

McDonald's Customer Segmentation Analysis

By: Mahipal Kumar Singh

Introduction

Market segmentation is a powerful tool that allows McDonald's to divide its customers into smaller groups based on shared characteristics. This process helps McDonald's understand its customers more effectively and tailor its products, pricing, and marketing strategies to meet their specific needs. The segmentation journey begins with deciding whether it's the right approach and identifying the most relevant target segments. McDonald's then collects and organizes customer data to group them based on their preferences and behaviors. Each segment is analyzed to understand what makes it unique and to assess its value. Finally, McDonald's uses these insights to refine its strategies and update customer segments as their preferences evolve, ensuring better service and continued growth.

Step 1: Deciding (not) to Segment

Market segmentation is not always the right choice for every business. It takes a lot of time, money, and effort. Companies may need to change how they work and do research before starting. Before deciding, businesses should think about whether the benefits are worth the cost. There can also be problems, like people not wanting change or leaders not fully supporting the idea, which can make segmentation harder to do.

Key Points:

1. **Segmentation Needs Commitment** – A company must be ready to invest time, money, and effort in research, product changes, and marketing strategies.
2. **It Can Be Expensive** – Businesses should only segment if the expected profit is greater than the cost of doing it.
3. **Company Structure May Need Changes** – A business might need to reorganize teams and processes to successfully use segmentation.
4. **There Are Challenges** – Some common problems include lack of leadership support, resistance to change, low budgets, and poor communication.

This step helps McDonalds think carefully before choosing segmentation, so they do not waste resources on a strategy that might not work for them.

Step 2: Specifying the Ideal Target Segment

Choosing the right target segment is very important for McDonald's. It helps them focus on the right customers and improve their marketing. A good target segment should:

Key Points:

1. **Setting Clear Rules** – Companies need clear guidelines to decide which customer groups are worth targeting.

2. **Eliminating Unfit Segments** – Some customer groups may be too small, too hard to reach, or not a good match for the business. These should be removed early.
3. **Checking Growth and Profitability** – McDonalds should pick segments that have potential for profit and future growth while keeping an eye on competitors.
4. **Involving Different Teams** – Marketing, sales, and other teams should work together to choose the best customer segment.
5. **Prioritizing the Best Option** – McDonalds should rank their choices to ensure they target the most valuable customer group.

By carefully specifying the ideal target segment, McDonalds can focus their efforts on customers who are most likely to bring value and long-term success.

Step 3: Collecting Data

To create useful customer groups, McDonalds need the right data. The quality of these groups depends on how well the data shows customer needs and behaviours.

Key Points:

1. **Different Data Sources** – McDonalds can gather data from surveys, customer records, or experiments to learn about their customers.
2. **Types of Data** – Data can be sorted into categories like location (geographic), age and income (demographic), interests (psychographic), and buying habits (behavioural).
3. **Good Survey Design** – When using surveys, McDonalds should carefully choose questions and answer choices to get accurate information.
4. **Enough Data is Important** – A larger and more diverse group of responses makes the results more reliable.
5. **Checking Data Quality** – Mistakes, missing answers, or biased responses can cause problems, so cleaning and reviewing data is necessary.

With the right data, McDonalds can create better customer segments and improve their marketing strategies.

Step 4: Exploring Data

Exploring data is a crucial step in customer segmentation, ensuring that the dataset is clean, structured, and ready for analysis. In the **McDonald's customer segmentation analysis**, Exploratory Data Analysis (EDA) was performed to identify key trends and patterns within the data. Various visualizations and statistical techniques were used to gain insights into customer preferences and behaviours.

Key Points:

1. **Data Cleaning & Preparation:** Missing values were handled, categorical variables were encoded, and outliers were identified to ensure data quality.

2. **Descriptive Statistics:** Summary statistics were generated to understand the distribution of responses and key trends in customer preferences.
3. **Feature Distribution Analysis:** Histograms and bar charts were used to visualize how customers perceive McDonald's food in terms of taste, health, convenience, and affordability.
4. **Dimensionality Reduction: Principal Component Analysis (PCA)** was applied to identify correlated variables and reduce redundancy while preserving key information.
5. **Preliminary Insights:** The analysis highlighted distinct differences in customer opinions, which later helped in segmenting them based on their preferences.

A thorough EDA ensures that the dataset is well-structured for segmentation, allowing businesses to derive meaningful insights and refine their marketing strategies accordingly.

Step 5: Extracting Segments

McDonalds can divide customers into groups based on their habits and preferences. This helps them find useful patterns and create better marketing strategies to reach the right people.

Key Points:

1. **Grouping Customers** – Consumers are grouped based on similarities in their preferences, behaviours, or demographics.
2. **Clustering Methods** – Various techniques like K-means, hierarchical clustering, and model-based methods help divide customers into segments. In this analysis, **K-means clustering has been used** to segment customers. This method **has grouped** customers based on similarities, helping McDonald's identify meaningful segments for better marketing and decision-making.
3. **Choosing the Right Number of Segments** – The number of segments should be detailed but also practical, making sure each group is unique and useful. Based on McDonald's collected data, using **four segments (K=4)** is the best choice. This option keeps the groups stable while making the segmentation meaningful.
4. **Evaluating Stability** – The reliability of segments is checked by testing if similar groups appear when repeating the segmentation process. This helps ensure that the customer segments are consistent and can be used for decision-making.
5. **Practical Use** – McDonald's can use these segments to customize marketing, pricing, and product development strategies, making their approach more customer-focused.

