

Market Segmentation Analysis(MC Donald's)

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Step 1: Deciding (not) to Segment

The factors to consider when deciding whether or not to segment the market for McDonald's are Below

- 1. Market Research :-** Market research is essential to identify distinct customer groups and understand their needs, preferences, and behaviors. For McDonald's, this involves studying demographic, geographic, psychographic, and behavioral data to uncover actionable insights. Market research helps determine the size and potential profitability of each segment.
- 2. Company Goals and Resources : -** McDonald's must evaluate its strategic goals and available resources before deciding to segment the market. This includes assessing whether segmentation aligns with the company's long-term objectives, such as growth, brand positioning, and market expansion. It also involves evaluating the financial, human, and technological resources required to implement and sustain a segmented strategy.
- 3. Consumer Behaviour : -** Understanding consumer behaviour is crucial in deciding whether to segment the market. McDonald's needs to analyse how different customer groups make purchasing decisions, their dining habits, preferences for menu items, and responsiveness to marketing efforts. Insights into consumer behaviour can guide the development of tailored marketing strategies for each segment.
- 4. Competitive Landscape :-** McDonald's should consider the competitive environment when deciding on market segmentation. Analyzing competitors' segmentation strategies can provide insights into potential market opportunities and threats. McDonald's can identify gaps in the market where it can offer unique value propositions to underserved segments.
- 5. Cost and Complexity : -** Implementing a segmented marketing strategy can be costly and complex. McDonald's needs to evaluate the financial implications, including the cost of conducting market research, developing targeted marketing campaigns, and customizing products and services for different segments. The

complexity of managing multiple segments and ensuring consistent brand messaging across all segments also needs to be considered.

- 6. Brand Identity and Positioning :** - McDonald's brand identity and positioning play a critical role in the decision to segment the market. The company must ensure that segmentation efforts do not dilute its brand image or confuse customers. It is important to maintain a cohesive brand identity while addressing the specific needs of different segments.
- 7. Technological Capabilities :-** Technological capabilities are essential for effectively implementing and managing a segmented marketing strategy. McDonald's needs to assess its ability to leverage technology for data collection, analysis, and personalized marketing. Advanced CRM systems, data analytics tools, and digital marketing platforms can enhance the effectiveness of segmentation efforts.
- 8. Operational Feasibility :** - McDonald's must consider the operational feasibility of a segmented strategy. This includes evaluating the ability to customize menu items, pricing, and promotions for different segments. It also involves assessing the impact on supply chain management, inventory control, and staff training to ensure seamless operations.
- 9. Regulatory and Cultural Factors :** - Regulatory and cultural factors can influence the decision to segment the market. McDonald's needs to be aware of local regulations, cultural norms, and dietary preferences in different regions. These factors can affect product offerings, marketing messages, and overall market strategy.
- 10. Potential for Growth :** - The potential for growth within each identified segment is a critical consideration. McDonald's should evaluate the long-term growth prospects of different segments based on factors such as market size, growth rate, and profitability. Prioritizing segments with high growth potential can lead to more sustainable business success.

Step 2: Specifying the Ideal Target Segment

McDonald's management needs to identify the key features that make a market segment attractive for targeting. The goal is to find segments that align with McDonald's strengths and strategic goals.

Knock-Out Criteria for Target Segments:

- 1. Homogeneous :** - The target segment should be homogeneous, meaning that the members within the segment should share similar characteristics. This ensures that marketing efforts can be effectively tailored to the specific needs and preferences of the segment.
Example: A segment of young adults who prefer quick, affordable meals and have similar dining habits.
- 2. Distinct :** - The segment should be distinct, meaning that it differs substantially from other segments in key characteristics. This differentiation helps in creating unique marketing strategies for each segment.
Young professionals who prioritize convenience and speed over traditional dining experiences, as opposed to families who may prefer more varied menu options and dine-in experiences.
- 3. Size :** - The segment should be large enough to justify the development and implementation of a customized marketing mix. Small segments may not provide enough return on investment.
Example: A segment consisting of college students in urban areas who regularly eat out and are a significant portion of the customer base.
- 4. Matching McDonald's Strengths :** - The target segment should align with McDonald's strengths, such as their appeal to fast food consumers. Segments that reject fast food outright would not be suitable.
Example: Health-conscious individuals who are open to healthier fast food options, aligning with McDonald's efforts to introduce healthier menu items.
- 5. Identifiable:-** The segment must be identifiable, meaning there must be a way to recognize and define the members of the segment among other consumers.
Example: Using demographic data such as age, income, and lifestyle preferences to identify potential segments.
- 6. Reachable:-** Channels of communication and distribution need to exist that make it possible to target the members of the segment specifically.
Example: Utilizing social media and mobile app promotions to reach tech-savvy millennials.

