



Charles Passy

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## How McDonald's Makes a Profit on a \$5 Meal

There's money to be made off a \$5 meal combo, which includes a McDouble cheeseburger or McChicken sandwich, a four-piece order of Chicken McNuggets, a small order of french fries, and a small soft drink.

The offer comes when consumers have complained about high prices at fast-food restaurants. McDonald's said the deal meets consumers' desire for value while maintaining franchisees' profitability.

Experts say it's all about bundling food items together. By packaging items with different profit margins together, the deal balances out. However, food costs are just one part of the equation. Restaurants also have labor, rent, insurance, and other expenses, so the overall profit margin for the \$5 meal can be as low as 1% to 5%. Ultimately, a \$5 deal can be something other than a complete loss leader.

**Arlene Spiegel, a New York City-based restaurant and hospitality consultant, said it's a mistake to think of a \$5 value meal as a sales bonanza for the operator. She said condiments, napkins, and straws are actual costs to include when margins are this tight. Spiegel said, "The deal is more promotional than profitable."**

McDonald's isn't alone in promoting a value option to woo cost-conscious customers: Burger King offers a \$5 "Your Way Meal," and Jack in the Box offers a "Munchies under \$4" deal.