Antonio’s Mexican Restaurant

Operates a regional chain of 55 Mexican-American fast-food shops in the Midwestern United States. Their business model centers on prepared food that is sold ala-carte to customers. The shops have a small dining area, enough to accommodate 12 customers. However, the success of the shops has always been in their ability to quickly fulfill prepaid online and app-driven orders at a separate “drive-up/grab and go” location at the shops. The process results in orders consistently fulfilled in less than 30 seconds, with no onsite payments to slow down the line. The COVID-19 pandemic of 2020 forced the closure of all 55 of the shops’ indoor dining areas. Such an event would have shaken the very foundation of most restaurants of this type, but Antonio’s experience with “grab and go” gave the company a competitive edge as the pandemic unfolded. During the second quarter of 2020, sales were 30% higher than the same quarter of 2019. In response to the increased demand, Antonio’s added a second drive-up window to all of its shops with a very aggressive third-quarter construction program. Sales continued to climb through the remainder of 2020 and through the first quarter of 2021.Antonio’s Mexican Restaurant operates a regional chain of 55 Mexican-American fast-food shops in the Midwestern United States. Their business model centers on prepared food that is sold ala-carte to customers. The shops have a small dining area, enough to accommodate 12 customers. However, the success of the shops has always been in their ability to quickly fulfill prepaid online and app-driven orders at a separate “drive-up/grab and go” location at the shops. The process results in orders consistently fulfilled in less than 30 seconds, with no onsite payments to slow down the line. The COVID-19 pandemic of 2020 forced the closure of all 55 of the shops’ indoor dining areas. Such an event would have shaken the very foundation of most restaurants of this type, but Antonio’s experience with “grab and go” gave the company a competitive edge as the pandemic unfolded. During the second quarter of 2020, sales were 30% higher than the same quarter of 2019. In response to the increased demand, Antonio’s added a second drive-up window to all of its shops with a very aggressive third-quarter construction program. Sales continued to climb through the remainder of 2020 and through the first quarter of 2021.Antonio’s is struggling to try to keep up with demand for its regionally popular tacos, burritos, and Southwestern salads. They have hired you as an economic consultant to assist them with some important pricing issues facing the firm’s 55 restaurants. Their questions are the following: We are perplexed with the outcome of certain price changes at our restaurants. Prior to the pandemic, we sold our Mexican combo, consisting of one beef or chicken taco, one beef or chicken burrito, and one small cup of refried beans for $5.95. At that time, our average shop was selling 600 Mexican combos each week. Once the pandemic hit, our commodity inputs rose in price as did the cost of our labor. We hesitantly raised the price to $6.95, anticipating a major reduction in the weekly quantity of demand. To our amazement, average sales per store only declined by 15 combos per week. Please calculate the coefficient of price elasticity of the combo meal using the Midpoints Formula. As a budding economist, what can you conclude about the price elasticity of our combo meals? Did our combo meals prove to be elastic or inelastic in nature? Explain. Senior management has directed shop managers to listen very closely to customers as it relates to this and other price changes at the shop. Without exception, our customers enjoy our products so much, they often state that even after the increase, “they would purchase the combo meals at one dollar more, without hesitation.” What does this information infer to you relative to the “pricing power” we have with our combo meals? What does this infer in terms of the combo’s “consumer surplus?” management is stunned by their consumers’ lack of price responsiveness to the combo meals. Understanding that our reduction in sales has been minimal, and the fact that consumers continue to speak so highly of the combo meals, does this suggest that Antonio’s might consider another price increase to the $7.25 to $7.75 range? Explain your rationale for your conclusion on future pricing. Complete the case study by addressing each of the four questions and posting your analysis with a Word or similar file. Show all work on the calculations.