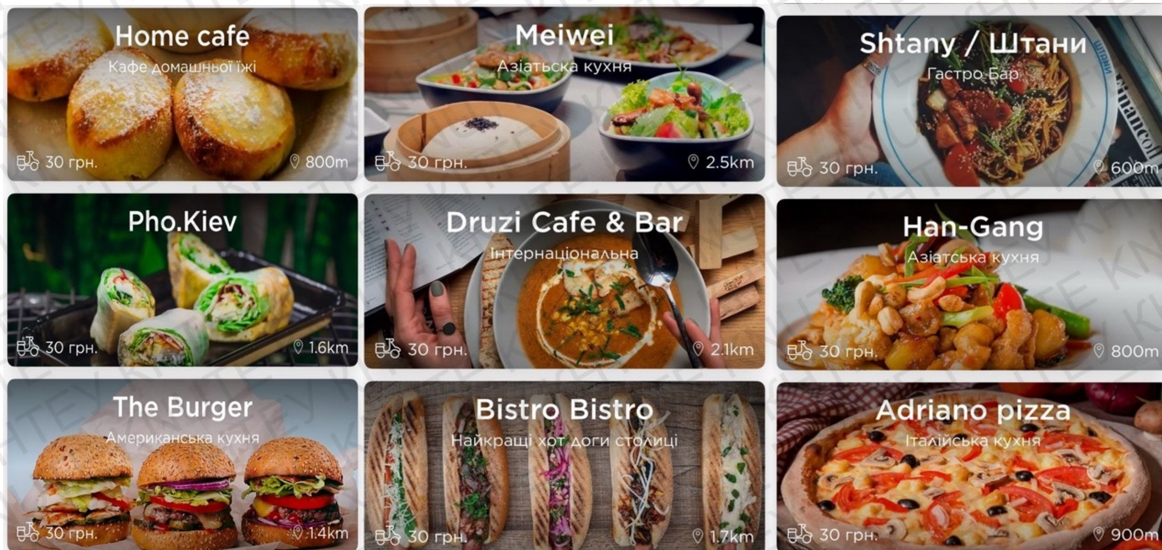
			1801007
Article	Line code	For the reporting period	For the same period of the previous year
1	2	3	4
Net income from sales of goods (goods, works, services)	2000	6 578,3	5 720,3
Other operating income	2120	-	-
Other income	2240	-	-
Total Income (2000+2120+2240)	**2280**	6 578,3	5 720,3
Cost of sold products (goods, works, services)	2050	2 192,7	2 118,6
Other operating expenses	2180	2 304,2	1 650,0
Other usual expenses	2270	1 900,0	1 800,0
Total cost (2050+2180+2270)	**2285**	6 396,9	5 568,6
Financial result before tax (2280-2285	2290	181,4	151,7
Income tax	2300	32,652	27,306
Net profit (2290-2300)	**2350**	148,748	124,349

Appendix C

Logo of the gastro – bar Rebra&Kotlety

Appendix D

Conpetitors in delivery service GLOVO



Appendix E

A photo of a special thermo bag of employees of the delivery company GLOVO

Glovo

KNUTE KHTEY