

United States Senate

WASHINGTON, DC 20510

October 21, 2024

Chris Kempczinski
President and Chief Executive Officer
McDonald's
110 N Carpenter Street
Chicago, Illinois 60607

Dear Mr. Kempczinski:

We write with concern regarding increases in fast food prices over the last several years and seeking information regarding McDonald's pricing decisions. While McDonald's is not the only fast food restaurant that has increased prices significantly in recent years, its dominant market position as the largest fast food chain in the United States has an outsize impact on American consumers. While working families are trying to make ends meet, McDonald's and its corporate counterparts have continued to grow their profits.

Since the COVID-19 pandemic, fast food prices have consistently outpaced inflation,¹ squeezing consumers who for decades were able to rely on restaurants like McDonald's for a meal at a fair price. However, Americans are now leaving fast food establishments and are increasingly choosing to spend their food dollars on at-home consumption.² Since 2020, the Consumer Price Index has increased by 20 percent,³ but McDonald's may have increased its menu prices for certain items by substantially more.⁴ A recent analysis of six popular fast food chains (McDonald's, Taco Bell, Chick-fil-A, In-N-Out Burger, Burger King, and Jack in the Box) found that 27 out of 30 menu items experienced price increases that outpaced inflation.⁵

Earlier this year, McDonald's USA President Joe Erlinger tried to blame the company's menu price increases on inflationary pressures and input costs,⁶ but the data tells another story. A recent analysis found that McDonald's markup (i.e. the difference between the prices consumers

¹ CNBC, "Why fast-food price increases have surpassed overall inflation," Ryan Baker, May 4, 2024, <https://www.cnbc.com/2024/05/04/why-fast-food-price-increases-have-surpassed-overall-inflation.html>.

² Restaurant Business, "Frustrated fast-food customers are apparently heading to Walmart," Jonathan Maze, May 17, 2024, <https://www.restaurantbusinessonline.com/financing/frustrated-fast-food-customers-are-apparently-heading-walmart>.

³ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPIAUCSL>, August 13, 2024.

⁴ The Street, "How much have fast-food prices gone up since 2020? Price hikes at 6 popular chains," Jeremy Salvucci, June 7, 2024, <https://www.thestreet.com/personal-finance/fast-food-chains-price-increases>.

⁵ *Id.*

⁶ McDonald's, "Providing meaningful value to our fans, with a side of facts," Joe Erlinger, May 29, 2024, <https://corporate.mcdonalds.com/corpmcd/our-stories/article/providing-meaningful-value-to-our-fans-with-a-side-of-facts.html>. McDonald's followed up with a lawsuit accusing the four largest meat producers of conspiring to fix the price of beef. Washington Post, "McDonald's sues major beef producers for price-fixing," Tim Carman, October 8, 2024, <https://www.washingtonpost.com/food/2024/10/08/mcdonalds-beef-lawsuit-price-fixing/>.

pay and the cost of production) was 85% in 2023.⁷ McDonald's operating profit margins were 52% in the same year, the highest of the ten largest publicly traded fast food companies.⁸

McDonald's own reports indicate that the company's price increases may be outstripping inflation. Operating expenses increased by 16.5% from 2020 to 2023,⁹ yet McDonald's net profit margins increased from approximately 26% in 2020 to 32% in 2023, with margins continuing to rise in 2024.¹⁰ As a result, McDonald's net annual income rose by over 79% – to nearly \$8.5 billion – from 2020 to 2023.¹¹

American consumers are responding by taking their business elsewhere. In response, company executives have now promised to take a “forensic approach” to evaluating high prices as “[r]unaway menu prices have scared off many fast-food customers, including those in the low-income bracket.”¹² We welcome the results of a forensic examination of your pricing, but note that at the same time that McDonald's was raising prices, McDonald's has paid out almost \$4 billion in stock buybacks in 2022 and over \$3 billion in 2023.¹³ McDonald's is also among the many corporations that take advantage of a tax loophole that grants stock buybacks a seven percent tax advantage compared to shareholder dividends. Stock buybacks enrich shareholders while forgoing productive investments in McDonald's own business and workers that could grow the economy.¹⁴

⁷ Roosevelt Institute, “Fast-Food Industry Profiteering: Why California Businesses Can Absorb a Higher Minimum wage,” Ali R. Bustamante & Ira Regmi, March 2024, https://rooseveltinstitute.org/wp-content/uploads/2024/03/RI_Fast-Food-Industry-Profiteering_Brief_032024.pdf, p. 6.