Segment Attractiveness Criteria:

- 1. Positive Perception of McDonald's:-** The ideal segment should have a favorable view of McDonald's, which can lead to higher engagement and loyalty.

Example: Regular customers who rate McDonald's highly in customer satisfaction surveys.

2. Frequent Diners:-

Segments that frequently eat out and prefer fast food are more likely to provide consistent business.

Example: Office workers who often grab lunch on the go and prefer fast food options.

3. Exploring New Segments:

In addition to solidifying their position in segments where they already hold high market shares, McDonald's could explore segments currently not fond of McDonald's to understand and potentially modify negative perceptions.

Example: Identifying and addressing concerns of health-conscious consumers who currently avoid fast food due to health concerns.

Step 3: Collecting Data

The primary objective of this step is to gather relevant data that will help in identifying and understanding potential market segments. Accurate and comprehensive data collection is crucial for making informed decisions in market segmentation.

Key Components of Data Collection:

1. Identify Data Sources:- Determine the sources of data that will provide the necessary information about potential market segments. These can be both internal and external sources.

Internal Sources: Sales records, customer databases, loyalty programs, and website analytics.

External Sources: Market research reports, industry publications, surveys, social media, and third-party data providers.

Types of Data to Collect:

1. Demographic Data: Age, gender, income, education, occupation, family size, and other demographic factors.
2. Geographic Data: Location, urban vs. rural settings, regional preferences, and climatic conditions.
3. Psychographic Data: Lifestyle, values, interests, opinions, and personality traits.
4. Behavioral Data: Purchasing behavior, brand loyalty, product usage rates, and responses to marketing campaigns.
5. Customer Feedback: Reviews, satisfaction surveys, and customer complaints or suggestions.

Data Collection Methods:

1. Surveys and Questionnaires:-

Design and distribute surveys to gather detailed information directly from customers. Surveys can be conducted online, via email, over the phone, or in person.

Example: A survey asking customers about their dining habits, preferences, and perceptions of McDonald's.

2. Interviews and Focus Groups:-

Conduct interviews and focus groups to gain deeper insights into customer attitudes and behaviors.

Example: Organizing focus groups with different customer segments to discuss their dining preferences and experiences with McDonald's.

3. Observational Research:-

Observe customer behavior in natural settings to gather data on how they interact with products and services.

Example: Observing customer behavior in McDonald's outlets, such as menu choices, dining habits, and time spent in the restaurant.

4. Transactional Data:

Analyze sales and transaction data to identify patterns and trends.

Example: Examining sales data to determine which menu items are most popular among different customer segments.

5. Social Media Analysis:

Monitor social media platforms to gather insights on customer opinions, preferences, and trends.

Example: Analyzing social media mentions and reviews of McDonald's to understand public sentiment and emerging trends.

6. Customer Feedback and Reviews:

Collect and analyze feedback from customer reviews and satisfaction surveys.

Example: Analyzing customer reviews on platforms like Yelp, Google Reviews, and social media to identify common themes and areas for improvement.

7. Data Quality and Accuracy:

Focus on collecting high-quality and accurate data. This involves verifying the reliability and validity of data sources and methods.

Example: Ensuring that survey questions are clear and unbiased, and that data collection methods are standardized and consistent.

Data Set Overview

The data set contains responses related to 1453 adult Australian consumers' perceptions of McDonald's on the following attributes:

YUMMY, CONVENIENT, SPICY, FATTENING, GREASY, FAST, CHEAP, TASTY, EXPENSIVE
HEALTHY, DISGUSTING

For each attribute, respondents provided a YES or NO response indicating whether they believe McDonald's possesses that attribute. Additionally, the data set includes demographic information on:

AGE, GENDER

Data Collection Process

- 1. Survey Design and Distribution:-** Surveys were designed to capture consumer perceptions of McDonald's based on specific attributes. These surveys were distributed to a sample of 1453 adult Australian consumers.

Example: A survey question might be, "Do you think McDonald's food is YUMMY? (YES/NO)".

2. **Qualitative Study Preparation:-** Before conducting the survey, a qualitative study was performed to identify relevant attributes. This ensured that the survey focused on attributes that are meaningful to consumers.

Example: Focus groups or in-depth interviews might have been conducted to explore consumer perceptions and identify key attributes like “YUMMY” and “CONVENIENT”.

3. **Demographic Data Collection:-** In addition to attribute perceptions, respondents provided demographic information, including their AGE and GENDER. This data helps in segmenting the market based on demographic factors.

