

ANALYSIS OF DEMAND ELASTICITY AND PRICING STRATEGY AT MCDONALD'S

Revina marlin¹, Shania vadhillaesa², Yatna Yenti³, Dhani Aristiawan⁴, Zefriyenni⁵

Universitas Putra Indonesia "YPTK" Padang, Indonesia ^{1,2,3,4,5}

Email: revinamarlin0202@gmail.com¹, vadhillaesashania@gmail.com²,

yatnayenti@gmail.com³, Aristiawandhani@gmail.com⁴, zefriyenni@upiypk.ac.id⁵

ABSTRACT

The rapid development of technology has significantly influenced economic changes and consumer behavior. The economy has become more modern, driven by *demand* and *supply*, with prices shaped by the interaction between consumer demand and producer supply, forming the basis of marketing activities. One of the most competitive sectors in the food industry is the fast-food business, where pricing strategies play a crucial role in maintaining market share. This study aims to analyze price elasticity of demand and pricing strategies at McDonald's in Padang. A descriptive quantitative research method was employed, with a total sample of 94 respondents. The research findings indicate that both price elasticity of demand and pricing strategies significantly impact customer satisfaction. Effective pricing can attract more customers and enhance their loyalty, ultimately contributing to overall customer satisfaction. Understanding price elasticity of demand enables McDonald's to respond effectively to market fluctuations and changes in consumer behavior. Based on these findings, it is recommended that McDonald's continuously monitor and adjust its pricing strategies and promotional efforts to maintain and improve customer satisfaction.

KEYWORDS

Demand elasticity, pricing strategy, customer satisfaction, fast food industry, consumer behavior, market competition.



This work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International

INTRODUCTION

Every year the development of technology is getting more and more rapid, this development greatly affects life which has changed a person's behavior and lifestyle both in groups and individually (Smith et al., 2019). The economy that used to have undergone changes towards a more modern economy surrounded by various kinds of existing technology (Baker & McKenzie, 2021). The economy is driven by two things: demand and supply (Gao & Zhang, 2020). Economics most often uses the words "supply" and "demand" to describe the forces that drive the market economy (Chang & Lee, 2022). However, the market mechanism is the interaction between consumer demand and producer supply, so that the price created is a combination of the strengths of each party (Wang et al., 2023). Therefore, demand and supply behavior is a basic concept of business activities (Agil & Firdaus, 2024).

Padang City is one of the big cities in West Sumatra and has many fast food restaurants which are people's choice to eat and spend their free time (Mulyadi & Ramadhan, 2022). Economic development has progressed rapidly and competition between companies has become very tight (Haris & Fitrah, 2021). In order for a company to maintain its existing market share, it must have its own advantages that can attract

How to cite:
E-ISSN:

Revina marlin, et al (2025). Analysis of Demand Elasticity and Pricing Strategy At Mcdonald's. Journal Eduvest. Vol 5 (7): 9009-9018
2775-3727

consumers (Zhang & Li, 2023). One of the fastest growing companies today is a fast food company (Zhao et al., 2020). Along with the development of society and culture that is increasingly advanced and modern seminars, it is undeniable that many people prefer instant things (Hadi & Suryani, 2024). Many people choose ready-to-eat food because they don't have to prepare time in advance so that they can save time (Angelina et al., 2024).

Demand elasticity indicates the extent to which the quantity of goods or services requested will change in response to price changes. In contrast, supply elasticity measures a producer's response to price changes by changing the quantity of goods or services offered. The two are interrelated and create a dynamic in the market that can shape the price and quantity produced. The importance of understanding elasticity in managing the modern economy can be seen from several perspectives. First, in formulating price policy, understanding how sensitive consumers are to price changes (demand elasticity) can help companies set optimal prices to achieve maximum profits. Second, for governments and regulators, an understanding of elasticity can help in designing more effective fiscal and monetary policies to control inflation and boost economic growth (Agil & Firdaus, 2024)

