Step 2: Specifying the Ideal Target Segment

McDonald's Market Segmentation Analysis

Strategic Criteria Definition

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Abstract

Before extracting market segments from data, management must define what characteristics make a segment attractive and actionable. This critical pre-analysis step establishes both "knock-out criteria" (minimum requirements for viability) and "attractiveness criteria" (features that make segments strategically valuable). For McDonald's, this involves balancing offensive strategies (expanding market share by converting negative perceptions) with defensive strategies (reinforcing positive perceptions in loyal segments). This document provides the strategic framework and Python implementation for defining, documenting, and evaluating target segment specifications.

Contents

6   Connection to Overall Workflow   13

1 Strategic Foundation

The Fundamental Question

What makes a market segment worth targeting for McDonald's?
This question must be answered *before* analyzing data to ensure that extracted segments align with business capabilities and strategic objectives. Without pre-defined criteria, organizations risk discovering "interesting" segments that cannot be profitably served or accessed.

1.1 Why Define Criteria in Advance?

Benefits of Pre-Specification

1. **Prevents Data-Driven Bias**

   - Avoids selecting segments simply because they emerge prominently in analysis

   - Ensures business logic drives decisions, not statistical artifacts

   - Maintains focus on strategic objectives

2. **Enables Objective Evaluation**

   - Clear benchmarks for comparing potential target segments

   - Systematic scoring across multiple criteria

   - Defensible rationale for segment selection

3. **Aligns Stakeholders**

   - Management agreement on priorities before seeing results

   - Reduces post-analysis debate and second-guessing

   - Creates shared language for segment evaluation

4. **Guides Data Collection**

   - Identifies necessary descriptor variables

   - Ensures actionability information is captured

   - Prevents costly data gaps discovered too late

2   Two-Tier Criteria Framework

2.1   Knock-Out Criteria (Mandatory Requirements)

Non-Negotiable Segment Properties

Knock-out criteria represent **absolute minimum requirements**. Segments failing any criterion are eliminated regardless of other attractive features.
For McDonald's, the following knock-out criteria apply:

2.1.1   1. Homogeneity (Internal Similarity)

Requirement: Within-Segment Consistency

Definition: Segment members must be similar to one another on key characteristics used for segmentation.
Why Critical:

- Enables development of unified marketing message

- Justifies treating members as single strategic unit

- Ensures predictable response to marketing actions

McDonald's Application:

- Members share similar brand perception patterns

- Consistent attitudes toward specific attributes (taste, price, health)

- Homogeneous motivations for visiting or avoiding McDonald's

Measurement: Within-segment variance should be substantially lower than total population variance

2.1.2   2. Distinctness (Between-Segment Differences)

Requirement: Meaningful Differentiation

Definition: Segments must differ substantially from one another on strategically important dimensions.
Why Critical:

- Justifies customized marketing strategies per segment

- Ensures segments require different value propositions

- Prevents wasted resources on artificial distinctions

McDonald's Application:

- Perceptual profiles significantly different across segments

- Distinct primary drivers of satisfaction/dissatisfaction

- Different competitive vulnerabilities and opportunities

Measurement: Between-segment variance should be large relative to within-segment variance

2.1.3   3. Size (Market Viability)

Requirement: Economic Sustainability

Definition: Segment must be large enough to justify development and implementation costs of customized marketing mix.

Why Critical:

- Fixed costs of segment-specific campaigns must be amortized

- Media buys require minimum audience sizes

- ROI calculation requires sufficient revenue potential

McDonald's Application:

- Minimum segment size: 5% of total market (approximately 73 consumers in sample of 1,453)

- Considers absolute size in target geography

- Accounts for revenue potential, not just head count

Measurement: Percentage of total market; projected revenue contribution

2.1.4   4. Match with Organizational Strengths

Requirement: Strategic Fit

Definition: Segment needs and preferences must align with organization's core competencies and brand positioning.

