

“Chili salad frosties baked potatoes hamburgers with bacon with cheese, biggie fries, biggie drinks.” It's 1989 and this is an ad introducing one of the first value menus. “Hogwash, eight choices all under a buck 50, give me a break.”

Value, or for some restaurants, **dollar menus** are a group of items designed to be **the cheapest on the menu**. Value menus are really great when **consumers** are feeling **stressed out**. You know we are back in a time of **consumer stress**. But recent **inflation** and **supply chain issues** are changing them. In 2021, US restaurant chains promoted fewer than half the number of value and combo meals that were promoted in 2016. Here's how they became popular and now why there are fewer and more expensive value menu options.

Wendy's and Taco Bell were the first to launch their value menus in the late 80s. Wendy's was called the super value menu with nine items available for 99 cents. Founder Dave Thomas introduced the menu with ads like this. “So Wendy's is introducing a new super value menu, oops, everything on it is at a special low price. Value menus really did change the game in far-reaching and long-lasting ways. So before the value menus were introduced, you know, what we were really thinking about in a lot of ways were these burger wars. The burger wars broke out in the 1970s with Burger King and McDonald's going head-to-head to attract customers but that changed in the 90s when they noticed other competitors value menus. They realized that this was an important strategy that these other brands had pushed and they decided that they needed to get into it. In 2000 Burger King highlighted the new Cravers menu with ads like this. “Craving more taste, more variety all you need is 99 cents.” Then McDonald's debuted its menu with former president Donald Trump promoting a McChicken sandwich or a Big and Tasty for a buck. “A big and tasty for just a dollar? How do you do it and what's your secret?” So fast forward into the later 2000s, there were times when restaurants were focusing more on quality or their menus or advertising new products to try to keep consumers interested but when the recession hit that's really when they started getting back to basics. And one thing consumers really want from some of these fast food chains is affordable food.

Take McDonald's one-dollar drinks as an example around 2008 McDonald's started promoting one-dollar cold drinks with ads like this. With chain executives saying they helped keep customers coming to the restaurants during the recession. But to offer that for a dollar, that really is great messaging and you know it makes you want to buy other stuff right? You're buying this, you know, salty fries or a savory burger and a soda naturally goes along with that.

But recently, some companies have told shareholders they're concerned about earnings. Part of that concern is driven by inflation which hit a 40-year high in June. As fuel goes up, as labor goes up, as again these commodity prices go up, and selling this food very cheaply, for again, often not much profit if at all, it becomes really hard for these restaurants to keep doing that. McDonald's said in July, they expect paper and food prices to increase 12 to 14 percent from 2021 levels.

And Wendy's told investors in May that its commodity costs were increasing faster than expected. They said restaurant profits decreased in its first quarter mostly due to price increases for things like meats which increased by around eight percent from last year. A Wendy's spokeswoman said the company still offers some long-running value combos that predate the pandemic and inflation concerns. Plus, many restaurants are raising menu prices to offset rising costs for commodities like vegetable oil. You think about all those fries that are frying, all those onion rings, I mean, that takes a lot of oil.

Prices of oils have increased due to multiple factors like the war in Ukraine which exports over 47 percent of the world's sunflower oil. And because of that, the cost of oil has just skyrocketed. Prices of fats and oils increased by around 19 from last year. So what are restaurants doing about these price increases? Two popular approaches are to cut down on portion sizes and raise prices. Changes at burger king included lifting price caps on value menu items and reducing the number of nuggets in one deal from 10 to 8. One term for it is shrink-flation which is basically the amount of food being offered to customers in an individual service is less and again this is a way for restaurants to try to offer value still but without having to change the actual menu price but saving a little bit of money and hopefully improving their profit. A Burger King spokeswoman said the company doesn't comment on sales or marketing strategies. Domino's is reducing the number of chicken pieces in its 7.99 deal from 10 to 8. Domino's CEO said it made the change in response to higher labor costs and an increase in food costs. The company has also said prices on things like menu offers and delivery fees this quarter increased by nearly six percent on average.

And McDonald said in an earnings call in July that "obviously there are cost pressures both on the commodity and labor side but we have to balance that with continuing to provide value for our customers." They also said in April that US locations increased menu prices by an average of eight percent in the first quarter compared with last year's period. McDonald's said that the value initiatives are part of the company's strategy and are collaborative between McDonald's and franchisees and that franchisees set prices.

You know it's really interesting because in terms of consumer perception of these price hikes, when you talk to the companies themselves and when you look at their earnings reports, you know, they're still seeing strong sales. This has driven increased revenue for some chains. McDonald's said that higher prices and value menu offerings pushed same-store sales up around four percent in the US from last year. So I think for a certain segment of customers, value menus are still going to be really important and I think restaurants will still offer those menus. But until inflation declines companies, will probably keep changing their value menus which may mean fewer deals.