

McDonalds use a wide range of both price and non-price competition. Price competition is where a firm changes the price of a product without changing it physically to compete with its competition. Non-price competition is where a firm makes its product or products seem different. Non-price competition can be broken up into two branches, **product variation and product differentiation**.

Product variation is a type of non-price competition where a firm makes actual physical changes to its product; **a firm does this to** make a product better or to make it healthier for you. **The other type of non-price competition is product differentiation** where a firm makes the product more attractive by only making it seem different without any physical changes **like buying coffee beans that are "fair trade"** and **have the "Rainforest Alliance Group" seal of approval**. They do it to gain a reputation as a "fair trade" company or product, and **so increase consumer demand for their products**. **This is an effective way for firms to increase sales because they do not have to change the price or product itself, but they pay for the advertising costs**. The addition of **"Free Wi-Fi"** to every McDonalds store in New Zealand (NZ) is another example of differentiation. Through **bulk buying** and **negotiating a lower price through the purchase of many internet connections throughout all their stores** around NZ, McDonalds would have been able to **increase sales without the need for very expensive costs involved with a major advertising campaign**.

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There is only one type of price competition used regularly by McDonalds NZ. Price competition involves the firm reducing the price of a product or products by a percentage or by a certain number of dollars to gain an advantage over its competitors and to gain customers. **This usually happens if a firm is able to make cutbacks or is able to increase its productivity**. Alternatively they **could take the costs on board in order to gain customer loyalty or a short term increase in sales**, but they cannot afford to do this **longer term as they want to maximise profits**. Also **undercutting a competitor's price could result in a price war so is not a sustainable option**.

2

McDonalds has **price advertising campaigns** such as: **"\$20 family boxes"** or **"The dollar menu"**. By doing these deals they reduce the price of the products in order to make them more attractive. This leads to an increase in sales as more people come through their doors, **aiming to increase their market share of the fast food industry**.

Price competition is a very short term form of advertisement, as the company does not gain very many longer term benefits from the campaign apart from a short term increase in income over the period. It is aimed at **"getting people through the door"** as quoted by Mr P to **increase sales and maybe profit**. Campaigns such as **"spend \$9 and get a cheese burger for \$1"** bring a short term increase in sales to the firm. **McDonalds probably makes a loss on the cheese burgers in order to encourage people to spend \$9 or to gain more customers**.

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Non-price competition is the opposite; **it provides a longer term and often lasting impression for the firm**. **The benefits are longer term because when people get a good image of McDonalds it often sticks**. This is very common in advertising strategies which use product differentiation. **By differentiating their product McDonalds doesn't need to make major changes to its products**. McDonald's constant endeavour to improve New Zealanders' opinion has caused them to **switch to free range eggs** and so create for themselves a lasting **image as a company that considers animal welfare to be important**. McDonald's is also trying to **create a healthier image by advertising their healthy options range on TV, adding variation to their products and when they reduce the price or differentiate them to seem better people are more likely to purchase these products** rather than the traditional fatty burgers. They do this with their **"wraps"** which have **less fat** and **less calories per serve** and **are cheaper** and **take up a whole advertising space** in the McDonalds stores. **This does not mean that customers will buy the healthier options**. **As more people come through the store from advertising some will still choose to buy the other unhealthy products like burgers and fries**.

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