Example: A survey question might be, “Please indicate your age: __” and “Please select your gender: Male/Female”.–

Step 5: Extracting Segments

In this step, the objective is to identify distinct market segments from the dataset. This process involves applying various clustering techniques to group consumers who share similar characteristics. The goal is to create meaningful and actionable segments that can inform marketing strategies. Here's a detailed explanation of the techniques used for extracting segments:

K-Means Analysis:

Objective: Partition the dataset into a specified number of clusters (segments) by minimizing the variance within each cluster.

Process:

1. Initialization: Choose the number of clusters k and randomly initialize k cluster centers.
2. Assignment: Assign each data point to the nearest cluster center based on distance metrics (e.g., Euclidean distance).
3. Update: Recalculate the cluster centers as the mean of all data points assigned to each cluster.
4. Iteration: Repeat the assignment and update steps until cluster centers stabilize or a maximum number of iterations is reached.

Outcome: Groups data points into k clusters, where each cluster represents a market segment with similar characteristics.

Finite Mixtures of Binary Distributions:

Objective: Model the data as a mixture of several binary distributions to identify segments based on binary (yes/no) outcomes.

Process:

1. Modeling: Assume that each segment follows a distinct binary distribution.
2. Estimation: Use algorithms (e.g., Expectation-Maximization) to estimate the parameters of these distributions and the probability of each data point belonging to each segment.
3. Segmentation: Assign data points to segments based on the estimated probabilities.

Outcome: Provides insights into segments characterized by binary outcomes, which can be useful for understanding categorical preferences or behaviors.

Finite Mixtures of Regressions:

Objective: Use regression models to account for varying relationships in the data and uncover segments based on different regression patterns.

Process:

1. **Modeling:** Fit regression models to the data, where each segment is associated with a different regression model.
2. **Estimation:** Use statistical techniques to estimate the parameters of these regression models and the probability of each data point belonging to each segment.
3. **Segmentation:** Assign data points to segments based on the regression models and their fit to the data.
4. **Outcome:** Identifies segments with distinct regression patterns, helping to understand how different factors influence the behavior or preferences of each segment.

Choosing the Best Technique:

The choice of technique depends on the nature of the data and the specific objectives of the analysis. K-means is often preferred for its simplicity and ease of interpretation, while finite mixtures of binary distributions and regressions provide more flexibility for modeling complex relationships.

Evaluation:

After extracting segments, evaluate the stability and validity of the segments using methods such as stability-based analysis or cross-validation to ensure that the segments are meaningful and replicable.

This comprehensive approach to segment extraction allows for a nuanced understanding of the market, facilitating targeted and effective marketing strategies.

Step 6: Profiling Segments

Profiling segments involves defining and describing the characteristics of each identified market segment to understand their specific needs, preferences, and behaviors. This step is crucial for translating segmentation insights into actionable marketing strategies. Here's a detailed breakdown of how to profile segments:

Segment Profile Plot:

Objective: Visualize and summarize the key characteristics of each segment.

Process:

1. **Data Aggregation:** Aggregate the data for each segment to compute summary statistics or average values for relevant attributes.
2. **Visualization:** Create visual representations, such as bar charts, spider plots, or segment profile plots, to compare attributes across segments.

3. Interpretation: Analyze the plots to identify distinct patterns and differences among segments, such as variations in demographic information, preferences, or purchasing behaviors.

Hierarchical Cluster Analysis:

Objective: Group similar attributes together to simplify interpretation and highlight key characteristics of each segment.

Process:

1. Attribute Clustering: Perform hierarchical clustering on the attributes used in segmentation (e.g., perceptions, behaviors) to group similar attributes.
2. Dendrogram: Generate a dendrogram (a tree-like diagram) to visualize the hierarchical relationships among attributes.
3. Interpretation: Examine the dendrogram to identify clusters of attributes that provide insights into the underlying factors defining each segment.

Cross-Tabulation with Descriptor Variables:

Objective: Enhance segment profiles by integrating additional descriptor variables that provide more context about the segments.

Process:

1. Descriptor Variables: Use additional data points (e.g., demographic information, purchase frequency) to further describe each segment.
2. Cross-Tabulation: Create cross-tabulations between segment membership and descriptor variables to identify patterns and associations.
3. Analysis: Evaluate the relationships to gain a deeper understanding of segment characteristics and preferences.

Segment Insights:

Objective: Summarize the findings to create detailed profiles for each segment.

