The New York Times Salads or No, Cheap Burgers Revive McDonald's

By **MELANIE WARNER** Published: April 19, 2006

On a recent afternoon at <u>McDonald's</u> in Union Square in Manhattan, Chris Rivera and Shamell Jackson reviewed the menu, which includes a variety of healthy options, including salad and fruit. Then they each ordered the usual: two McChicken sandwiches from the Dollar Menu, fries and a McFlurry shake.



Jennifer S. Altman for The New York Times

Darlene Colon, 19, of Brooklyn dined on items from the Dollar Menu at the McDonald's restaurant in Union Square Tuesday.





Mike Mergen for The New York Times

Salads are not among the items on this Dollar Menu at a McDonald's in Philadelphia.

The two 15-year-olds, like many of their classmates at the nearby Washington Irving High School, go to McDonald's often. And it is customers like Mr. Jackson and Ms. Rivera, consistently ordering the cheaper and more fattening items on the menu, who have fueled a remarkable resurgence at McDonald's.

"When I was younger, my mom never used to let me come here," said Mr. Jackson, standing in a register line 15 deep and filled with teenagers. "She thought it was nasty. But I've got my own money now."

The enormous success of the Dollar Menu, where all items cost \$1, has helped stimulate 36 consecutive months of sales growth at stores open at least a year. In three years, revenue has increased by 33 percent and its shares have rocketed 170 percent, a remarkable turnaround for a company that only four years ago seemed to be going nowhere.

McDonald's has attracted considerable attention in the last few years for introducing to its menu healthy food items like salads and fruit. Yet its turnaround has come not from greater sales of healthy foods but from selling more fast-food basics, like double cheeseburgers and fried chicken sandwiches, from the Dollar Menu.

While that may have helped many low-income customers save money, there could be a heavy health cost. McDonald's has marketed the Dollar Menu to teenagers, young adults and minorities who are already plagued with an especially high incidence of <u>obesity</u> and related health problems like <u>diabetes</u>.

Many nutritionists say fast food is one of the worst things in the American <u>diet</u>, because of its calories, trans fats, lack of fiber and added sugars and processed carbohydrates. "If you're looking at the Dollar Menu in terms of how much food you get it really appears as a good bargain," said Connie Schneider, a nutrition adviser for Fresno County in California. "But if you're looking at it as how many nutrients are you getting for a dollar, it's the least economical."

McDonald's says it seeks to provide options for its customers, at both low and higher prices. "We're proud of the choices we offer customers," said Bill Lamar, chief marketing officer for McDonald's United States business. "You can come in and order Apple Dippers, salads with low-fat dressing, yogurt, or you can order an Egg McMuffin, which is a very nutritious sandwich. People can make the decisions about how to eat for themselves."

True, McDonald's has persuaded millions of mostly female customers to buy its healthier, higher-priced salads. "We are improving our relevance with products like salads, which cast a favorable glow over our brand and the rest of our menu," boasted McDonald's chief financial officer, Matthew Paul, in a conference call with analysts in July 2004.

In 2005, salad sales totaled 173 million units, about even with salad sales in 2004. Per month, however, sales have slipped from 14.7 million salads in 2003 to 9.6 million in 2006.

And every day, McDonald's moves a lot more double cheeseburgers than either salads or the new Premium Chicken Sandwich — most versions of the sandwich have more calories and more sodium than a double cheeseburger. Richard Adams, a former McDonald's executive who now works as a consultant for franchisees, says the average store sells roughly 50 salads a day and 50 to 60 Premium Chicken Sandwiches, compared with 300 to 400 double cheeseburgers from the Dollar Menu. Reacting to the success of McDonald's Dollar Menu, <u>Wendy's</u> and Burger King both started promoting their versions of low-priced deals. Wendy's, which in 1989 was the first burger chain to experiment with menu items for \$1, lowered prices on its Super Value Menu to 99 cents in January. And in February, Burger King started offering its own version of a dollar menu, including the Whopper Jr. and cheeseburgers.

The Dollar Menu became a permanent part of McDonald's menu in the United States in late 2002. It offers items like a double cheeseburger, the fried McChicken sandwich, French fries, a hot fudge sundae, pies, a side salad, a yogurt parfait and a 16-ounce soda.

Since McDonald's started advertising the Dollar Menu nationally, the double cheeseburger has become the chain's most ordered item. Even priced at \$1, double cheeseburgers bring in more revenue than salads or the chicken sandwiches, which cost \$3.19 to \$4.29.

McDonald's executives say the Dollar Menu has driven enormous additional traffic into the stores, primarily young men and women aged 18 to 24. "The Dollar Menu appeals to lower-income, ethnic consumers," said Steve Levigne, vice president for United States business research at McDonald's. "It's people who don't always have \$6 in their pocket."

Just three and a half years ago, McDonald's was struggling mightily. Its stock had tumbled 56 percent in 10 months and the company had reported its first quarterly loss. Sales at existing stores in the United States, by far McDonald's biggest market, were not growing and in many instances were declining.

