

**Microeconomics**

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**PROSPECTS FOR DEVELOPMENT
OF RESTAURANT BUSINESS
IN AGRARIAN AND INDUSTRIAL STATE****Abstract**

The role of the service sector in the development of the national economy of the country is substantiated. It is proved that the artificial cultivation of the service sector in the conditions of degradation of the branch structure and the reduction of effective aggregate demand can not bring it into the rank of the engine of economic development. Methodologically substantiated the author's position regarding the synergy of the level of household income, the structure of their expenditures, the investment attractiveness of the country and the productivity of its economy. The direct-to-person segment of the service sector is also characterized by technological and technological innovation, which is reflected in the deepening of personalization of the provision of catering services.

Key words:

Restaurant business, services, solvent demand, foreign direct investment, labor productivity.

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JEL: D1, O14.

Problem Statement

Government officials and experts have been trying to offer social and economic development directions to Ukraine during the period of Ukraine's independence. It was civilized that the Ukrainian ethnos gravitated toward the Western path of development, which predetermined the chosen model of transformation. However, as a result, the country did not receive an oligopoly based on its welfare, not on the basis of population welfare, democracy. In recent years, Ukraine has been at the forefront of Europe's poorest countries, which could not help but curtail domestic demand and the degradation of the national economy.

Analysis of recent research and publications

The issues of restaurant business have traditionally been in the field of food researchers and practitioners, who have focused their scientific research on the organization and how they are offered. From the aspect of economic theory, the development of the economic system is sufficiently thoroughly investigated and possible options for its implementation have been formed.

Highlighting unexplored parts of a common problem

However, in the context of de-industrialization of the national economy of Ukraine, its service component remained unsupported by effective aggregate demand.

Setting objectives

The purpose of this article is to provide a theoretical and methodological justification for the mutual influences of the sectors of the national economy and to find a mechanism for its innovative development.

Presenting main material

The logic of evolution for the subject of study implies an upward trend, when each subsequent manifestation is better than the previous one. The evolution of the economic system is to move to more complex ways. And there can be no simple solutions. The hypothesis of the three sectors of the economy J. Fourastié interprets socio-economic evolution as a gradual shift of the emphasis of economic activity from the primary through the secondary to the tertiary sector. Thus, in the first phase, more than 70% of the workforce is employed in the primary sector, in the second phase – 20%, and in the third phase, less than 10% is already sufficient for its operation. It should be immediately noted that in developed countries, less than 25 percent of the labor force, to the highest standards, repeatedly provides food security. Evolution is a difficult thing, regression is much easier.

Thus, the national economy of Ukraine has easily transformed from an industrial economy of a command-administrative type into an agrarian-industrial one of the same administrative type, and now it has all the potential to become a kind of phenomenon – the «agrarian super state». The reason for this is given by the number of bureaucratic apparatus (BA) of the state, the share of its property in the economy and the recommendations of the so-called leading experts. Thus, from 1990 to 2015, the number of officials in Ukraine increased six fold from 60,000 to 370,000. At the same time, the public sector in Ukraine is still large – as of 2014, the country ranked ninth in the world in terms of government spending in GDP. At the same time, the institutional capacity of the state – the ability to effectively manage, regulate the economy, curb corruption, etc. – is very low, at the level of third world countries. According to the State Statistics Service of Ukraine (letter dated 04.09.2017 № 04.1-07/137-17), the most significant state is present in agriculture, forestry and fisheries – 55%, in transport, warehousing, postal and courier activities 23% in industry 15%. The share of net income from the sale of products of public sector economic entities was 66, 30 and 17 percent, respectively.

However, there are also significant differences. At levels that do not generate large corrupt revenues (not of interest to the BA), the market economy prevails. Thus, in the provision of temporary settlement and catering services, the

share of state property is 5.2%, and the share of net income here is only 2%, in wholesale and retail trade; repair of motor vehicles and motorcycles 2.2 and 1.1% respectively. The Armev curve shows that when economic decisions are made mainly by the state, economic growth is low, as a high level of taxation inhibits the spirit of entrepreneurship and motivation to work, which ultimately leads to low investment productivity and inefficient use of resources.