Process:

1. Profile Summarization: Document key characteristics, preferences, behaviors, and needs for each segment.
2. Actionable Insights: Identify actionable insights that can inform marketing strategies, such as targeted product offerings, communication strategies, or promotional activities.
3. Example:
4. For a market segmentation analysis of McDonald's, profiling might reveal that Segment 1 consists of price-sensitive young customers who appreciate value but find McDonald's food expensive. Segment 2 may include health-conscious consumers who perceive McDonald's as unhealthy but still enjoy certain menu items. Segment 3 could consist of loyal customers who find the food tasty and are

willing to pay a premium, while Segment 4 might include occasional customers who are indifferent to pricing but value convenience.

Outcome:

Profiling segments provides a clear and detailed understanding of each market segment, enabling the development of targeted marketing strategies that address the specific needs and preferences of different customer groups. This step ensures that marketing efforts are well-aligned with segment characteristics, leading to more effective and efficient strategies.

Step 7: Describing Segments

Describing segments involves articulating the key characteristics, behaviors, and attributes of each market segment in a clear and detailed manner. This step is crucial for translating segment profiles into actionable marketing strategies. Here's a detailed explanation of how to describe segments:

Segment Description:

Objective: Provide a comprehensive overview of each segment's characteristics.

Process:

1. **Demographics:** Describe demographic attributes such as age, gender, income, education, and occupation. This helps to paint a picture of who the segment members are.
2. **Psychographics:** Include psychographic characteristics like lifestyle, values, attitudes, and interests. This provides insight into what motivates and influences segment members.
3. **Behavioral Attributes:** Highlight behaviors related to purchasing habits, brand loyalty, frequency of purchase, and product usage patterns. This helps to understand how the segment interacts with the brand.

Creating Segment Profiles:

Objective: Develop detailed profiles for each segment that summarize their key attributes.

Process:

1. **Profile Narrative:** Write a narrative or profile for each segment, combining demographic, psychographic, and behavioral information. This narrative should encapsulate the essence of each segment.
2. **Visual Aids:** Use visual aids such as personas, infographics, or detailed tables to present segment descriptions clearly and concisely.

Segment Needs and Preferences:

Objective: Identify and describe the specific needs and preferences of each segment.

Process:

1. **Needs Assessment:** Determine the primary needs or pain points of each segment, such as price sensitivity, convenience, health concerns, or taste preferences.
2. **Preference Analysis:** Describe the segment's preferences in terms of product features, pricing, branding, and communication channels.

Comparative Analysis:

Objective: Compare and contrast segments to highlight key differences and similarities.

Process:

1. Comparison: Analyze how segments differ in terms of their needs, preferences, and behaviors. Identify any overlaps or commonalities.
2. Insights: Draw insights from these comparisons to understand how to target each segment effectively.

Practical Implications:

Objective: Translate segment descriptions into actionable marketing strategies.

Process:

1. Strategic Recommendations: Based on the segment descriptions, recommend tailored marketing strategies for each segment, such as product development, pricing strategies, promotional activities, and distribution channels.
2. Action Plans: Develop action plans for implementing the strategies, ensuring alignment with each segment's characteristics and needs.
3. Example:

In a market segmentation study for McDonald's:

Segment 1 might be described as "Budget-Conscious Young Adults" who are highly price-sensitive and seek value-for-money options.

Segment 2 could be "Health-Conscious Professionals" who are concerned about nutrition and prefer healthier menu options.

Segment 3 may be "Loyal Family Customers" who value convenience and are willing to pay a premium for familiar, family-friendly meals.

Segment 4 might be "Occasional Indifferent Consumers" who visit occasionally and are less concerned with price or health but value convenience.

Outcome:

Describing segments provides a clear understanding of each segment's attributes and needs, allowing for the development of targeted marketing strategies that resonate with each group. This step ensures that marketing efforts are tailored to the specific characteristics and preferences of each segment, leading to more effective and efficient marketing initiatives.

Step 9: Customizing the Marketing Mix

Customizing the marketing mix involves tailoring the four key elements—Product, Price, Promotion, and Place (4Ps)—to address the specific needs and preferences of each market segment identified during the segmentation analysis. This step ensures that marketing strategies are aligned with the characteristics of each segment to optimize effectiveness and meet customer expectations. Here's a detailed explanation of how to customize the marketing mix:

Product:

Objective: Adjust the product offerings to cater to the unique needs and preferences of each segment.

Process:

1. **Product Features:** Modify product features, design, quality, or packaging to meet the specific demands of the segment. For instance, introducing healthier menu options for health-conscious consumers or budget-friendly versions for price-sensitive segments.
2. **Product Lines:** Develop new product lines or variations that specifically address the needs of different segments. For example, a special menu for young customers who prefer trendy, affordable items.