Why Critical:

- Cannot serve segments requiring capabilities outside core business

- Brand dilution risk if stretching too far from identity

- Competitive advantage comes from leveraging strengths

McDonald's Application:

- Must be open to eating at fast-food restaurants (not exclusively fine dining)

- Value speed and convenience (core McDonald's proposition)

- Accept quick-service restaurant format

- Compatible with existing operational model

Measurement: Qualitative assessment of strategic fit

2.1.5   5. Identifiability (Recognition Capability)

Requirement: Observable Characteristics

Definition: Must be possible to identify segment members among general population using observable or measurable characteristics.

Why Critical:

- Enables targeted media placement

- Allows customized in-store experiences

- Facilitates performance tracking and measurement

McDonald's Application:

- Correlated with demographic variables (age, gender, income)

- Associated with behavioral patterns (visit frequency, day-part)

- Linked to geographic concentrations

- Reflected in media consumption habits

Measurement: Strength of association between segment membership and observable descriptor variables

2.1.6   6. Reachability (Communication Access)

Requirement: Marketing Channel Availability

Definition: Channels must exist through which segment can be communicated with and products delivered.
Why Critical:

- No value in identifying segment if cannot be reached

- Media fragmentation requires known channel preferences

- Distribution capabilities must align with segment location

McDonald's Application:

- Accessible through traditional mass media (TV, radio)

- Reachable via digital channels (social media, mobile apps)

- Geographic proximity to McDonald's locations

- Responsive to available promotional channels

Measurement: Availability and cost-effectiveness of communication channels

2.2   Attractiveness Criteria (Prioritization Factors)

Evaluating Segment Strategic Value

Attractiveness criteria help **prioritize** among segments meeting all knock-out requirements. These represent desirable but not mandatory features.
For McDonald's, attractiveness criteria focus on:

2.2.1   Primary Attractiveness Criterion: Brand Affinity

Measuring Like/Love for McDonald's

Variable: "Like" rating (I hate it! -5 to I love it! +5)
Why Important:

- Direct measure of brand relationship strength

- Predicts future visit intentions and loyalty

- Indicates receptivity to marketing messages

- Correlates with word-of-mouth advocacy

Strategic Options:

1. **Defensive Strategy:** Target segments with high positive ratings

   - Objective: Reinforce and maintain loyalty

- Benefit: Protect existing market share
- Risk: Lower growth potential

2. **Offensive Strategy:** Target segments with negative ratings

  - Objective: Convert non-customers through perception modification
  - Benefit: Market expansion opportunity
  - Risk: Higher cost and uncertainty

Optimal Range: Segments with "Like" ratings between -1 and +3 offer best balance of growth potential and conversion feasibility

2.2.2 Secondary Attractiveness Criterion: Visit Frequency

Measuring Current Behavior

Variable: VisitFrequency (ordinal scale)

- Never
- Once a year
- Every three months
- Once a month
- Once a week
- More than once a week

Why Important:

- Reveals current revenue contribution
- Indicates habit formation and loyalty
- Suggests growth headroom (occasional visitors can increase frequency)
- Identifies high-value customer segments

Strategic Interpretation:

1. **High Frequency + High Like:** Defend and deepen relationship
2. **Low Frequency + High Like:** Increase occasion opportunities
3. **High Frequency + Low Like:** Risk of churn; address dissatisfaction
4. **Low Frequency + Low Like:** Lowest priority unless large and convertible

Optimal Range: Segments visiting monthly or more frequently represent most valuable targets

3 McDonald's Strategic Decisions

3.1 Management Strategy Selection

> ### McDonald's Dual-Track Approach
>
> After internal deliberation, McDonald's management decides to pursue **both defensive and offensive strategies**:
>
> **Defensive Track:**
>
> - Target segments with positive McDonald's perceptions
> - Goal: Strengthen existing loyalty and increase visit frequency
> - Tactics: Reward programs, new product development aligned with preferences
>
> **Offensive Track:**
>
> - Target segments with negative perceptions but correctable drivers
> - Goal: Understand perception root causes and systematically address them
> - Tactics: Modify problematic attributes, communicate improvements
>
> **Rationale:**
>
> 1. McDonald's has resources to pursue multiple segments simultaneously
> 2. Market leadership requires both retention and acquisition
> 3. Different segments may have complementary seasonal/day-part patterns
> 4. Portfolio approach reduces strategic risk

