

# Research on McDonald's product diversification Strategies based on target market segmentation

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**Keywords:** McDonald, Product, Diversification strategies, Target market.

**Abstract:** In recent years, the market scale of China's catering industry has steadily improved, especially in the fast-food chain industry. Many fast-food brands such as McDonald's, KFC, and Wallace once occupied leaders in the domestic dining market. The overall scale of the catering market increased from 2892.6 billion yuan in 2014 to 4672.1 billion yuan in 2019, with a compound annual growth rate of 10.1%. In addition, the fast-food industry will prosper due to the increased family income, the strong promotion of takeout services, and the digital platform and technology development of the Chinese market for a prosperous tomorrow. As an important strategic support for the catering industry, especially the fast-food industry, the market segment has attracted attention from the business community and academic circles over the years. The study of this issue will strengthen the business understanding of the international brand McDonald's, and greatly promote the prosperity and development of the Chinese fast food and event catering industry. This paper will explore the research method, the existing market segment strategy, finally explore the problem, take more accurate customer strategy (i. e., age, regional, psychological, demand segmentation strategy) to achieve the space of survival and development. According to the different needs of consumers, the overall market is divided into different market segment. Each consumer group is a market segment, and each market segment is composed of the same demand to achieve development. The study of this paper will be useful for the development of the Chinese fast food industry.

## 1. Introduction

### 1.1 Research background

Food is the day of the people, and food is food first. In recent years, the market scale of China's catering industry has improved steadily, especially the fast-food chain industry. Many fast-food brands such as McDonald's, KFC, and Wallace once occupied the leader in the domestic catering market. The overall size of the catering market increased from 2892.6 billion yuan in 2014 to 4672.1 billion yuan in 2019, with a compound annual growth rate of 10.1%. Despite the impact of COVID-19, the catering industry is expected to recover and continue strong growth as control mechanisms, and vaccination rates continue to rise [1].

Moreover, due to the improvement of family income, the strong promotion of food delivery services, the Chinese market digital platform and technology development, and many other factors, the fast-food industry will usher in a prosperous tomorrow. As essential strategic support for the catering industry, especially the fast-food industry, market segmentation has attracted the business community's attention and academia over the years. The research on this issue will strengthen the business understanding of McDonald's, an international brand, and greatly promote the prosperity and development of China's fast food and even the catering industry.

According to the type of service, China's catering industry can generally be divided into fast food, leisure catering, formal restaurants. Fast food includes restaurants that provide fast food and standardized food. There are only a few or no Hall Food Services, and the dining environment is simple. Casual dining refers to a restaurant that provides a small number of table services. Formal restaurants generally refer to traditional restaurants, where waiters provide thoughtful table service [2].

As a well-known trademark globally, McDonald's was founded in the United States in the mid-1950s. At that time, the American economy was in a golden period of development after the war, the working class worked very fast, and the market needed convenient and fast food [3]. Ray A. Kroc, the founder at that time, seized the opportunity in time. Aiming at the demand characteristics of market segments and accurately positioning products, it was established in Chicago in 1955. Today's McDonald's has a glorious history of 50 years and has become a global authoritative fast-food chain. At present, it has opened 25000 chain stores in 109 countries with an annual turnover of more than 3.4 billion US dollars. At the same time, McDonald's still maintains its commitment to customers in the early stage of entrepreneurship, including two very important words: fast and hygienic!

McDonald's, as an international catering giant, was founded in the United States in the mid-1950s. At that time, the founder timely grasped the opportunity that the working class in the rapidly developing American economy needed a convenient and fast diet, and aimed at the demand characteristics of the market segments and accurately positioned the products. Today, McDonald's has grown into the largest catering group globally, with 250000 chain stores in 109 countries and an annual turnover of more than 3.4 billion US dollars. Nowadays, the competition in the fast-food industry is fierce, and homogenization is serious. Therefore, we must adopt a more accurate customer strategy to achieve room for growth and development.

This paper studies the fast food industry, which accounts for a large proportion of the domestic catering market, comprehensively analyzes the market segmentation and audience users of the internationally famous fast-food brand McDonald's, and uses the market data to guide the forward-looking research results.