In particular, the services sector, which is considered to be a tertiary sector of the economy, is a kind of recourse. Thus, as a result of the 2014–2017 reform, the financial and banking system suffered significant reputational and material losses, which was reflected in the results of its activities. The share of state-owned banks in bank assets increased to 52% and that of foreign capital to almost 30%, which significantly reduced the influence of banks with Ukrainian capital. Thus, the state and foreign banks will determine the financial policy for domestic enterprises. For the fifth year, education and medical services are in a state of permanent reform, the end result of which is not clearly presented even in the expert environment. Entrepreneurs who provide the rest of services, depending on the degree of realization of the pyramid of needs of different sections of the population, are trying to gain a foothold in the achieved positions.

The restaurant business in Ukraine has also undergone significant changes and transformations. Thus, in the UkSSR, the number of restaurants in cities was so small that getting into it was already considered luck, and customers did not pay special attention to the so-called «non-intrusive Soviet service». At the same time, the public demand for catering services of the elite segment was so high that the restaurant business was one of the first to realize the entrepreneurial potential of the population. However, the rapid curtailment of aggregate demand in the 1990s put it in a «standby position».

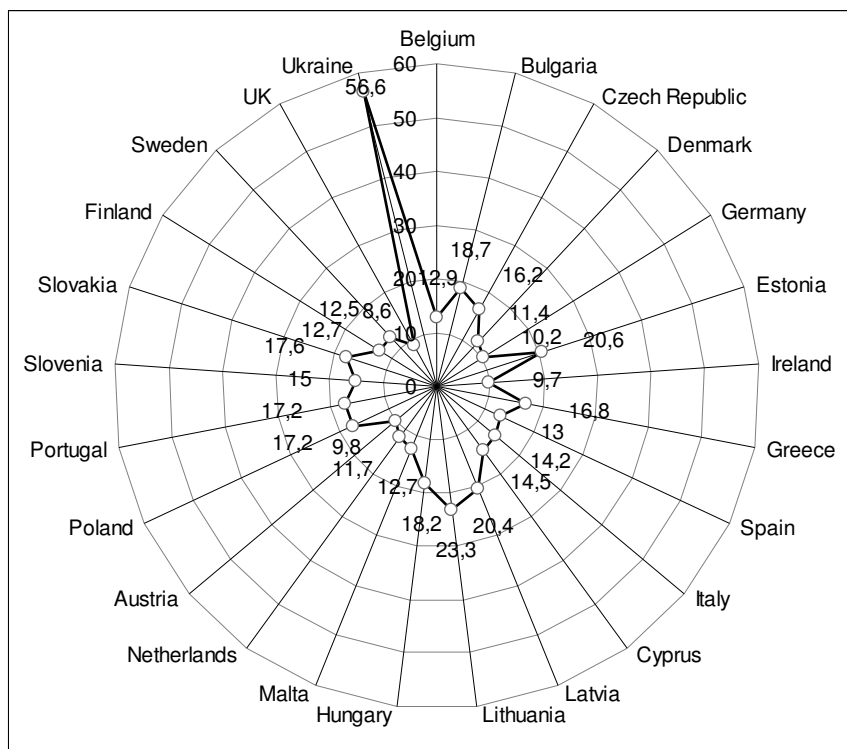
According to the restaurant consulting company, 20 thousand 578 establishments with a staff of 15 thousand were employed in the restaurant business of Ukraine at the beginning of 2014. For comparison, only in Paris there are more than 10 thousand restaurants and no less than a brasserie, which (for example, the well-known two-storey Brasserie-Lipp) may well be considered the highest quality restaurant in Ukraine. In the United States, in 2010, the number of catering establishments reached 1 million, employing 13 million, accounting for about 10% of the national labor force and leading the industry to second place. On any given day of the year, US citizens spend more than \$ 1 billion at catering establishments.