⁸ *Id.*, 8.

⁹ McDonald's, “McDonald's Reports Fourth Quarter and Full Year 2021 Results,” Jan. 27, 2022, <https://corporate.mcdonalds.com/content/dam/sites/corp/nfl/pdf/Q4%20Earnings%20Release%20-%202019.1.pdf>; McDonald's, “McDonald's Reports Fourth Quarter and Full Year 2022 Results,” Jan. 31, 2022, <https://corporate.mcdonalds.com/content/dam/sites/corp/nfl/pdf/Q4%202022%20Earnings%20Release%20-%202022.1.pdf>; McDonald's, “McDonald's Reports Fourth Quarter and Full Year 2023 Results,” Feb. 5, 2024, <https://corporate.mcdonalds.com/content/dam/sites/corp/nfl/pdf/Exhibit%20-%20Q4-23.pdf>

¹⁰ Macrotrends, “McDonald's Profit Margin 2010-2024,” <https://www.macrotrends.net/stocks/charts/MCD/mcdonalds/profit-margins>.

¹¹ Yahoo Finance, “McDonald's Corporation Financials (MCD),” <https://finance.yahoo.com/quote/MCD/financials/>

¹² CNBC, “McDonald's executives admit diners think prices are too high, say they're working to create value,” Ece Yildirim, July 29, 2024, <https://www.cnbc.com/2024/07/29/mcdonalds-earnings-executives-say-prices-are-too-high.html>; CNBC, “Fast-food chains battle for low-income diners with summer value meals,” Amelia Lucas, July 28, 2024, <https://www.cnbc.com/2024/07/28/value-meals-mcdonalds-wendys-burger-king-vie-for-low-income-diners.html>.

¹³ Yahoo Finance, “McDonald's Corporation Cash Flow,” <https://finance.yahoo.com/quote/MCD/cash-flow/>; Tax Policy Center, “What is the US Tax Advantage of Stock Buybacks Over Dividends,” Thomas Brosy, Steve Rosenthal, March 2024, https://www.taxpolicycenter.org/sites/default/files/publication/165800/what_is_the_us_tax_advantage_of_stock_buybacks_over_dividends.pdf; Institute of Taxation and Economic Policy, “Higher Stock Buyback Tax Would Raise Billions by Tightening Loophole for the Wealthy,” <https://itep.org/higher-stock-buyback-tax-would-raise-billions-by-tightening-loophole-for-the-wealthy/>.

¹⁴ Tax Policy Center, “What is the US Tax Advantage of Stock Buybacks Over Dividends,” Thomas Brosy, Steve Rosenthal, March 2024, https://www.taxpolicycenter.org/sites/default/files/publication/165800/what_is_the_us_tax_advantage_of_stock_buybacks_over_dividends.pdf; Institute of Taxation and Economic Policy, “Higher Stock Buyback Tax Would Raise Billions by Tightening Loophole for the Wealthy,” <https://itep.org/higher-stock-buyback-tax-would-raise-billions-by-tightening-loophole-for-the-wealthy/>.

