

Management Economics

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Executive Summary

Understanding the market demand for a certain product is crucial for a business in order to predict the sales and future growth of the respective business. The following report has focused on understanding the market demand for one of the major products of McDonald's which is hamburger. A brief overview and the respective product have been discussed in this report. Different factors that are responsible for influencing the demand for this product have been evaluated as well in this report. Furthermore, the respective report has also focused on understanding the impact of price elasticity of demand on the respective product of McDonald's.

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Introduction

The operations and activities of a business rely on various economic concepts. Management economics and associated concepts are mainly concerned with the implication of economic elements and analysis to the issues of developing rational management decisions. It is the economic branch that focuses on the use of different economic theories, concepts, and methodologies for resolving practical problems associated with business management. Market demand is one of the key elements of management economics. The following report will provide an overview of McDonald's along with the main product of the respective organisation and the reason for choosing the product. The primary objective of this report is to understand the concept of demands for a main product of McDonald's while considering the product of Burger King as well. The report will also discuss the various factors that impact the demand and market equilibrium for McDonald's in market. Furthermore, the report will also discuss factors influencing the price elasticity of demand for the specific product of McDonald's.

Overview of McDonald's

McDonald's is considered one of the largest fast-food chains, dominating the global market. The respective organisation was founded in 1940 and is headquartered in Chicago. McDonald's is known for serving more than 69 million customers on a daily basis in more than 100 countries. The respective fast-food chain has more than 200,000 employees, serving in over 40,031 restaurants globally (McDonalds, 2023). The financial performance of the organisation is gradually improving after the outbreak of the coronavirus. The revenue of McDonald's was recorded at about \$23.223 billion in 2021. In the same year, the company's operating income was \$10.356 billion and the net income was about \$7.545 billion (Cision, 2022). One of the most popular products of McDonald's is its hamburger, which is highly preferred by customers irrespective of the market.

The main product of McDonald's and the reason for choosing it

Hamburger is one of the most common and widely popular products served by McDonald's. The rationale for choosing this product is its popularity in the global market. Hamburger is one of the initial products of McDonald's that helped the organisation to gain a dominating position in the global market. Moreover, hamburger is a common product in the market and several other food chains serve the respective product (McDonalds, 2023). Despite the high competition in the global market, McDonald's is dominating this market and has become the leading food chain due to its main product which is hamburger. Moreover, the fast-food industry in the UK is growing rapidly and is expected to reach a market size of about 22.04 billion British pounds by the end of 2023 (Statista, 2023). The growth and potential of this industry have made McDonald's suitable for the respective study.

Factors influencing the demand for the main product of McDonald's

There are several factors that have the potential to influence the demand for hamburgers offered by McDonald's. A few major factors and ways in which these factors influenced the respective product of McDonald's are evaluated below.

Substitute's price: A substitute generally refers to the service or product that has the potential to be replaced easily with another service or product by consumers (CFI, 2022). Hamburger served by McDonald's is highly popular in the global market as the respective organisation mainly initiated its operations with this product. One of the major substitutes for hamburgers in the global market is chicken burgers. In terms of pricing, the price of chicken burgers is low compared to that of hamburgers served by McDonald's. Moreover, the acceptance of hamburgers is comparatively low than chicken burgers in several international markets due to religious aspects. Therefore, the demand for the substitute product is comparatively more in the global market than for hamburgers served by McDonald's.

Complement's price: Complementary commodities in the field of economics refer to the services or goods that are bought as well as used together. These commodities are generally considered to be in joint demand with the main product (Boyce, 2023). One of the complementary products of hamburgers is french fries served by McDonald's. The price of this complementary good served by McDonald's has neither increased nor decreased majorly. This has helped in stabilising the demand for the main product of the respective company in the global market. This is because, if the price of one commodity increases, the demand for both complementary commodities will decline in the market. Therefore, it is essential for McDonald's to maintain the price of both complementary products.

