

More 'McBang' for your 'McBuck'

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McDonald's seems recession-proof, its profitability apparently untouched by the newest economic crisis to hit America. Though the average family may not be able to eat out in style, they can afford a Dollar Menu double cheeseburger - or four.

"People think about McDonald's as a place to eat cheaply, a place where you get value for your [money](#)," says Dr. Itai Ater of Tel Aviv University's Faculty of Management. Dr. Ater, who recently did a case study of the McDonald's Dollar Menu, argues that clever pricing, and the ability to spread that pricing across all the chain restaurant's franchise outlets, is a key component in McDonald's winning formula.

The ability to keep prices low is what attracts consumers in any economic climate, and this is one of the building blocks of McDonald's corporate strategy, he says. A revolutionary concept in [fast food](#) at the time of its introduction, the Dollar Menu has been instrumental in maintaining McDonald's reputation as an affordable luxury, even in today's tough times.

Dr. Ater presented his research recently at the annual American Law & Economics Association conference held at Harvard Law School.

A menu to save a restaurant

In 2002, when McDonald's first unveiled the Dollar Menu in the U.S., the chain was faltering. "Before the Dollar Menu, McDonald's franchise owners were beginning to charge higher prices for the menu items," says

Dr. Ater. "McDonald's stock was down. Now it's doing very well. It is one of the factors that has made them more successful over the past six or seven years."

The Dollar Menu puts price control and consumer motivation in one wrapper. McDonald's heavy advertising of the new initiative was central to price uniformity throughout the chain. Approximately 14% of McDonald's advertising budget is spent on the Dollar Menu annually.

Because of this emphasis on advertising, consumers expect the Dollar Menu to be available in all the restaurant's franchises. "Individual franchisees faced consumer disappointment if they didn't offer the deals advertised," Dr. Ater notes. They adopted the Menu rather than risk losing customers.

Throwing quality control into a pickle

McDonald's knows that today's Happy Mealers are tomorrow's Big Mac fans. By making McDonald's an affordable family outlet, the corporation encourages customers to become repeat [consumers](#) from a young age. And it's a treat that isn't tough on a parent's bank account.

Dr. Ater says McDonald's remains able to offer such low-priced meals due to the organization of the company. They purchase in bulk and the preparation and content of each menu item is highly regulated. "Prices may be set by franchisees, but corporate controls how many pickles go on each bun," Dr. Ater says.

Although the concept of the Dollar Menu sells well in the current recession, Dr. Ater warns that there is no guarantee that factors such as the cost of goods and inflation will not affect this offering in the future. "McDonald's could get stuck with this Dollar Menu," he warns. "In some places, they've already changed the name to 'Dollar Menu and More.'

The name 'Value Menu' would have given the corporation more flexibility — but less impact."

Source: Tel Aviv University ([news](#) : [web](#))

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