Corporate profits must not come at the expense of people’s ability to put food on the table. As we seek to investigate and understand the increased consumer costs in the economy, we hope McDonald’s will help us to understand why its prices have risen so high. To better understand McDonald’s business decisions, we request responses to the following questions by no later than November 4, 2024:

1. How does McDonald’s make pricing decisions on individual menu items, and is that price increase justified entirely by an increase in McDonald’s input costs?
 - a. If yes, please provide a detailed accounting on these costs.
 - b. How often does the company reevaluate prices?
2. Earlier this summer, in an effort to combat lagging sales, McDonald’s announced a \$5 Meal Deal.¹⁵ Although initially introduced as a limited-time offer, Mr. Erlinger recently said the company is extending the deal because its availability has helped shift “sentiment towards the brand around value and affordability.”¹⁶ Apart from the \$5 Meal Deal, has McDonald’s lowered prices on individual menu items? If no, please explain why not.
3. According to a May 2024 open letter from Mr. Erlinger, “[McDonald’s] franchisees (who own and operate more than 95% of all restaurants in the U.S.) set menu prices for their restaurants, which account for the increased costs of running their businesses. ... This includes the everyday prices on our restaurant menu boards to special limited-time offers.”¹⁷ Does McDonald’s provide guidelines to franchisees regarding pricing decisions?
4. McDonald’s has spent over \$7 billion on stock buybacks since 2022.¹⁸ What factors informed McDonald’s spending on stock buybacks? Instead of spending on stock buybacks, could McDonald’s have instead cut prices for customers or otherwise invested in your business to create value for customers?

¹⁵ Reuters, “McDonald’s posts rare profit miss as customers turn picky,” Savyata Mishra, April 30, 2024, <https://www.reuters.com/business/retail-consumer/mcdonalds-sales-misses-estimates-customers-cut-back-spending-2024-04-30/>; CNBC, “McDonald’s \$5 value meal is coming in June — and staying for just a month,” Kate Rogers, May 15, 2024, <https://www.cnbc.com/2024/05/15/mcdonalds-5-value-meal-starts-june-25-last-about-a-month.html>

¹⁶ USA Today, “Value meal wars heat up as more fast food spots, restaurants offer discounted menu items,” Mike Snider and Mary Walrath-Holdridge, August 19, 2024, <https://www.usatoday.com/story/money/food/2024/08/19/value-meals-mcdonalds-wendys-taco-bell/74783555007/>.

¹⁷ McDonald’s, “Providing meaningful value to our fans, with a side of facts,” May 29, 2024, [https://corporate.mcdonalds.com/corpmcd/our-stories/article/providing-meaningful-value-to-our-fans-with-a-side-of-facts.html#:~:text=Our%20franchisees%20\(who%20own%20and,price%20increases%20on%20our%20fans.](https://corporate.mcdonalds.com/corpmcd/our-stories/article/providing-meaningful-value-to-our-fans-with-a-side-of-facts.html#:~:text=Our%20franchisees%20(who%20own%20and,price%20increases%20on%20our%20fans.)

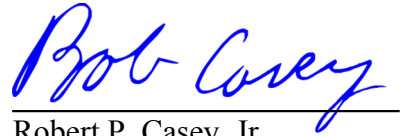
¹⁸ Yahoo Finance, “McDonald’s Corporation Cash Flow,” <https://finance.yahoo.com/quote/MCD/cash-flow/>; Tax Policy Center, “What is the US Tax Advantage of Stock Buybacks Over Dividends,” Thomas Brosy, Steve Rosenthal, March 2024, https://www.taxpolicycenter.org/sites/default/files/publication/165800/what_is_the_us_tax_advantage_of_stock_buybacks_over_dividends.pdf; Institute of Taxation and Economic Policy, “Higher Stock Buyback Tax Would Raise Billions by Tightening Loophole for the Wealthy,” <https://itep.org/higher-stock-buyback-tax-would-raise-billions-by-tightening-loophole-for-the-wealthy/>.

5. Did McDonald's executives receive bonuses or other incentive-based compensation between 2020 and 2024? If yes, please provide the total dollar amount of these bonuses or other incentives for each year, and the specific reason these bonuses or incentive payments were awarded. Were any of these bonuses or incentives based upon executives' ability to increase per-customer revenue or per-customer profits? Does McDonald's award any bonuses based upon reducing prices or increasing value for customers?

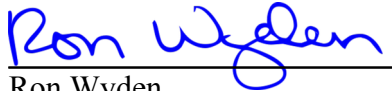
Sincerely,



Elizabeth Warren
United States Senator



Robert P. Casey, Jr.
United States Senator



Ron Wyden
United States Senator