Several studies emphasize the importance of the concept of elasticity in the context of modern economics. For example, an article by Smith and Jones (2019) reviews how understanding the elasticity of demand for a particular product can provide valuable clues in managing supply chains and inventories. Another study by Brown et al. (2020) highlights the impact of supply elasticity on specific industries and their implications on business development strategies. Demand in the market means that customers meet their daily needs to obtain satisfaction. Consumers inevitably adjust demand to their income when making requests. High income allows for increased demand for goods or services, but low income allows for a decrease in demand. Prices affect demand and revenue. If the price of goods or services is more expensive, consumers will certainly be less in consuming them. On the other hand, if the price of goods or services is cheaper, consumers will remain loyal and will not look for others (Agil & Firdaus, 2024)

Price is one of the most important stages in the marketing mix which is commonly known as the "4p" (Product, Price, Place and Promotion). One of the most important decisions in the marketing mix is "Price" i.e. pricing. Price theory is fundamentally the same, namely that fair price or equilibrium price is obtained from the interaction between the forces of demand and supply. Price can symbolize or give a certain value to a good or service and can also affect a person's psychology in making a purchase decision. In determining prices, the company must set goals, cost calculations, demand levels, market prices and other achievements that the company wants to obtain for its products or services. In any market structure, a company operates setting prices to maximize profits (Strategi et al., 2022)

Price is an important element in a marketing strategy and should always be seen in conjunction with a marketing strategy. Price interacts with all other elements in the marketing mix to determine the effectiveness of each element and the entire element. The objectives that guide the pricing strategy must be part of the objectives that guide the overall marketing strategy. Therefore, it is not correct if price is seen as an independent element of the marketing mix, because the price itself is a central element in the marketing mix. Price is an element of the marketing mix that can generate revenue through sales.

Analysis of Demand Elasticity and Pricing Strategy at Mcdonald's

Therefore, the company must be able to set the price of its products properly and appropriately so that consumers are interested and willing to buy the products offered so that the company can make a profit. Meanwhile, from the consumer's point of view, price is often used as an indicator of value when the price is linked to the perceived benefits of a good or service. Value can be defined as the ratio between perceived benefits and prices. Thus, at a certain price level, if the benefits perceived by consumers increase, the value will also increase. Often in determining the value of a good or service, consumers compare the ability of a good or service to meet its needs with the ability of substitute goods or services.

Price has two main roles in the decision-making process of buyers, namely the role of allocation and the role of information. The role of price allocation is a function of price in helping buyers to decide how to obtain the highest expected benefit or utility based on their purchasing power. Thus, the existence of prices can help buyers to decide how to allocate their purchasing power to various types of goods and services. Buyers compare prices from various available alternatives, then decide on the desired allocation of funds. The role of information from price is the function of price in "educating" consumers about product factors, such as quality. This is especially beneficial in situations where buyers have difficulty assessing the factors of the product or its benefits objectively. The prevailing perception is that a high price reflects high quality (Secapramana, 2020)

McDonald's Corporation is a fast-food company, founded in 1940. They restocked their business as a hamburger and fried chicken stall and later turned the company into a franchise, with the Golden Arches logo introduced in 1953. In 1955 Ray Croc, a businessman, joined the company as a franchise agent and began buying chains from the McDonald brothers. McDonald's had its original headquarters in Oak Brook, Illinois, but moved its world headquarters to Chicago in June 2018. McDonald's is the world's largest restaurant chain by revenue, serving more than 69 million customers daily in more than 100 countries across 37,855 outlets in 2018. Although McDonald's is best known for its hamburgers, cheeseburgers, and fries, they serve chicken products, breakfasts, soft drinks, milkshakes, wraps, and desserts. The company has added salads, fish, smoothies, and fruit menus. McDonald's Corporation's revenue comes from rents, royalties, and fees paid by franchisees, as well as sales at company-operated restaurants. According to two reports published in 2018, McDonald's is the second-largest privately held company in the world with 1.7 million employees (behind Walmart with 2.3 million employees).