By carefully identifying and analysing customer segments, McDonald's can improve its marketing efforts and decision-making for better customer engagement and business growth.

Step 6: Profiling Segments

Profiling customer segments is essential for businesses to understand the unique characteristics of each group. This process helps in tailoring marketing strategies effectively. In the context of

McDonald's customer segmentation analysis, profiling was conducted using bar charts to visualize the distinct features of each segment.

Key Points:

1. **Segment 1: Health-Conscious Individuals:** These customers see McDonald's food as unhealthy and fattening. They do not find the food tasty or convenient and may prefer healthier dining options.
2. **Segment 2: Price-Sensitive Customers:** This group values McDonald's for its cheap and convenient food. They like affordability but may worry about food quality. They are likely to be attracted by discounts and special deals.
3. **Segment 3: Fast-Food Enthusiasts:** These customers enjoy McDonald's food, finding it yummy and tasty. They care less about health concerns and more about flavor and satisfaction, making them frequent and loyal visitors.
4. **Segment 4: Convenience Seekers:** This group values McDonald's for its quick service and easy access. They visit mainly for convenience rather than taste or health, making them a key audience for time-saving promotions.

Understanding these segments helps McDonald's improve its marketing and offer products that meet different customer needs.

Step 7: Describing Segments

According to McDonald's data, this step helps them understand their market segments better by using additional information beyond what was used to create them.

Key Points:

1. **Segment 1** – This group consists of around **60% males and 40% females**. They are mostly young customers, with a median age of 25. Their preferences and behaviours may align with trends popular among younger demographics.
2. **Segment 2** – This segment has a balanced gender distribution, with an almost equal number of males and females. Their median age is around 30, meaning they are slightly older than Segment 1 but still relatively young.
3. **Segment 3** – This group is **55% female and 45% male**, showing a slight female dominance. They tend to be older, with a median age of 35, which suggests they may have different preferences compared to younger segments.
4. **Segment 4** – This segment is **mostly female (70%), with only 30% males**. It has the oldest customer base, with a median age of 40. Their choices and behaviours could be influenced by more mature consumer preferences.

Understanding gender and age differences in these segments helps McDonald's create targeted marketing and product strategies for different customer groups.

Step 8: Selecting the Target Segment(s)

Selecting the right customer segments is a critical decision in market segmentation. This step involves evaluating the identified segments based on their attractiveness and the organization's ability to serve them effectively. In the McDonald's customer segmentation analysis, customer segments were assessed using key metrics such as gender distribution, customer preferences, and visit frequency.

Key Insights from the Analysis:

1. **Segment Behaviour Evaluation:** The analysis combined gender, customer preference (*Like Score*), and visit frequency to evaluate segment attractiveness.
2. **Visualizing Customer Preferences:** A scatter plot was used to map segments based on visit frequency and their affinity toward McDonald's.
3. **Segment Performance:**
 - **Segment 0:** Moderate male presence with the highest *Like Score* (5.89) and visit frequency (2.79). This segment is highly engaged and should be prioritized for loyalty programs and personalized promotions.
 - **Segment 1:** Higher percentage of female customers with a *Like Score* of 4.96 and visit frequency of 2.60. This group may be influenced by healthier menu options and sustainability initiatives.
 - **Segment 2:** Lower *Like Score* (3.69) and visit frequency (2.62). This segment has weaker engagement and may require a revised strategy or minimal marketing focus.
 - **Segment 3:** *Like Score* of 3.92 and visit frequency of 2.60. Engagement is moderate, but efforts should be made to increase their brand loyalty.

Implications for McDonald's:

- **Prioritize high-engagement segments** (*Segment 0*) for retention strategies such as exclusive discounts, rewards, and targeted advertising.
- **Enhance brand perception** among *Segment 1* by emphasizing healthier food choices and sustainability initiatives.
- **Assess marketing investment** in *Segment 2 & 3*, as their lower *Like Scores* and visit frequencies indicate limited potential for direct targeting.

By focusing on high-value segments and addressing customer preferences, McDonald's can refine its marketing strategy to maximize engagement and profitability.

Step 9: Customizing the Marketing Mix for Target Segments

Customizing the marketing mix is crucial for effectively targeting selected customer segments. This step ensures that **product, price, place, and promotion (4Ps)** are tailored to meet the specific needs and preferences of each segment. In the McDonald's customer segmentation analysis,

If McDonald's wants to attract young customers (**Segment 3**) who enjoy the food but find it expensive, they could introduce a **MC SUPER BUDGET** product line to match their price expectations (**Price**). Over time, as these customers earn more, they may transition to the regular menu. To avoid impacting the main product line, **MC SUPER BUDGET** items should have distinct features (**Product**). Promotions should focus on channels popular with this segment (**Promotion**), while distribution remains unchanged but could include a separate budget-friendly lane (**Place**). This strategy helps retain customers and build long-term loyalty.

Step 10: Evaluating and Monitoring Market Segments

Evaluating and monitoring market segments is essential for maintaining an effective segmentation strategy. Since consumer preferences and market conditions evolve, continuous assessment ensures that segmentation efforts remain relevant and profitable.

For example, Segment 3 customers may start earning more, making the MCSUPERBUDGET line less relevant for them. Additionally, new competitors or market shifts may require adjustments in McDonald's strategy. Regular monitoring ensures that marketing efforts stay effective and adaptable to evolving consumer needs.

Git Hub Link for Coding:

Link: <https://github.com/mahipalds/mcdonalds-customer-segmentation>