Consumer income: The income effect mainly indicates any change in the demand of consumers for services or goods based on their respective incomes. For instance, the decline in income reduces the demand for a product or service, especially if it is a luxury product. In terms of essential products, the demand does not decline majorly but it declines to some extent. The disposable income of consumers in the UK is increasing gradually in the post-pandemic scenario (ONS, 2022). This, in turn, is increasing the demand for the products of McDonald's, especially common products like hamburgers. When the average household income in the UK was low amid the pandemic, the demand for the respective product of McDonald's also declined in the market. This also led to a decline of 10.9% of the company's revenue in 2020 compared to 2019 (Macrotrends, 2023).

Consumer preference and taste: Consumer preferences and tastes have a significant impact on the demand for a product in the market. Currently, the preferences of consumers have witnessed a drastic change. People have become more inclined towards healthy food habits, further reducing the demand for fast-food and other similar products. Moreover, the preference for a vegan lifestyle is also increasing gradually in the UK. According to a report by Ettinger (2023), over 33% of consumers in the UK will reduce their dairy and meat consumption by the end of 2023. About 56% of non-vegan consumers revealed that they would reduce the consumption of animal products while prioritising a vegan lifestyle. This changing food preference and lifestyle will significantly reduce the demand for hamburgers and other meat-based products served by McDonald's.

Demographics: The demand for a product in the market is highly influenced by the number of buyers or consumers in the market. McDonald's is known for serving more than 69 million consumers on a daily basis in the global market. This indicates the demographics of the respective organisation. Moreover, the number of consumers of McDonald's is increasing which is witnessed

by the increasing revenue of the respective organisation. The profit of the respective organisation in the initial three months of 2021 increased to almost 40%, indicating the company's profit was almost similar to its pre-pandemic level (BBC, 2021). Therefore, the customer base of McDonald's is increasing gradually. With the increasing number of customers, the demand for the product of the respective organisation has also increased in the UK as well as the global market.

Consumer expectations of price: Consumers generally observe prices of commodities and acquire price information from different sources, from which a relevant purchase decision is made. Price expectations of consumers are references that point them to help final decisions regarding their purchase. If consumers expect the price of any essential product to rise in the future, the demand for the respective product rises drastically in the market (Mack, 2023). However, this is not applicable in the context of fast-food as consumers cannot prepurchase these products for future use. Considering the increasing inflation and the surge in product prices, consumers expected a major surge in the price of products served by McDonald's. However, there was only a slight rise in the price of the main product of McDonald's. This has further influenced the purchasing decision of customers positively while increasing the market demand for the product as well.

Effects on the products and services due to price elasticity and demand

Analysing the debate of luxury and necessity

McDonald's is one of the most convenient food restaurants for most of the people in the country. It is the largest food restaurant chain in the whole world. They have opened a lot of shops on most of the streets in the country. The survey says that there are a lot of people who eat at McDonald's. According to their pricing strategies, most people find this restaurant affordable and therefore, they eat from there. Other people might think that the particular business is luxury because its pricing is beyond its financial capabilities (Blakely et al., 2020). It means, there is a small debate about

the benchmark of McDonald's in terms of their status and pricing. The respective business has opened almost 1270 shops around all over the United Kingdom. Most of the people like the office goers and the students and young generations have their regular meals from there. Therefore, it can be concluded that the necessity of this brand is much higher than the thought of luxury (Cranfield., 2020). Moreover, as previously stated that Burger King is the competitor brand of this, whereas, the pricing of the respective business is much lower than the respective business. Therefore, it is also another aspect that makes the business necessity for consumers.