Nowadays, in the expert environment, the beginning of 2014 is considered to be a kind of benchmark for the level of economic development of the country. Among the factors that most affected the Ukrainian food market, restaurateurs include lack of tax reform, lack of available credit, hryvnia devaluation, withdrawal of capital from the country, high utility tariffs, and a significant decrease in the number of food importing companies (fish, seafood, vegetables, berries, meat, cheeses) and, ultimately, lack of competition in the market for imported products, leading to a constant rise in prices of raw materials.

The choice of dishes and wines is essential in the process of menu pricing. Thus, pricing is carried out in accordance with planned costs and revenues. The rent, the number of places in the restaurant, the cost of the dishes all matter, but no matter how attractive the establishment and its prices, it can only be visited by one who has enough money for it. Statistics show that the population of developed countries spends up to 10 percent of their income on food. So, the average American family spends only 6.6% of their family budget on food purchases. Adding to restaurant visits and catering, however, the share of food costs increases to only 11%. In general, US residents spend more than \$ 1 billion daily visiting restaurants.

Figure 1

The share of food expenses in total consumer spending in Ukraine and individual EU countries in 2014



Source: <http://edclub.com.ua/analytika/na-shcho-vytrachayut-koshty-domogospodarstva-ukrainy-ta-yes>

In Pakistan, the average family spent about 47.7% of their family budget on food in 2014. On average, in Ukraine, the share of household cash expenditures on food – in 2016 was 47.8%, two years earlier this indicator was at the level of 37%. Even the most affluent Ukrainian households spend, on average, a larger share on food than average households in developed countries, says Kyiv's economics professor O. Kupets.

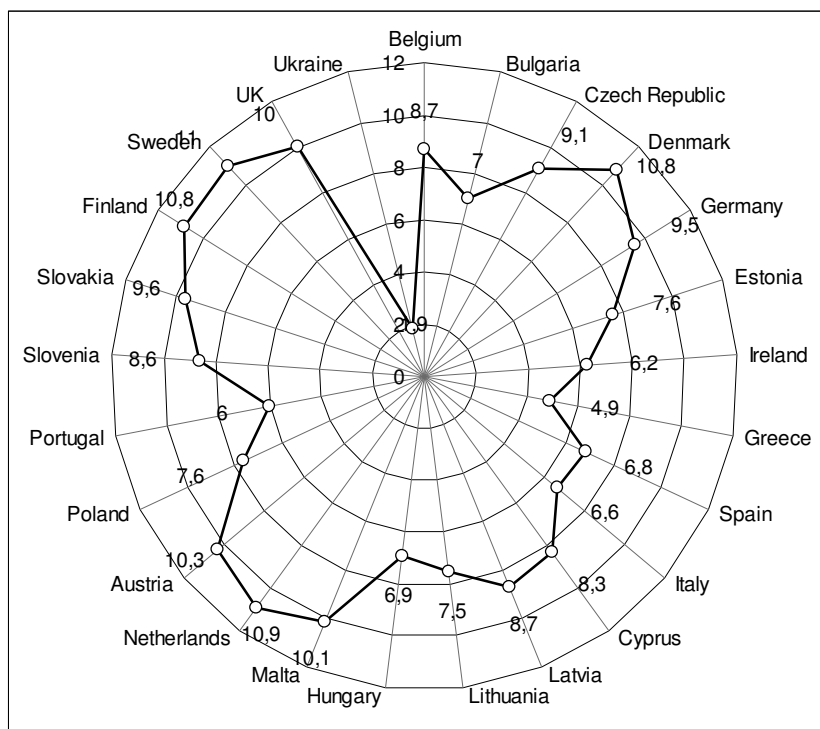
The hotel and restaurant business is essentially the basis of a broader scope of business activity – tourism, which in turn is divided into domestic and international. So in rich countries domestic tourism is a base for international development. In other words, the business in the market does not offer anything new, and its capacity is working on the verge of production opportunities. In this way, developed countries hold world championships in various sports, using existing high quality infrastructure for this purpose, giving the world extra evidence of their competitiveness. Instead, countries that try to appear advanced when, under the pressure of various circumstances (often corrupt), are granted the right to conduct such competitions by international federations, spend a disproportionate amount of money from the state budgets.