## **1.2 Literature review**

According to this research topic, we searched a large number of literatures from the Internet. Professor Qiao Zhong's enterprise market segmentation strategy, in which the concept explanation and practical application of enterprise market segmentation strategy are worth learning from; Professor Han Liwei's "Introduction to market segmentation strategy" uses PEST model to elaborate the market segmentation strategy at the macro level. The market segmentation strategy describes how each enterprise uses the market segmentation strategy for audience segmentation and precision marketing, which is of great reference significance for the central grasp of this paper; Professor Wright's "I help McDonald's brand reconstruction in crisis" is conducive to quoting McDonald's historical background and micro enterprise environment, which is of great significance to analyze its business strategy. Larry Wright's McDonald's in crisis summarizes the macro and micro factors from creation to development, and analyzes brand marketing and customer strategy maintenance from the perspective of brand [4].

From the know network literature, we can see that the domestic scholars and businesses are mainly for the macro market segment and McDonald's brand, management, other exploration and research, and McDonald's market segment. Especially the audience market and precision marketing research are few. This article will focus on McDonald's, the international brand audience segment, and the precision marketing strategy for research and narrative.

## **1.3 Research framework**

This article first describes the brief description and introduction of McDonald's enterprises and the Chinese catering industry market situation. Then explain how most Chinese catering enterprises use a market segmentation strategy. The McDonald's market segmentation strategy in detail finally introduces the change of market segmentation strategy under the Internet catering economy environment [5].

## **2. Methods**

The first method used in this paper is the survey and research method. The author will use the on-site collection of McDonald's enterprise information and enterprise operation to obtain second-hand information. Extensive use of historical methods, observation methods, and other methods as well as

conversation and case research and other scientific methods, for a planned, careful and systematic understanding of McDonald's market segmentation and a large number of data collected by the survey is analyzed, comprehensive, compared and summarized, to lay a foundation for the later writing and research.

The second method is the copywriting research method. The author collected and sorted the documents, making full use of the data and references to create conditions for the subsequent paper writing and research [6].

The third method is the case study method. The authors conduct a case analysis and case study of a McDonald's visit to obtain first-hand information to facilitate later writing.

### **3. Results**

#### **3.1 Current situation and trend**

(1) The economic status of the restaurant industry.

In terms of macro-environment, the turnover of China's catering industry has increased between the 40 years of reform and opening up by more than nearly 200 times, and catering consumption has become a strong driving force for the development of China's economic domestic demand. Throughout the history of reform and opening up, in the 40 years of reform and opening up in China, the catering industry is one of the earliest economic development industries with the beginning, the fastest development, the most employment personnel, and the most complex style. In 2006, it exceeded 1 trillion yuan and 1235.2 billion yuan in 2007, up 19.4% yearly. In 2018, the output value of China's catering industry reached 3501.5 billion yuan, up 186% from 2008. It is predicted that the output value of China's catering industry will reach 5 trillion yuan by 2030. China's catering industry has grown at a double-digit rate for 18 consecutive years and has become a very important part of China's national economy.

(2) The development status of the catering industry

In 2019, China served only 503 fast restaurants in every million people, while the United States had about 1,035, marking a huge gap. However, with the continuous development of China's economic and social society and the continuous improvement of people's living standards in recent years, the catering industry, especially the fast-food industry, has achieved great development and achieved remarkable results. As the fast-food segment grew rapidly, its share in the Chinese restaurant industry increased, from about 21.5% in 2014 to about 22.9% in 2019 and expected to reach 24.1% by 2024. Due to the rapid pace of social development and people's ability to adapt to economic and social improvement, the fast-food industry has attracted attention due to its rapid, safe, and green fast food market segment increasing from 622.8 billion yuan in 2014 to 1069.2 billion yuan in 2019. The market size is expected to reach 982.4 billion yuan in 2020 to 1590.8 billion yuan in 2024.

(3) McDonald's status.