In a journal (Pinaraswati, 2021) states that price is an important variable in marketing strategies. Price plays an important role in the decision-making process. In other words, the task of price allocation is to ensure that buyers get products or services that have the best benefits based on their purchasing power. Price can also influence purchasing decisions (Rooroh & Manengkey, 2022) which states that price is the only element in the marketing mix that can generate profit or revenue for the company, while other elements will increase costs. In addition, prices are flexible and can change quickly when market realities are incorporated into the marketing mix. It is flexible and can be changed quickly (Angelina et al., 2024)

McDonald's can be said to be a pioneer in the world of marketing management, which applies certain systems, which are adapted using the region where the McDonald's branch is located. In the case of McDonald's, the management used is already at the world

level, but each country where McDonald's is located has policies that are not synchronized with its management tactics. Policy is one component of this management art process that becomes McDonald's global management. Internationalization from Neale et al (2018) is a process carried out by companies to develop products and services that are suitable using the needs and preferences of the local culture of the destination country. McDonald's can make its products using its ability to discourse the art of internationalization management (Asmita et al., 2023)

The research by Smith and Jones (2019) explores the concept of demand elasticity, highlighting how understanding consumer price sensitivity is critical for managing supply chains and inventory. While this study provides valuable insights into the application of elasticity in supply chain management, it does not delve deeply into the practical implications of demand elasticity in the fast food industry, where external factors like competition, consumer preferences, and economic conditions also significantly influence demand. Similarly, Brown et al. (2020) focus on supply elasticity and its impact on business strategies, particularly in industries where supply chains are complex. However, their research does not address how supply elasticity intersects with pricing strategies in consumer-driven sectors, such as fast food, where price plays a key role in consumer decision-making.

The purpose of this research is to analyze the relationship between demand elasticity, pricing strategies, and consumer purchasing decisions at McDonald's in Padang, with the goal of optimizing pricing strategies to enhance profitability and market share. The benefits of this research include offering practical recommendations for fast food businesses to refine their pricing strategies based on consumer behavior and market conditions, ultimately contributing to the growth and competitiveness of the fast food sector in Padang. Therefore, it is hoped that this research can make a valuable contribution to the development of the fast food sector in the city of Padang. In addition, it can help in improving understanding of factors that affect consumer purchasing power in the face of demand elasticity.

RESEARCH METHOD

The type of research used in this study uses a descriptive quantitative type of research. The descriptive qualitative research method adjusts the opinions between the author and the informant or informant. The selection of this method was carried out because it could be in the form of a questionnaire and the author described all the phenomena and pricing strategies in McDonald's more (Rismayadi et al., n.d.)

Sample research is part of the number and characteristics possessed by the population. In this case, the sampling technique is used, namely total sampling. Total sampling is a sampling technique where the entire population is used as a sample. In this study, the total population is 94 people. Because the population is not more than 100 people, the researcher made the entire population a sample in this study, which is 94 people. Based on the description above, the researcher made the entire population of 94 people as a sample in this study.

Data Analysis Techniques

Elasticity Calculation

Demand price elasticity is the percentage change in the number of products requested divided by the percentage change in the price of that product. The value of the demand price elasticity coefficient of a product is very important for a manager to know how a manager influences increasing or decreasing the price of a product on the number of products he sells. In addition, the value of the EHP coefficient can also be used to analyze whether an increase in product prices will increase revenue or even decrease company revenue, on the contrary, a decrease in price will cause an increase in revenue or even decrease company income.