Stung by obesity lawsuits and criticism from books like "Fast Food Nation," the company's brand seemed passé and the high-calorie, highfat, high-sodium cuisine appeared poised for a long decline.

But that did not happen. Today, McDonald's business, both in the United States and globally, is growing; the chain gets some one million more American visitors a day than it did just a year ago. Other factors have contributed to this turnaround, which has been surprisingly speedy for such a large company. McDonald's has been opening fewer stores and sprucing up restaurants and improving service. The chain has placed a greater emphasis on breakfast and introduced a successful global marketing campaign with the "I'm Lovin' It" tagline. But McDonald's says one of the most important factors in its newfound success has been its low-priced staples.

Dollar Menu ads aimed at young blacks and Hispanics often focus on how much hearty food can be bought for just \$1, a message many young consumers are eager to hear.

"The problem here is that you're dealing with a segment where you have these huge obesity issues and you're making eating Big Macs and double cheeseburgers look like it's fun and exciting," said Jerome Williams, a professor of advertising at the University of Texas, Austin, and one author of an Institute of Medicine report last year on the marketing of junk food to children and teenagers.

David Ludwig, director of the obesity program at Children's Hospital in Boston, calls marketing fast food to blacks and Hispanics a "recipe for disaster."

"Fast-food consumption has been shown to increase calorie intake, promote weight gain and elevate risk for diabetes," Dr. Ludwig said. "Because African Americans and Hispanics are inherently at higher risk for obesity and diabetes, fast food will only fuel the problem."

According to an analysis of government data published this month in The Journal of the American Medical Association, 45 percent of non-Hispanic blacks and 36.8 percent of Mexican-Americans aged 20 and over are obese, as opposed to 30.6 percent of non-Hispanic white adults.

Blacks and Hispanics are also more likely to suffer from obesity-related diseases. Blacks are 1.8 times as likely to have Type 2 diabetes than whites, according to the <u>Centers for Disease Control</u>. Mexican-Americans, the largest Hispanic subgroup, are 1.7 times as likely. And

42.9 percent of blacks have cardiovascular disease, while 33.3 percent of whites do, according to the American Heart Association.

Obesity and related diseases also carry a high financial cost. Problems created by obesity increase the nation's health care costs by \$93 billion a year, mostly from Type 2 diabetes and <u>heart disease</u>, according to a 2003 study done by RTI International in North Carolina.

McDonald's agrees that Hispanics and blacks are core customers. The company gets 17 to 18 percent of its sales from each group. In the overall United States population, blacks represent 12 percent and Hispanics 14 percent, according to the Census Bureau.

Mr. Lamar, McDonald's marketing executive, points out that the company has worked with Dr. Rovenia Brock, a popular African-American fitness guru, to promote physical activity. Mr. Lamar also says the company market its salads to black women, who have the highest rates of obesity of any segment of the population.

Last May, the company ran a commercial featuring four African-American women talking about the McDonald's fruit and walnut salad and getting their "fruit buzz." The ad ran on BET, the Black Family Network and "Girlfriends" on UPN.

But Professor Williams at the University of Texas says the majority of McDonald's ads aimed at blacks feature Quarter Pounders With Cheese, Big Macs and French fries. McDonald's says that it advertises all its products equally across all markets and that over the last three years the most advertised menu items were Premium Chicken Sandwiches, McGriddles breakfast sandwiches and premium salads.

Marketing experts say McDonald's, which has long been proud of its inclusive advertising, is among the most shrewd when it comes to reaching blacks and Hispanics. The company's ads aimed at black consumers tend to be stylish and use hip contemporary language and music. "Look who's trying to add some flavor to her life," says a young black man wearing an earring, silver chain and baseball hat that match his sweatsuit as he eyes a black woman dressed in a business suit ordering a Spicy Chicken Sandwich. The ad, which ran on BET, the TV One cable network and "The Bernie Mac Show" on Fox, was created by Burrell Communications, the Chicago-based agency that does most of McDonald's advertising for black consumers.

Rick Mariquen, director of Hispanic consumer marketing at McDonald's, says ads aimed at Hispanics in both Spanish and English often feature groups of friends or families gathering at McDonald's. "They come to the stores in large groups, often families, and see the experience as a social one," said Mr. Mariquen, whose parents are from Guatemala.

In the last four years, McDonald's has increased its advertising spending on Spanish-language television by 60 percent, to \$57.4 million a year, according to Nielsen Monitor-Plus.

But to people like Ms. Schneider, the nutrition adviser in Fresno County, all those ads only make her job more challenging. Through a federally funded program run with the <u>University of California</u>, Davis, she offers free nutrition education classes in heavily Latino communities. Many of the classes, she says, are attended by people who are overweight with a host of health problems.

Ms. Schneider says she does not think it is realistic to instruct people to stop going to fast-food restaurants. But she says the program encourages students to go less frequently or make different menu choices.

"Restaurant advertising looks very fun and social," Ms. Schneider said. "But fast-food ads don't show you what happens when you're in your 40's and your <u>cholesterol's</u> high and your heart has to work really hard to pump."