So for the 1998 World Cup, France spent \$ 2 billion on stadiums and infrastructure. The 2002 World Cup in Japan and Korea, whose teams are not part of the elite of world football and the cost of stadiums and infrastructure increased to \$ 4 billion, instead of «football» Germany for the World Cup 2006 for «trapping» stadiums and infrastructure spent only \$ 2.9 billion Even South Africa, whose African national team is a solid football midfielder, has spent \$ 3.5 billion on stadiums and infrastructure for the 2010 World Cup. So for the 1998 World Cup, France spent \$ 2 billion on stadiums and infrastructure. Instead, the 2014 World Cup in Brazil's «most footballing» country has already cost \$ 14 billion. The Brazilians are still paying for the «benefits» they brought them, not to mention the 2016 Olympics – empty stadiums collapsing, GDP falling by 4% and another jump in unemployment. Russia's spending on the 2018 World Cup in August 2014 was estimated at \$ 16.8 billion. However, due to the jump in the exchange rate, despite the increase in ruble expenses, in dollar terms they have fallen substantially – to 9.62 billion dollars.

Ukraine spent more than \$ 5 billion on preparation for Euro 2012 budget funds being only one of the co-organizers of the championship. Therefore, such facilities remain a burden on local budgets, such as the sports Arena Lviv, airports in cities that hosted championship matches, and so on. That is, even such significant growth accelerators as world-class events, artificially introduced into the business environment of oligarchic-type countries, do not lead to economic development and prosperity.

Figure 2

**The share of cultural expenses in total consumer spending
in Ukraine and individual EU countries in 2014**



Source: <http://edclub.com.ua/analytika/na-shcho-vytrachayut-koshty-domogospodarstva-ukrayiny-ta-yes>

For example, in 2014, households in Ukraine spent 57 percent of their income (2 thousand 800 euros) on food consumption, 3 on restaurants and hotels, and 2 on culture and leisure. In EU-28 2014, consumer spending per household amounted to 25 thousand 10 euros, of which 12% for food, culture and leisure 9, restaurants and hotels 8. If the household, which is at least two adults, spends on average over The hotel and restaurant business has very limited domestic demand and should consider increasing international arrivals as a promising growth area. Moreover, the situation contributes to this. So the average price of a «big poppy» in the McDonald's restaurant chain in the US in January 2018 was \$ 5.28, while in China it cost only \$ 3.17, so according to the «Big Mac index» the

yuan is undervalued by 40%. In Ukraine, in January 2018, the Big Poppy cost \$ 1.64. and, according to The Economist estimates, the hryvnia against the dollar is undervalued by 69%, and the hryvnia exchange rate should be around 8.9 hryvnia for one dollar. Thus, a US tourist for the usual price of a popular sandwich in Ukraine can consume more than three units.

Well-known world-class low-cost Ryanair specializes in transporting British tourists on «day off» to «cheap entertainment» cities. Despite the ambiguity of such tourist inbound streams, Ukraine has little to offer to tourists from developed countries besides «cheap entertainment». Eating even expensive EU-15 restaurants in Kiev, Lviv or Odessa is cheap for EU-15 citizens. And it is advisable to take advantage of this opportunity of the hotel and restaurant business of Ukraine, working on the border of its production possibilities. There is room for growth. Thus, according to the restaurant consulting company, the occupancy of the restaurant market at the end of 2015 in Kyiv was – no more than 70%, in Lviv and Odessa – no more than 50%, and in tourist places of the Carpathians – no more than 20%.

Nowadays, a kind of tourist destination – «living in Ukraine» has become popular among pensioners of countries where domestic migrant workers are employed. The size of retirement benefits gives them the opportunity to rent housing, to eat at restaurants at a higher level than at home. Another attraction is the low cost of dentist services, and when the cost of treatment is much less than similar costs at home, people take the opportunity. In this case, no arguments can be convinced that explain the low cost of labor and its low productivity. The Ukrainian dentist on imported equipment using imported consumables, in the ordinary segment, provides significantly cheaper services and caters to more patients than its Italian dentist.