Effects on demand for the luxury and necessity factor

The factor that has been previously described about the status of the restaurant chain, can be an important factor that can decide the pricing of the demand of the products. One of the main products of the respective business is the hamburger which helps the consumers with their meal time. As previously described, the particular business and its product is luxury for some people as they do not find it affordable. Other than this, most people find it suitable for them which makes McDonald's a necessary food brand (Cranfield., 2020). The elasticity of the demand depends on multiple factors like product prices, the income of the consumers and the availability of the products. It means, if the respective business raises its product prices, then the demand among the customers will reduce. Thus, the demand will be less elastic as the customers will rely on other food brands and sales of the company will get reduced. On the other hand, if McDonald's does not increase the price of hamburgers and other products, it will attract a greater number of customers towards them increasing their business. Then the elasticity of the demand for the product that is ham burger will decrease. It means the customers will not substitute their choices and majorly depend on McDonald's that is satisfying their demands.

Representation of the income of the customers in the purchase of the goods

There are different types of customers of McDonald's that buy their daily meals or even occasionally from the stores. As most people find the food business and its menu affordable, therefore, the purchase of the goods does not affect that much on their income. Being an affordable food product business, McDonald's does not leave an impact on their customer's income that much. Besides that, some other people do not find the prices of the foods affordable and face difficulties to buy them (Phillipson et al., 2020). It makes them a luxury brand. Therefore, buying the foods will affect their income and also affect their regular expenses. After COVID-19 affected the country, all the business sectors got affected due to that. The lower income has also affected the purchasing power of the people (Barrera and Hertel., 2021). It affected the sales of McDonald's. They faced about £ 4.713 billion amount of loss in 2020, the year when the pandemic appeared. Therefore, the customers invested quite a smaller portion of their income in food items. Afterwards, they regained their position and the income of the company raised due to the higher income of the people.

Demand for the product is elastic or inelastic

As previously discussed, the business of McDonald's can get affected due to the changes in the income of their customers, therefore, the demand also gets changed. There are certain situations that are affecting the demand for the products of the respective company. If the management of the business is planning to raise the price of hamburgers and other products, the demand gets affected most of the time (Karlan and Zinman., 2018). If they do not get affected and the customers are still willing to buy it from their incomes, then the demand will be inelastic for them. At the same time if the business faces some other consequences that are the changed condition in the

demand, then it will be considered as elastic. It means the raised price will not affect the purchasing power of the people and the business still can have a good number of sales.

Pricing policy recommended for McDonald's

Due to the changes in the demand for the respective company, the total amount of sales is getting changed and that is affecting their overall revenue. In order to recover from that situation, they should adopt some efficient pricing policies that will give them some financial benefits. The management should discuss with the accountants about their pricing policies before implementing those. In order to gain some competitive advantages over the business of Burger King and other brands, they should set their pricing strategies efficiently by lowering the prices and making it feasible for all types of customers (Wenji., 2019). If the management reduces the prices of the products and services, then a greater number of people will find it affordable and buy from them. It will also increase the revenue of McDonald's and that will be beneficial for them as well. The management does not have to analyse any pricing policy before making those decisions.

Conclusion

The above report is representing some important factors about a particular business entity on their pricing and as well as the overall economy. McDonald's is the largest restaurant chain in the whole world and has over 40000 outlets all over the world. Therefore, they serve one of the largest groups of people and the demand for their products also gets affected by some of their strategies. Primarily, the background of this particular company has been identified. Hamburger is one of the most popular foods in the company that has been selected as the particular product in the report above. Some of the major reasons have also been displayed there behind the selection of the product. The demand for goods and services by the business can get affected due to some important factors. In the market, there might be some substitutes that will give competition to the particular product. The factors that can change the demand for goods are their prices, complement prices, and the income of the people. Some other factors are customer preferences and the number of customers at McDonald's. The difference between the luxury and necessity of the products that can affect the elasticity of the products has been highlighted. Effects on the demand and the effects of investment income of the customers on the demand for the particular product of McDonald's have also been included in there. Identifying whether the products are elastic or not has been included along with some particular recommendations for the pricing strategies for the business.

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