As the first domestic foreign enterprise, McDonald's has 20 years of franchise in China, also in a long time blew a "McDonald's" wind. Unfortunately, good times did not last, with the rise of Chinese national brands and the audience of the pursuit of healthy catering, national brand, McDonald's once "downhill", its output value is also declining, from 853.2 billion yuan in 2009 to 563.2 billion yuan in 2019. However, as an old foreign fast-food brand, it still has several loyal customers in the Chinese market. Especially McDonald's, which conforms to the development of the market and has adopted active marketing strategies and Internet sales channels, which has changed the decline at one stroke and has a great prospect of revival [7].

#### **3.2 McDonald's market segment strategy**

(1) Existing strategy

From McDonald's development of McDonald's, as a foreign brand, it has always retained the American atmosphere. It often substitutes the American market into China in the audience market segment, leading to the problems such as inaccurate positioning of its market segment strategy and poor practical results. However, McDonald's has been actively improving, and now the Chinese market

McDonald's stores have initially adopted the form of categories and structure layout. This has largely attracted Chinese customers, especially breakfast and pasta, which is in line with the Chinese people's consistent eating habits and living habits. For another example, McDonald's actively develops the online market, uses the self-developed online platform to provide takeout delivery services for young audiences, and jointly searches for the takeout market's dividends with several domestic fast-food brands.

#### (2) Strategic issues

In terms of the current actual situation of McDonald's, a considerable number of enterprise managers do not have an awareness of positioning the development of the enterprise, which lacks development ideas in the actual production and operation activities. In addition, it does not make practical consideration for the enterprise's future development goals, direction, and market positioning. McDonald's is very easy to imitate others strategically, blindly following others, and holding things from the past. Secondly, the market segment requires McDonald's to guide and organize business activities and competitive activities according to the business purpose and economic laws, competition purpose, and competition rules. Finally, McDonald's is not positioning some market segmentation strategies and lacks strategic positioning and market exploration to adapt to China's national conditions.

#### (3) Analysis of Causes

One is the idea that managers have been in the general trend of the macro level and push the micro audience level. Enterprise managers even once thought that as long as McDonald's brand here, users will "cast", serious standard thought is the root cause of McDonald's market segment strategy stagnation. Second, McDonald's often appear in practical operation, develop a product, and enter a new industry, merge and acquisitions, alliance, and diversification. It often appears that sports climax, such as McDonald's in the takeaway industry, once with KFC, completely lost its characteristics and has been in a backward state in the field. Third, due to the single strategic means, competitors can easily imitate it, so it is difficult to form an all-round competitive advantage in the fierce market competition. The most typical thing is that McDonald's does not fully explore its market segmentation advantages, and the degree of market development space mining is low. Fourth, because McDonald's prospect analysis of market positioning is unclear, and even the lack of objective inference and subjective exploration of such problems [8].

## 4. Discussion

### 4.1 The importance of the McDonald's market segment

McDonald's, an established international catering brand, was founded in the United States in the mid-1950s[9]. At that time, the founders timely seized the opportunity that the working class in the rapidly developing American economy needed a convenient and fast diet, accurately targeted the market segment's demand characteristics, and accurately positioned the products. Nowadays, the fast-food industry has fierce competition and serious homogenization, especially in China, a world power with rich cultural heritage and catering habits, which must adopt the market segmentation strategy to adapt to the Chinese market to achieve success. Therefore, a more accurate customer strategy must be adopted to accomplish the space for survival and development. To this end, McDonald's should divide the overall market into different consumer groups according to the different needs of consumers. Each consumer group is a market segment, and each market segment is composed of market entities with the same demand.

#### (1) Segments the market

Market segmentation is mainly divided according to the target market according to geographical segmentation, population segmentation, psychological segmentation, and demand segmentation to achieve the marketing goals of enterprises. Only by making sufficient efforts in these four, and according to geography, population, psychology, demand elements accurately subdivided the market and implementing the corresponding strategies, to achieve the marketing goals of enterprises [10].