3.2 Documented Criteria for McDonald's

Table 1: McDonald's Target Segment Evaluation Framework

Type	Criterion	McDonald's Specification
Knock-Out	Homogeneity	Low within-segment variance on perceptions
	Distinctness	Significant between-segment differences
	Size	Minimum 5% of market (73+ consumers)
	Match	Open to fast-food dining; value convenience
	Identifiability	Observable demographics/behaviors
	Reachability	Accessible via mass & digital media
Attractiveness	Brand Affinity	Like rating: -1 to +3 ideal range
	Visit Frequency	Monthly or more frequent preferred

4 Python Implementation

4.1 Loading Data with Criteria in Mind

```python
# Step 2: Load data and prepare for criteria evaluation
import pandas as pd
import numpy as np
import matplotlib.pyplot as plt
import seaborn as sns

# Assuming data already loaded from Step 1
# If not, load it:
# mcdonalds = pd.read_csv('mcdonalds.csv')

print("Dataset shape:", mcdonalds.shape)
print("\nChecking key variables for segment evaluation:")

# Check Like variable (primary attractiveness criterion)
print("\n1. LIKE Variable (Brand Affinity):")
print(mcdonalds['Like'].value_counts().sort_index())
print(f"Mean Like score: {mcdonalds['Like'].mean():.2f}")
print(f"Std Dev: {mcdonalds['Like'].std():.2f}")

# Check VisitFrequency (secondary attractiveness criterion)
print("\n2. VisitFrequency Variable:")
print(mcdonalds['VisitFrequency'].value_counts())

# Convert to numeric for analysis
visit_freq_map = {
    'Never': 0,
    'Once a year': 1,
    'Every three months': 2,
    'Once a month': 3,
    'Once a week': 4,
    'More than once a week': 5
}
mcdonalds['VisitFreq_numeric'] =
↪   mcdonalds['VisitFrequency'].map(visit_freq_map)

print(f"\nMean visit frequency (numeric):
↪   {mcdonalds['VisitFreq_numeric'].mean():.2f}")

# Check identifiability variables (demographics)
print("\n3. Demographic Variables (Identifiability):")
print(f"Age range: {mcdonalds['Age'].min()}-{mcdonalds['Age'].max()}")
print(f"Mean age: {mcdonalds['Age'].mean():.1f}")
print(f"\nGender distribution:")
print(mcdonalds['Gender'].value_counts())
```

4.2   Visualizing Attractiveness Criteria

```python
# Create visualization of attractiveness criteria space

fig, axes = plt.subplots(1, 2, figsize=(14, 5))

# Plot 1: Like distribution
ax1 = axes[0]
like_counts = mcdonalds['Like'].value_counts().sort_index()
ax1.bar(like_counts.index, like_counts.values, color='skyblue',
    edgecolor='black')
ax1.set_xlabel('Like Rating (I hate it! to I love it!)', fontsize=12)
ax1.set_ylabel('Number of Consumers', fontsize=12)
ax1.set_title('Distribution of Brand Affinity', fontsize=14, fontweight='bold')
ax1.axvline(x=0, color='red', linestyle='--', label='Neutral')
ax1.axvspan(-1, 3, alpha=0.2, color='green', label='Target Range')
ax1.legend()
ax1.grid(axis='y', alpha=0.3)

# Plot 2: Visit Frequency distribution
ax2 = axes[1]
visit_counts = mcdonalds['VisitFrequency'].value_counts()
visit_order = ['Never', 'Once a year', 'Every three months',
            'Once a month', 'Once a week', 'More than once a week']
visit_counts = visit_counts.reindex(visit_order)

colors = ['red', 'orange', 'yellow', 'lightgreen', 'green', 'darkgreen']
ax2.barh(range(len(visit_counts)), visit_counts.values, color=colors,
    edgecolor='black')
ax2.set_yticks(range(len(visit_counts)))
ax2.set_yticklabels(visit_order)
ax2.set_xlabel('Number of Consumers', fontsize=12)
ax2.set_title('Visit Frequency Distribution', fontsize=14, fontweight='bold')
ax2.axvline(x=mcdonalds.shape[0]*0.05, color='red', linestyle='--',
        label='5% threshold')
ax2.legend()
ax2.grid(axis='x', alpha=0.3)

plt.tight_layout()
plt.show()

print("\nVisualization complete: Attractiveness criteria distributions
    displayed")
```