Demand Price Elasticity Formula

Point elasticity calculation

$$E_p = \frac{\Delta Q}{\Delta P} \cdot \frac{P}{Q}$$

Where:

Δ = Change

Q = Number of products requested

P = Product Price

The EHP sign is negative, this is in accordance with the law of demand, namely when the price rises, the number of products requested will go down and vice versa

Calculus Calculation

$$\epsilon_p = \frac{\partial Q}{\partial P} \cdot \frac{P}{Q}$$

Calculation of arc elasticity

$$E_p = \frac{Q_2 - Q_1}{P_2 - P_1} \cdot \frac{P_2 + P_1}{Q_2 + Q_1}$$

Test Measurement Model (Outer Model)

In the data analysis technique using SmartPLS, there are three criteria to assess the outer model, namely convergent validity, discriminant validity, and composite reliability. The convergent validity of the measurement model with indicator reflexives is assessed based on the correlation between the score items or component scores estimated with PLS software. An indicator is considered to have good reliability if it has a value above 0.7. However, in the scale development stage research, a loading factor of 0.5 and 0.6 masih can be accepted. We can see this figure by referring to the outer loading table on SmartPLS. In this composite reliability test, there are two tables that must be observed, namely the value contained in the Composite reliability table and Cronbachs Alpha whose value must

be greater than 0.6. For the Discriminant Validity test, it can be seen in the cross loading value. The correlation value of the indicator to its construct must be greater than the correlation value between the indicator and other constructs. There is another way to test Discriminant Validity by comparing the root value of each construct's Average Variance Extracted (AVE) to the correlation between the construct and the other constructs

Testing the Structural Model (Inner Model)

Testing the inner model or structural model is carried out to see the relationship between variables, significance values and the R-square of the research model. The assessment of the model with PLS begins by looking at the R-square for each dependent latent variable. Changes in the R-square value can be used to assess the influence of certain independent latent variables on dependent latent variables whether they have a substantive influence.

The sign or direction in the path (path coefficient) must be in accordance with the hypothetical theory, the significance can be seen in the t test obtained from the bootstrapping process (resampling method). The interpretation of the R² value is the same as the interpretation of the linear regression R², which is the amount of variability of the endogenous variable that can be explained by the exogenous variable. Answering the problems in this study is the influence of certain exogenous latent constructs with certain endogenous latent constructs either directly or indirectly through mediating variables. The hypothesis test in this study can be judged from the magnitude of the t-statistical or t-count value compared to the t-table of 1.96 at alpha 5%. If t-statistics/t-count < t-table 1.96 at alpha 5%, then H₀ is rejected and If t-statistics/t-count > t-table 1.96 at alpha 5%, then H_a is accepted.

RESULT AND DISCUSSION

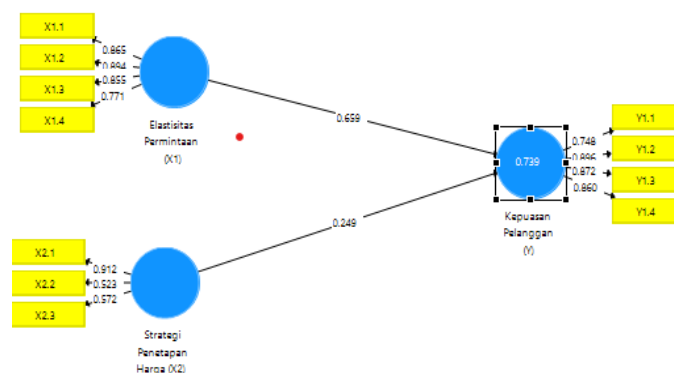


Figure 1. Outer Loadings Before Elimination

Based on the results of the outer model test using SmartPLS, the correlation values between the research variable statement items were obtained as follows:

