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Chicago McDonald's offers \$1 breakfast items

By Lisa Baertlein and Brad Dorfman

LOS ANGELES/CHICAGO (Reuters) - McDonald's Corp restaurants around Chicago are offering a new breakfast Dollar Menu promotion as morning visits to fast-food chains decline and competition intensifies.

The breakfast promotion, a first for Chicago-area restaurants, is not intended to become permanent on U.S. menus, and comes on the heels of similar promotions in other markets, a McDonald's spokeswoman said.

Analysts said McDonald's new Chicago promotion illustrates how breakfast pricing is becoming more aggressive as unemployment rises.

Chicago restaurants participating in the "Build Your Breakfast" offer six \$1 items: two hot cakes, a fruit 'n yogurt parfait, a sausage biscuit, a sausage McMuffin, two hash browns or medium coffee.

U.S. McDonald's restaurants, which get roughly a quarter of their sales from morning meals, have long had the option of selling a variety of breakfast items for \$1.

"Markets choose what offerings make sense to suit their customers' needs. The promotion is going to vary from market to market," the McDonald's spokeswoman said.

The breakfast promotion and other efforts could suggest that McDonald's is feeling the breakfast pinch, said Telsey Advisory Group analyst Tom Forte.

"Nothing is sacred for them. Breakfast is one of their more profitable day parts. They'll push the envelope with price to generate sales," Forte said.

Burger King already has a breakfast value menu, Yum Brands Inc's Taco Bell is expanding into breakfast and focusing on keeping prices low, and privately held Dunkin' Donuts has rolled out a 99-cent breakfast sandwich.

The renewed value push also reflects lower costs for meat, cheese and paper, which make selling \$1 items more attractive.

McDonald's has been outperforming many of its peers in the weak economy. It gets about 10 percent of sales from its Dollar Menu that features lunch and dinner items.

McDonald's has had the Dollar Menu since 2002. While sales of Dollar Menu items can lower profits for franchisees, the low-price menu attracts customers who often buy other high-profit items like soft drinks.

Shares of McDonald's closed up 55 cents at \$57 on the New York Stock Exchange on Wednesday, while shares of Burger King closed down 2.35 percent at \$18.31 after Wedbush Morgan downgraded the stock.

(Reporting by Lisa Baertlein and Brad Dorfman)