

## McDonald's reheats its value menu

By Peter Frost March 19, 2016

Riding a wave of momentum triggered by the launch of all-day breakfast, the world's largest fast-food company is grappling with the next stage of its turnaround plan: its new value platform.

Turning McPick, as it's called, into a consistent, advertising-backed national program that appeals to its core cost-conscious consumers is crucial for Oak Brook-based McDonald's, whose big bet on breakfast is paying off but won't last forever.

McDonald's needs McPick to be a supersized hit.

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"The reality is 67 percent of transactions (at fast-food restaurants) are under \$6," says John Gordon, a restaurant analyst and consultant in San Diego, citing data from consumer research firm NPD Group. "It's very important for them to get a sustainable value menu, and there are so many different ways of doing it. You would hope there are whole floors of corporate staffers in Oak Brook that are thinking about these things."

Its customers want a new value menu, too. Offering one ranked as the top change McDonald's could make to drive more customer visits, according to a [national survey conducted in August](#) on behalf of Crain's by Chicago-based research group 8Sages and the late pollster Leo Shapiro. The survey found that 32.4 percent of respondents would dine at the Golden Arches more often.

But executing such a program across more than 14,000 U.S. restaurants owned by McDonald's and hundreds of franchisees is complex.

"We've been trying to develop a new value menu for six years and, obviously, it hasn't worked out all that well," says one franchisee from the Southwest, who requested anonymity.

McDonald's declined to make executives available for interviews. Spokeswoman Lisa McComb says in a statement that the company "is continuing to try new approaches and at a speed not seen before."

McDonald's kicked off 2016 with the [debut of McPick 2](#), which allowed customers to choose two items from among four—the McChicken, the McDouble, small fries and mozzarella sticks—for \$2. The five-week pilot, which analysts believe helped boost traffic, may have hurt profitability in some markets because of a "trade-down" factor, in which customers chose the \$2 deal over a regular-priced entree or value meal.

As soon as that deal expired, McDonald's introduced a McPick 2-for-\$5 deal, featuring some of its best-known products—the Big Mac, the Quarter Pounder with Cheese, the Filet-O-Fish and Chicken McNuggets. That promotion remains in most markets today. Others, including the Atlanta market, have kept the 2-for-\$2 deal.

"In spite of the mixed success of 2-for-\$2, we believe McPick 2 can represent (a meaningful) value brand for McDonald's," RBC Analyst David Palmer wrote in a March 7 note to clients.

Franchisees prefer the richer 2-for-\$5 promotion, which has enough shine to lure customers and, if bundled with fries and a drink, can bring the average check size to \$7 or \$8.

McPick represents the restaurant giant's first major foray into value since its successful Dollar Menu in 2001. While Oak Brook [futzied with it](#), eventually morphing it into the Dollar Menu and More, newly energized competitors Burger King and Wendy's went all-in on value offerings of their own, which analysts say took share

from McDonald's.

Indeed, the company **lost U.S. market share** for 71 consecutive weeks, a streak that finally ended in late September when McDonald's began to claw back share, in part because of publicity surrounding the launch of all-day breakfast.

An East Coast franchisee, who asked not to be named, says Big Mac's lack of a national promotion has hurt the brand. All franchisees are "missing the key element of everyday pricing," he says. "We need to give the customer choice and control. That is why (the) Dollar Menu was so successful."

But much has changed since the introduction of the Dollar Menu, which sparked a decade-long run of robust sales growth in the U.S., its largest and most important market.

Perhaps the biggest difference today is the disparity of wages between certain urban stores and others, the result of minimum-wage laws. That's led to friction between the regions, and Oak Brook has accomplished little in the way of getting disparate franchisee groups to march together on a sustained value platform. A deal that makes financial sense in Omaha, Neb., for example, may be a money loser in Manhattan.

Some franchisees are pushing for a customizable value menu that differs by region, an approach McDonald's plans to test later this year. But that could discount the effectiveness of the chain's national advertising, which is paid for with a pot of money funded by franchisees.

"Value today is a necessary evil," says Darren Tristano, president of Technomic, a Chicago-based consumer research firm. All fast-food companies are "playing in that space because they have a deep fear of losing share," which has set up a sort of race to the bottom.

The prevailing thought is: If they don't discount as deeply as their peers, customers will go somewhere else. It's a risk McDonald's can ill afford to take.

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