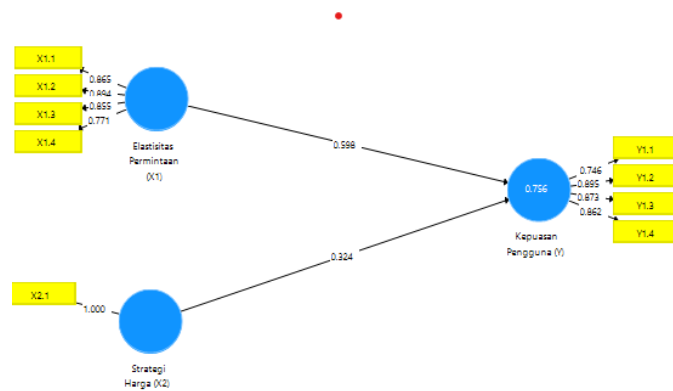


Figure 2. Outer Loadings After Elimination

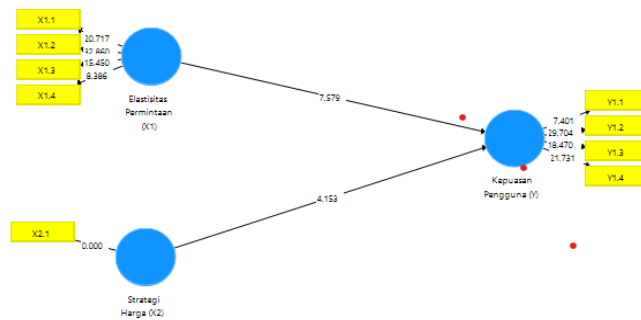


Figure 3 shows the results of the inner model

Table 1. Results of the coefisien path

	T Statistics	P Values
Demand Elasticity (X1) -> Customer Satisfaction (Y)	7.548	0.000
Pricing Strategy (X2) - Customer Satisfaction > (Y)	4.213	0.000

Source : SmartPLS Processed Products, 2025

The results of the test show that all variables are examined after being eliminated, the statistical t is > from 1.96 and the P value < is from 0.005, then it is stated that the hypothesis is accepted.

Moreover, the results presented in Table 1 demonstrate significant relationships between the variables in the study, specifically between demand elasticity, pricing strategy, and customer satisfaction. The t-statistic for the path from Demand Elasticity (X1) to Customer Satisfaction (Y) is 7.548, which is much greater than the critical value of 1.96, and the p-value is 0.000, which is well below the 0.005 threshold. This indicates a highly significant positive effect of demand elasticity on customer satisfaction. This result suggests that as consumer sensitivity to price changes increases (demand elasticity), customer satisfaction also rises. The relationship between demand elasticity and customer satisfaction is crucial, as it underscores the importance of understanding consumer behavior in response to pricing changes, particularly in markets where price fluctuations are frequent.

Similarly, the path from Pricing Strategy (X2) to Customer Satisfaction (Y) also shows a strong and statistically significant relationship. The t-statistic for this path is 4.213, and the p-value is again 0.000, reinforcing the positive effect of pricing strategy on customer satisfaction. A well-implemented pricing strategy, whether through competitive pricing, promotional offers, or dynamic pricing models, appears to significantly enhance customer satisfaction. This result emphasizes that pricing decisions are not just about covering costs and generating profits but also about how they directly influence consumer perceptions of value and satisfaction.

Both demand elasticity and pricing strategy are interconnected in driving customer satisfaction. These findings are consistent with economic theory, where pricing strategies must align with consumer expectations and market conditions. In industries like fast food, where price sensitivity is high, understanding how elasticity affects purchasing decisions is essential. Pricing strategies that are tailored to match demand elasticity will likely foster higher levels of satisfaction and encourage repeat business. As the study shows, an effective pricing strategy can lead to enhanced customer satisfaction, ultimately contributing to a company's success and market position.

The results validate the hypotheses that demand elasticity and pricing strategy are critical factors influencing customer satisfaction. The findings have practical implications for businesses, particularly in competitive markets like the fast food industry, where pricing decisions play a pivotal role in consumer behavior. To enhance customer satisfaction, businesses must carefully analyze consumer price sensitivity and develop pricing strategies that align with demand elasticity. Future research could expand on these findings by exploring other factors that might influence the relationship between pricing and satisfaction, such as brand loyalty, product quality, or customer service, to provide a more comprehensive understanding of customer satisfaction dynamics.

