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Assignment 1

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1. Describe the business

McDonalds is one of the biggest, most recognizable fast food companies in the world. Established in 1954 as a BBQ restaurant, the chain has since grown exponentially with almost 38,000 locations worldwide. McDonalds is now a household name and it serves more than 69 million customers each day. The company's main product is its famous hamburgers. McDonalds is known for the highest-quality hamburgers with no fillers. With more than 36,000 locations spread over more than 100 countries, McDonald's is one of the top food service companies in the world (mcdonalds.com, 2023). Other popular items on the menu include French fries, chicken nuggets, salads, wraps, desserts and breakfast items. McDonalds also offers customers a variety of flavored coffees, frappes, shakes, and juices.

McDonalds is focused on providing a friendly and inviting customer experience (corporate.mcdonalds.com, 2023). The company is well known for its attention to detail, making sure its restaurants have a clean, welcoming atmosphere and that its staff are always friendly and accommodating. McDonalds also offers customers a wide range of promotions and discounts to ensure everyone can enjoy a good meal at an affordable price. McDonalds is one of the most iconic companies around the world. Its hamburgers represent the highest quality and affordability, making the company a favorite among people from all walks of life. For those looking for a fast, reliable meal on the go, McDonalds stands alone as the go-to option.

The company also provides delivery services at select locations. Customers can enjoy a variety of food choices from their local McDonald's restaurant from the comfort of their home (corporate.mcdonalds.com, 2023). A variety of payment methods are also accepted for customers' convenience. McDonald's has also introduced a loyalty program called the "My McD's" app, which provides customers with rewards, as well as discounts and other benefits. The McDonald's brand is known for its signature products, such as the Big Mac and the Filet-O-Fish. The company's combination of quality and value has made it an attractive option for patrons wanting to satisfy their cravings for quick, affordable meals. Ultimately, the

company's comprehensive menu, complete with both traditional and innovative offerings, has enabled it to become one of the world's most popular fast food chains.

2. Identify Demand and Market Equilibrium

Demand is an economic concept that describes the amount of a good or service an individual or group of individuals is willing and able to purchase at a specified price (Streimikiene et al. 2021). Market equilibrium is the point at which demand for a good or service is equal to the available supply and the quantity and price of that good or service have been determined. Market Equilibrium is when the amount of goods and services supplied by businesses meet with the amount of goods and services demanded by consumers. In order to maintain market equilibrium, businesses must adjust their production and pricing levels given the demand and competition while consumers must adjust their purchasing behavior based upon their income and preference. Market equilibrium is a situation in which the forces of supply and demand are balanced and no pressure exists to change the price level (Levey, 2021). In this situation, the quantity and price of a product, such as a Big Mac, remain constant. Factors that influence demand for Big Mac include the price of substitutes, the price of complements, consumer income, consumer tastes and preferences, consumer expectations of price, and demographics (number of buyers).

The price of substitutes for Big Mac are all competitively priced fast food items, such as burgers from Burger King, Wendy's, and similar restaurants. If the price of these substitutes increase, demand for a product will decrease, as customers may instead choose the cheaper alternative (Van Loo et al. 2020). If the price of these substitutes decreases, demand for Big Mac will most likely increase. The price of complements to Big Mac are items that go along with it, such as French fries or soft drinks. If the price of a complement to Big Mac increases, demand for Big Mac may decrease, as customers opt for a cheaper alternative that doesn't include the complement. On the contrary, if the price of a complement decreases, customers may be willing to pay extra for Big Mac, which would lead to an increase in demand.

Changes in consumer income can also affect demand for a product. If consumer incomes increase, people are likely to have more discretionary funds to spend on goods and services

(Loxton et al. 2020). This may lead to an increase in demand for Big Macs. On the other hand, if income decreases, fewer people have the ability to buy products and services, so demand for Big Macs may decrease. Consumer tastes and preferences can also have an effect on demand. If consumer preferences enjoy different options that may be offered by the competition, such as more varied ingredients, special preparation techniques, or unique flavors, then the demand for Big Mac may decrease. Alternatively, if Big Mac does develop more unique flavors, a wider selection of ingredients, or other types of preparation options, this could potentially lead to an increase in demand.

Consumer expectations of price can also contribute to changes in demand (Parrish et al. 2019). If consumers expect prices to decrease in the future, they may hold off on purchasing Big Macs now in order to save money. On the other hand, if they think prices may increase in the future, they may be more willing to purchase Big Macs as soon as possible in order to avoid potential price hikes. The demand for Big Macs may very well be influenced by consumer expectations regarding price. For instance, if buyers foresee that Big Macs will become more expensive over time, demand may grow if they opt to buy now rather than wait for price increases. Customers may decide to wait and buy later if they anticipate a decrease in the cost of Big Macs.

The demographics is also a crucial factor which has the ability to influence demand for a product (Cranfield, 2020). If more people are enthusiastic about the product, then demand for Big Macs may increase. If fewer people are purchasing Big Macs, then demand will most likely decline. The number of buyers can affect demand for Big Macs. If the number of buyers decreases, demand for Big Macs may decrease as the number of potential buyers' shrinks. On the other hand, if the number of buyers increases, demand for Big Macs may increase as the potential customer base grows. Demand for Big Mac is affected by various factors, such as the price of substitutes, price of complements, consumer income, consumer tastes and preferences, consumer expectations of price, and demographics (number of buyers). Depending on how these factors shift, the demand for Big Macs may rise or decline. If the forces of supply and demand remain balanced, however, the price and quantity of Big Macs should remain constant.