4.3   Segment Evaluation Matrix Template

```python
# Create template for evaluating segments once extracted

def create_segment_evaluation_matrix(segment_labels, segment_data):
    """
    Template function for evaluating segments against McDonald's criteria.

```

```
 7        This will be used in Step 8 after segments are extracted.
 8        """
 9
10       evaluation = pd.DataFrame({
11           'Segment': segment_labels,
12           'Size_n': [0] * len(segment_labels),
13           'Size_pct': [0.0] * len(segment_labels),
14           'Mean_Like': [0.0] * len(segment_labels),
15           'Mean_VisitFreq': [0.0] * len(segment_labels),
16           'Homogeneity_Score': [0.0] * len(segment_labels),
17           'Distinctness_Score': [0.0] * len(segment_labels),
18           'Meets_KnockOut': [False] * len(segment_labels),
19           'Attractiveness_Score': [0.0] * len(segment_labels)
20       })
21
22       print("Segment Evaluation Matrix Template Created")
23       print("=" * 80)
24       print(evaluation)
25       print("\nThis template will be populated in Step 8 after segment
         ↪ extraction.")
26
27       return evaluation
28
29   # Example usage (will be filled with real data after Step 5)
30   example_segments = ['Segment 1', 'Segment 2', 'Segment 3', 'Segment 4']
31   eval_matrix = create_segment_evaluation_matrix(example_segments, None)
```

5   Key Takeaways from Step 2

Summary Points

1. **Criteria Established Before Analysis**

   - Six knock-out criteria defined (mandatory requirements)

   - Two attractiveness criteria identified (prioritization factors)

   - Management aligned on strategic approach

2. **McDonald's Dual-Track Strategy**

   - Defensive: Reinforce positive segments

   - Offensive: Convert negative but addressable segments

   - Focus on Like ratings between -1 and +3

3. **Data Requirements Confirmed**

   - Key variables available in dataset

   - Evaluation framework implementable

   - Identifiability through demographics possible

4. Next Steps Enabled

- Clear benchmarks for segment evaluation (Step 8)

- Focus for data exploration (Step 4)

- Guidance for extraction method selection (Step 5)

Strategic Questions for Reflection

1. Should offensive or defensive strategy receive higher priority and resource allocation?

2. What minimum "Like" improvement would justify investment in converting negative segments?

3. How do criteria change if focusing on specific dayparts (breakfast vs. lunch vs. dinner)?

4. Should criteria differ for urban vs. suburban vs. rural markets?

6 Connection to Overall Workflow

Role in 10-Step Process

Step 2 creates the **strategic foundation** that guides all subsequent analysis:
Informs Step 3 (Data Collection):

- Ensures necessary descriptor variables captured

- Identifies measurement requirements for evaluation

Guides Step 5 (Extraction):

- Influences choice of segmentation variables

- Determines meaningful range for number of segments

Enables Step 8 (Selection):

- Provides objective evaluation framework

- Creates defensible rationale for target selection

Shapes Step 9 (Marketing Mix):

- Clarifies objectives (reinforce vs. convert)

- Focuses resources on viable, reachable segments

References

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[2] Kotler, P., and Keller, K.L. (2016). *Marketing Management.* 15th ed., Pearson Education.

[3] Weinstein, A. (2013). Handbook of Market Segmentation: Strategic Targeting for Business and Technology Firms. 3rd ed., Routledge.