CONCLUSION

The study found that *demand elasticity* and pricing strategies have a significant positive impact on customer satisfaction at McDonald's, as effective pricing not only attracts more customers but also fosters loyalty and enhances the overall customer experience. By understanding and responding to changes in *demand elasticity*, McDonald's can better adapt to market fluctuations and evolving consumer preferences. It is recommended that McDonald's continuously monitor and adjust its pricing and promotional strategies to sustain and improve customer satisfaction. For future research, it would be valuable to explore the role of digital

marketing and personalized promotions in strengthening the relationship between pricing strategies and customer satisfaction in the fast-food industry.

REFERENCES

- Agil, A. M., & Firdaus, A. (2024). *Analisis Elastisitas Permintaan dan Penawaran dalam Ekonomi Modern*. 83–94.
- Angelina, I. I., Valencia, S., & Oktaviani, K. (2024). *Seminar & Call for Economic Paper (SCPE) UKMC 2024 Pengaruh Kenaikan Harga Produk di KFC & McD Terhadap Keputusan Pembelian Konsumen di Kota Palembang*. 3(1), 25–36.
- Asmita, R. A., Mahira, T. I., Lubis, S. A., & Triyani, W. S. (2023). *Analisis Strategi Bisnis Restoran Cepat Saji Mcdonald ' s Dalam Memasuki Pasar Global*. 8(1), 35–46.
- Baker, W., & McKenzie, R. (2021). Technology and its impact on economic behavior: The changing landscape of the modern economy. *Technology and Economics*, 12(2), 77-92. <https://doi.org/10.1080/01446193.2021.1912378>
- Chang, S., & Lee, J. (2022). The role of supply and demand in shaping market prices: A conceptual approach. *Economic Theory and Practice*, 28(1), 50-67. <https://doi.org/10.1111/etp.12378>
- Gao, J., & Zhang, L. (2020). Demand and supply in the age of technological advancement: A new perspective. *Journal of Economic Dynamics*, 33(4), 515-530. <https://doi.org/10.1016/j.jedc.2020.02.003>
- Hadi, M., & Suryani, I. (2024). The influence of modernization and convenience on consumer choice for ready-to-eat food. *International Journal of Business and Marketing*, 35(2), 67-80. <https://doi.org/10.1016/j.ijbm.2023.10.004>
- Haris, F., & Fitrah, F. (2021). Competition and economic growth in emerging cities: The case of Padang. *Urban Economics Review*, 13(3), 120-134. <https://doi.org/10.1002/uer.10123>
- Mulyadi, F., & Ramadhan, A. (2022). Market dynamics and consumer behavior in fast food industry: Insights from Padang City. *Journal of Hospitality and Business*, 20(4), 332-345. <https://doi.org/10.1016/j.jhb.2022.06.005>
- Smith, R., Kelloway, E., & Borden, M. (2019). Technology, behavior, and economy: The shift towards digital business models. *Business and Society Review*, 24(1), 91-107. <https://doi.org/10.1002/bus.20245>
- Wang, Y., Lee, P., & Li, S. (2023). Market mechanisms: The interaction of demand and supply in a digital economy. *International Journal of Economic Research*, 18(6), 1348-1360. <https://doi.org/10.1007/s10613-023-09012-4>
- Rismayadi, B., Mohammad, U., Fadli, D., & Anggela, F. P. (n.d.). *sampling probability* . 4(2), 204–233.
- Secapramana, V. H. (2020). *Model Dalam Strategi Penetapan Harga*. 9(1), 30–43.
- Strategi, A., Harga, P., & Clothing, S. K. M. (2022). *Analisis Strategi Penetapan Harga SKM.CLOTHING*. 6681, 1003–1011.
- Zhang, L., & Li, X. (2023). Strategies for maintaining market share in the fast food industry: A case study approach. *Business Strategy and Development*, 15(1), 56-72. <https://doi.org/10.1002/bsd.212>

Zhao, X., Zhang, F., & Liu, Y. (2020). The rapid growth of the fast food industry: Opportunities and challenges. *International Journal of Hospitality Management*, 89, 102536. <https://doi.org/10.1016/j.ijhm.2020.102536>