IMF Representative J. Lungman stated that Ukraine has no opportunity to raise the minimum wage in 2018 to 4 thousand UAH 200. He noted that the IMF's position on this issue has always been unambiguous: raising the minimum wage is possible only in the presence of economic grounds. Today, according to the IMF, spending is not economically feasible. Economic reasons for increasing the amount of remuneration for work are the increase in labor productivity, which is quite true. However, the interpretation of the situation from this point of view contributes to the dominance in the expert environment of rhetoric that the national workforce needs more and better work, and then it will come to raising wages. At the same time, there is another explanation for the low labor productivity – the low technical and technological quality of the jobs, the mismatch between their numbers of the national labor force and so on. The Minister of Social Policy of Ukraine informed that during 2014-2015 the number of jobs decreased by 3 million units and the employment rate was 56%. With such an interpretation of the economic situation, the emphasis on responsibility for the situation shifts from the workforce to business and the state. The state should not only create conditions for the prosperity of the oligarchic system, but on the contrary, create

a competitive environment, crushing monopolies, attracting foreign direct investment, and so on. In December 2017, for the first time in recent years, the European Business Association recorded a fall in the investment attractiveness index of Ukraine. According to the results of the second half of the year, the investment attractiveness index was 3.03 points on a 5-point scale, whereas six months earlier it was 3.15 points.

According to Ernst & Young International Consulting Company, due to foreign direct investment in the Ukrainian economy, 4 thousand 547 jobs were created in 2016 and 850 in 2015. At the same time, 4 thousand 547 jobs out of the number of unemployed are only 0.045%, a year earlier it was a miniscule 0.0085%. In Serbia, with a population of 9 million, FDI created 10 thousand 631 jobs and 16 thousand in 2015. 396 years later, Slovakia with a population of 5.4 million people respectively 9 thousand 564 and 8 thousand 308 jobs. For comparison, in one of the smallest regional center of Ukraine – Ternopil, at the cotton mill in the 1970's, there were 9,500 employees, and nowadays, a monopoly position on a nation-wide scale is provided to 700 people, and this did not happen as a result of the NTP's achievements.

The United Kingdom's unemployment rate in 2016 has fallen to a minimum over the past 11 years, stopping at around 5% in the last quarter. Overall, 1 million 670,000 people remain unemployed in the United Kingdom, with employment in the country at over 74%. 0,5%.

The service is a single use product that is produced in exact accordance with the customer's request. Among its differences from material goods, scientists call the impossibility of storage (formation of stocks), irreversible loss in case of no consumption. The very rhetoric of inability to do something and the loss of something aligns the desire to remedy the situation, or puts such activity in an imperfect position. However, business often has to deal with the need to sell a product that is in low demand at below cost, overdue goods and more.

At the same time, there are these types of services that provide on the basis of technological combination of certain goods. For example, catering services are about cooking, serving it and creating an appropriate atmosphere in which the service is consumed. However, the real basis of such services – food – is tangible, perishable goods. Now, one of the hallmarks of a restaurant's success is the lack of refrigerators in the kitchen. That is, restaurateurs are moving in the direction of minimizing losses, although it is unlikely to make up for the downtime of rented premises or staff. In this case, the restaurant business is almost a perfect economy: everything that is produced is consumed. The logical question then is: why do more than half of restaurants go bankrupt during their first year?

Well-known restaurateur K. Egerton-Thomas of the United States believes that the main reason for the bankruptcy of the newly opened restaurants is the depletion of the «operating fund», which allows it to be kept «afloat» until the institution begins to make a profit. He is convinced that such an operating fund is

the key to the viability of any restaurant and the greater it is, the more likely it is to succeed p.50. That is, the problem of profitability depends largely on the length of the period of forming the loyalty of the restaurant's customers. Of course, a novice restaurateur who was a mayor, an outstanding athlete or singer is more likely to attract customers and start making money. Thus, the search for ways to accelerate the process of forming customer loyalty is a factor in the commercial success of the catering establishment.