Price:

Objective: Set pricing strategies that reflect the value perceptions and price sensitivity of each segment.

Process:

1. **Pricing Strategies:** Implement different pricing strategies, such as discount pricing for budget-conscious segments, premium pricing for segments that value exclusivity, or value-based pricing for those who seek quality and affordability.
2. **Promotions and Discounts:** Design promotions, discounts, or loyalty programs tailored to each segment's price expectations and purchasing behavior.

Promotion:

Objective: Create targeted communication and promotional strategies to effectively reach and engage each segment.

Process:

1. **Advertising Channels:** Choose advertising channels and media that are most effective for reaching each segment. For example, using social media and influencer partnerships to target younger audiences or traditional media for older segments.
2. **Messaging:** Develop tailored messages that resonate with the specific needs, preferences, and values of each segment. Highlight attributes that appeal to the segment's interests and concerns.

Place:

Objective: Ensure that the distribution and availability of products align with the preferences and behaviors of each segment.

Process:

1. **Distribution Channels:** Adjust distribution strategies to match the segment's preferred purchasing locations and methods. For example, enhancing online ordering options for tech-savvy segments or improving in-store experiences for customers who prefer shopping in person.
2. **Placement Strategy:** Consider the placement of products within distribution channels to make them more accessible to the target segments. This might include dedicated sections in stores or specialized delivery options.

Example:

For a market segmentation analysis of McDonald's:

Segment 1 (Budget-Conscious Young Adults): Customize the marketing mix with a new, affordable product line, special pricing offers, social media promotions, and distribution through popular fast-food outlets.

Segment 2 (Health-Conscious Professionals): Offer healthier menu options, premium pricing for high-quality ingredients, targeted health-oriented advertising, and availability in locations with high foot traffic among professionals.

Segment 3 (Loyal Family Customers): Develop family-sized meal packages, implement loyalty rewards programs, use family-oriented advertising, and ensure convenient access through drive-thru and delivery services.

Segment 4 (Occasional Indifferent Consumers): Introduce occasional promotions or limited-time offers, use broad-reach advertising channels, and maintain standard product availability.

step 8: Selecting (the) Target Segment(s):

Objective: To identify and select the most promising market segments for targeted marketing efforts.

Process:

1. **Use Knock-out Criteria:** Filter out segments that do not meet essential requirements for being a viable target. These might include minimum levels of market size, purchasing power, or accessibility.
2. **Apply Segment Attractiveness Criteria:** Evaluate remaining segments based on factors like profitability, growth potential, competitive intensity, and alignment with the company's strengths and goals.
3. **Segment Evaluation:** Assess the attractiveness of each segment based on their characteristics, such as:
 1. **Visit Frequency:** How often consumers visit McDonald's.
 2. **Liking/Disliking:** The extent to which consumers like or dislike McDonald's.
 3. **Demographic Factors:** Characteristics such as gender, which might influence buying behaviour.

Segment Evaluation Plot:

X-Axis: Frequency of visiting McDonald's.

Y-Axis: Extent of liking or disliking McDonald's.

Bubble Size: Represents the proportion of female consumers in each segment.

Segment Analysis:

1. **Segment 1:** This segment visits McDonald's moderately often and has mixed feelings. They represent a potential target segment, but efforts should focus on improving their perceptions of McDonald's to enhance their attractiveness.
2. **Segment 2:** Consumers in this segment rarely visit McDonald's and have a strong dislike for the brand. This segment is the least attractive and should generally be avoided for targeted marketing.
3. **Segment 3:** Consumers in this segment visit McDonald's frequently and have a positive view of the brand. This segment is highly attractive and should be a primary focus for marketing efforts.
4. **Segment 4:** Similar to Segment 3, this segment also frequents McDonald's and has positive feelings. It is another highly attractive segment that should be targeted for marketing. Recommendation:

Summary:

Target Segments: Segments 3 and 4, due to their frequent visits and positive sentiment.

Potential Segment: Segment 1, if negative perceptions can be addressed.

Non-target Segment: Segment 2, due to infrequent visits and strong dislike.

By focusing on Segments 3 and 4, McDonald's can effectively allocate resources to meet the needs of its most promising customers. Segment 1 might also be targeted with specific strategies to improve perceptions and increase attractiveness.

Conclusion:

Based on the segment evaluation plot and analysis, McDonald's should focus on segments 3 and 4 for targeted marketing. Segment 1 presents potential if negative perceptions are addressed, while Segment 2 is not a viable target.

GitHub Link :

<https://github.com/tusharpotdar99/Market-Segmentation-and-Strategy-Optimization-McDonald-s->