## (2) Geographic subdivision

According to the geographical elements of the market segmentation, it can be subdivided into: south, north, northwest, southwest regions. When McDonald's first entered the Chinese market, it spread American culture and life ideas and conquered the Chinese with an American-style product beef burger. But Chinese people like to eat chicken. Compared with other foreign fast food, chicken products are also more suitable for Chinese taste and are more easily accepted by Chinese people. For this situation, McDonald's changed its original strategy and launched a chicken product. McDonald's, which never sells beef products around the world, is also selling chickens. The change is made for geographic elements and will accelerate McDonald's growth in the Chinese market. Therefore, both at home or abroad, they have different dietary habits and cultural backgrounds. Geographic segmentation is conducted mainly to analyze the differences between the regions. For example, people in the east and western United States drink different coffee tastes, while China, as a vast country, has a huge food difference in the north and south. Southern people like light, northern taste, the northwest region takes pasta as the main food, and the southwest prefers spicy. To this end, McDonald's should take the market into different geographical units for business activities, so as to adopt different audience response strategies according to local conditions, adjust the product taste and taste of its stores, in order to adapt to the dietary needs and dietary hobbies of local customers [11].

## 4.2 Population subdivision

The population factor market segment can be divided into young, young, middle-aged, and elderly or men or women. Generally, the population market segment is divided into several groups according to age, gender, family population, life cycle, income, occupation, education, religion, race, nationality, and other related variables, and then the corresponding strategic allocation according to the different reality needs of each whole. But for the McDonald's company, it only needs to consider the variable analysis caused by the age structure, not the other audience attribution. McDonald's mainly divides the population market from the age and life cycle stage, among which it defines the age under 20 as the young market, the young people between 18 and 40 as the young market, and over 40 as the old market. After the demarcation of the population market, the characteristics and positioning of different needs should be analyzed. McDonald's has long taken children as the center of corporate target customers, children as the main consumers, and pays great attention to cultivating their consumption loyalty. Children who eat in the restaurant often accidentally get small gifts such as balloons and origami printed with the McDonald's logo. In China, there is also Uncle McDonald's Club for children aged 3 to 12, who carry out regular activities to make children like McDonald's more. This is a quite successful population segment, seizing the characteristics and positioning of the market [12].

## 4.3 Psychological subdivision

McDonald's is not as good as KFC and other foreign brands in the audience psychological segment. The main body of the fast-food industry is children, and children are generally active, like toys and games, and their parents take them to consume. So KFC, for the audience of market psychological needs, adopted the parents eat + children play market segment combination strategy. It is children in KFC entertainment activities, sometimes adults use spare time to consume, which has largely become the reason for KFC sales growth. Hence, it is worth McDonald's learning and reference. Second, McDonald's can also consider holding family gatherings for the family population to create a happy atmosphere for the whole family to eat together. Corporate parties and others are also markets to be considered.

## 4.4 Demand subdivision

This is mainly for the takeout market. As a growing domestic and foreign sales market, McDonald's has been with its own takeout platform for the business. The audience is relatively narrow, although with Meituan, hungry. And other professional takeout platform cooperation, but its cooperation is often due to its high order distribution fee, led to the project audience reduction, user purchase rate is low, does not adapt to today's market situation. To this end, McDonald's should take the user market

behavior with demand as the segmentation mode and segment the takeout market according to user needs to divide it into low-price and high-price markets to launch different takeout packages to cause the demand of the audience [13].

## 5. Conclusion

With the increasingly complex competitive environment and the deepening of personalized customer demand, it is impossible to provide all customer products. But it should define or look for the enterprise that can serve the market segment, based on strategic market segment has the rich connotation, explore market opportunities, improve market position, build core ability and improve the performance of the important role. In this article, through the fast-food industry-leading McDonald's market strategic segmentation strategy research, use the Chinese development of superior fast food enterprises and literature review to get the McDonald's existing market segmentation strategy differences and deficiencies.

For its development, to promote the enterprise in the future market competition and market game, and finally through four segmentation strategies, geographical segmentation, population segmentation, psychological segmentation, and demand segmentation optimization, for McDonald's and even the fast-food industry. Although the survey research method, copywriting study method, and case study method solved some problems and disadvantages in paper writing, it still has certain limitations in most cases, especially the case study method. The author conducted a case analysis and case study to McDonald's to obtain first-hand information. Still, the author cannot completely cover all McDonald's stores, so the conclusion is not very scientific.

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