The restaurant, as a leisure venue similar to cultural establishments, also has its experienced customers – gourmets and oenophiles, who know which dish suits another, what drinks to drink and in which case. However, the need to visit catering is sometimes much more banal – it is simply tasty to eat, to talk with friends, and a waiter, sommelier or restaurateur will come to the rescue of a not-so-familiar visitor.

In general, luxury segment restaurants are currently experiencing serious problems in the market. Many are on the verge of survival. More than 60% of such restaurants are dated. For example, many owners open restaurants on their premises. In this case, the issue of rent is not worth it, and the support of the restaurant «afloat» does not require significant investment. There are situations when a wealthy man opens a restaurant for his wife, and it is not uncommon for him to have such a restaurant easier than to close it. If we talk about the luxury segment as a whole, experts estimate that it is feeling rather uncomfortable now, with the biggest drop in sales.

In the luxury segment, the average check per person is 500 UAH. and above. In the segment Medium / Medium +, check per person – from 100 to 250 UAH. Check up to 100 UAH. at present prices are fast food. Brand new restaurant formats are emerging – the most unexpected and unusual of these «restaurants – moods». The peculiarity of such a restaurant can be related to the interior, the way of serving dishes, entourage, etc. However, it is good for tourists, but this way you do not get a regular visitor. Creative cannot replace the essence of the term «restaurant» – the place where a person comes to eat.

Visitors have come to appreciate the highly specialized restaurants. Currently, there is a trend where customers are less and less trusting restaurants that offer all the cuisines of the world in one menu. Guests want the chef to be a high-level professional and are willing to visit establishments that offer a limited number of menu items – provided they have unique recipes and great taste. Due to the availability of information, Ukrainians have become gastronomically literate in their personal journeys now they need authentic dishes, not just a fancy menu item. For restaurant guests, a very important factor is confidence that quality is guaranteed here. It is good for building confidence when using open technology in a restaurant, where visitors can see who is cooking, what their hands look like, the surface on which they cook, dishes, equipment and more. Today, business margins are at the break-even point. According to «Restaurant Consulting», in the leading restaurant market of Ukraine – Kiev, at the end of 2013, 1 thousand

692 restaurants operated, and two thousand years later – 1 thousand 492 establishments. In 2014-2015, 204 restaurants and cafes left the market: for the first year – 119, for the second – 85. In particular, the occupancy rate of the restaurant market at the end of 2015 in Kyiv was no more than 70%, in Lviv – no more than 50%, Odessa – not more than 50%. In tourist places of Carpathians – no more than 20%. In «restaurant consulting» calculated that now the cost of the cost of the dish is in the kitchen from 150 to 200% (before the crisis was 250-300%), the bar – 270-300% (was 350–400%).

Conclusions and prospects for further research in this area

Although at first glance, the restaurant business may need IT support, the use of appropriate software will maximize compliance of the facilities offered to the requests of guests who have visited at least a few times at a particular establishment. Well-known restaurateurs are now blogging on social networks, their profiles are set up for feedback and they are ready to make changes to their business in order to meet customer expectations.

Currently, the so-called bounty company is a common channel for promoting startups in the crypto environment, the essence of which is to increase its popularity and awareness. In other words, a startup orders the promotion of its brand from freelancers who have accounts that meet certain criteria. Of course, a restaurant, if its activities are not based on a unique organization or innovative cuisine, you will not name a startup, but the awareness and popularity it is absolutely necessary. Thus, by engaging the bounty company in the promotion of food services, the restaurant can significantly shorten the period of profit without profits and become a successful and competitive business.

Technologies will make the restaurant business more personalized and friendly for many devices and applications. This will be possible thanks to a number of innovations that will soon change the scope of catering. They are modernizing restaurant communication channels with customers, the range of services and the role of catering establishments in everyday life. So much potential lies in the Internet technologies that, using customer databases (their tastes, preferences, etc.), give the restaurant the opportunity to produce almost 100% success of new menu dishes or gastronomic destinations.

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