3. Characteristics of demand

The Price Elasticity of Demand (PED) is a measure of how consumers respond to changes in the price of a good or service (Corrigan et al. 2020). It indicates the sensitivity of demand to changes in price, allowing business leaders to understand what pricing policies are likely to be effective in encouraging customers to purchase certain products or services. This analysis is essential for businesses wanting to maximize their profits and remain competitive in dynamic markets. When determining the PED for a particular product or service, businesses must consider a range of factors that influence the demand for the product or service. In the case of Big Macs, the following factors all influence the PED and are therefore worth considering: substitution effects, income effects, and the necessity of the product.

Substitution Effects

Big Macs, as with any food product, is expected to be relatively inelastic due to its low price, convenience and wide appeal. This means that there are few alternative products, or potential substitutes, available in the market that can deliver the same value Big Macs offer. Consumers view Big Macs as a convenient, low-cost item, and are thus unlikely to switch to a more expensive alternative if the price of Big Macs increases. This indicates that demand for Big Macs is more inelastic than elastic, as consumers are unlikely to significantly reduce their demand for the product in response to changes in its price. Additionally, Big Macs are often used as a “comfort” food and so changes in the cost are less likely to affect the demand.

Income Effects

The percentage of income that the purchase of Big Macs represents for the consumer is also likely to influence the PED for the product. As Big Macs are relatively affordable and often marketed as “fast food”, they typically represent a low percentage of the consumer’s income. As such, the demand for Big Macs is unlikely to be greatly influenced by changes in the cost of the product. This indicates that for Big Macs, the demand is more likely to be inelastic, as consumers are less likely to adjust their spending habits in response to changes in the price of the product.

Necessity of the Product

The necessity of a product or service also influences the demand for the product or service (Suhartanto et al. 2019). Necessity based goods, such as medical supplies, are viewed as essential and are therefore more inelastic due to the lack of viable substitutes. However, Big Macs are viewed as more of a luxury item and are not essential to the well-being of the consumer. This indicates that demand for the product is more likely to be elastic, as consumers are more likely to switch to a cheaper alternative if the price of Big Macs increases.

Given these factors, the pricing policy for Big Macs should be centered around maximizing profits, rather than focusing on increasing sales revenue. While increasing prices may lead to an increase in revenue from the product, this is likely to be offset by a decrease in the demand for Big Macs. Businesses should instead focus their pricing policy on finding the optimal price point that maximizes profits while allowing the business to remain competitive in the market (Chaudhuri et al. 2021). This can be achieved by making slight adjustments to the price of Big Macs in order to optimize the price-demand relationship. For example, if the price of Big Macs is slightly above the optimal price point, businesses could consider reducing the price slightly in order to make the product more attractive to consumers and drive up demand. However, if the price is already at the optimal price point, then businesses should avoid making any changes in order to maximize profits.

In order to help identify the optimal price point, businesses should consider other strategies to help generate profit (Gupta et al. 2021). One such approach is implementing a loyalty program, whereby customers are offered a discount or reward for consistently purchasing Big Macs. This can help increase customer retention and encourage customers to purchase Big Macs, even if they are slightly more expensive than other similar fast food items. As well as helping to increase sales, loyalty schemes can also be used to collect data on customer buying habits and preferences. This data can then be used to further refine the pricing policy and help identify the optimal price-demand relationship.

Businesses should also consider advertising and marketing in order to boost demand for Big Macs. By creating an attractive and engaging marketing campaign, businesses can increase

demand for the product and reach new potential customers (Katsikeas et al. 2020). Furthermore, effective advertising and marketing can also help reduce customer acquisition costs and allow the business to increase profits even with a lower pricing strategy. Businesses should strive to gain a deep understanding of their customers, in order to better meet their needs. By engaging with customers and understanding their preferences, businesses can create Big Macs that better suit customer demands and increase customer loyalty over time. This can create an environment where customers are more likely to choose Big Macs over other options, even with a competitive pricing strategy. The optimal pricing policy for Big Macs should be centered around maximizing profits and customer loyalty. By focusing on strategies such as advertising and marketing, loyalty schemes, and understanding customer needs, businesses can remain competitive in the fast food market and increase their profits, even with a relatively inelastic demand for their product.

McDonalds typically could employ 'Deal' pricing for its Big Mac sandwich, which involves offering customers a discounted price when they tag on other items, such as French fries and a drink. This style of pricing is often used to encourage customers to purchase more items and increase the average order value. McDonalds furthermore should use both competitive and Penetration pricing, especially when they are introducing a new product. When using competitive pricing, McDonalds may set its prices to be equal to or lower than its competitors, allowing them to gain a competitive advantage in the market. Penetration pricing involves setting the initial price of a product to be low in order to attract more customers (Hyginus et al. 2019). This could be beneficial for McDonalds as it allows them to draw in customers who previously may not have considered the brand.

McDonalds could also use psychological pricing, which involves setting prices at certain levels that are perceived to be attractive to consumers, even though it may not be the most optimal or profitable pricing for the company. For example, when selling a Big Mac sandwich, McDonalds may set the price at \$4.99 rather than a more rounded number like \$5 or \$5.99, as this number is seen as more attractive to customers. McDonalds' pricing strategy could focus on positioning its products with a particular target customer in mind (Kee et al. 2021). For example, it typically offers a variety of deals and discounts to both students and older customers, in order to appeal to

different demographic groups. The company also regularly engages in promotional activities such as coupons, special deals and discounts, in order to maximize the impact and reach of their pricing strategy.

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