Assignment Chapter #9 Segmentation...

McDonald’s

The company that is synonymous with the term fast food (to-day, more properly quick-service restaurant, or QSR) has decid-ed that they need to slow down a little. In an effort to attract the coveted millennial segment of the market, McDonald’s is taking more time to create higher quality food and a better experience at their restaurants. McDonald’s made its name and fortune using an assembly line process for preparation of their burgers and other food offerings. Along with world-class supply chain practices, this processing prowess allowed them to meet the two big goals of the industry they largely created—namely, speed and low prices. With almost 37,000 locations worldwide, McDonald’s is the biggest player in the burger and fries segment and second only to Subway (with almost 45,000) in QSR overall. But in the last decade, they began losing business to upscale burger competitors, such as Five Guys and Smashburger, and also to rivals Wendy’s, Whataburger, and In-N-Out, who focused more on fresh food. McDonald’s estimates these and other rivals si-phoned 500 million transactions from its stores since 2012.

Part of their challenge has been responding to the tastes and priorities of a key demographic target: millennials. Born between roughly 1979 and 1994, this generation accounts for about 25 percent of the U.S. population and holds $1.3 tril-lion in spending power. Millennials care about a high quality of life, prefer recycling or reusing to buying new, and—most importantly to McDonald’s—favor healthy food made of fresh ingredients. They are also famous for being “digital natives,” and they pay attention to the ethical and sustainable business practices of the firms they do business with. Steve Easterbrook took the helm as CEO in 2015 and be-gan making changes that address these priorities. At the top of the list is improving the food by using fresh (rather than frozen) beef in its popular Quarter Pounder. A new line of customizable burgers was launched and the chain is also taking a fresh approach to another fast food favorite—chicken, a product line heavily dominated by kFC and Chick-fil-A. McDonald’s artisan grilled chicken and Buttermilk Crispy Tenders have been popular with customers, and they now have the health and public relations benefit of being antibiotic-free. And by 2025, the company is committed to using only cage-free chicken eggs in their breakfast menu items. McDonald’s has made other changes that sit well with millennials, such as upgrading their restaurants through their “Experience of Tomorrow” initiative. Improvements include up-dated décor, self-order kiosks, and even table service. A mobile ordering and payment

app makes ordering easier. Don’t care to drive to McDonald’s? No problem, the golden arches will come to you via their delivery service.

These and other millennial-centric changes have been well received by both customers and Wall Street, demonstrated by increases in sales, profits, and stock price! But for all of their re-cent successes, not everything at the Golden Arches has been well received by millennials. For example, a targeted promo-tion backfired when McDonald’s introduced a sriracha and kale burger, seen by some millennials as being a too in-your-face appeal to them. And they also generally give the chain low marks for community impact, with one study on young adults ages 18–34 indicating the perception that McDonald’s actually has a negative impact on the community. But along with the positive changes also comes higher costs for some of the premium items on the menu, an issue that McDonald’s has tried to partially address with a new take on its iconic Dollar Menu: now it’s the “$1 $2 $3 menu.” And the many improvements also come with another potential cost to customers: time. That is, preparation of the custom burgers, chicken, and other more deluxe elements can easily increase food-processing time, but management hopes that will be reduced as workers gain experience with the new process. Bottom line: With these improvements, McDonald’s seems to be winning again with both consumers and on the financial markets. Whether millennials will continue to tell them “I’m Lovin’ It” will heavily depend on how well McDonald’s marketers continue to understand and respond to the preferences of this demographic group that is so crucial to the future of the Golden Arches.

Be sure to include at least one source and to provide the appropriate amount of detail in your response.

1. What is the decision facing McDonald’s?

2. What factors are important in understanding this decision situation?

3. What are the alternatives?

4. What are the challenges of marketing a product that has appeal to several generational market segments?

5. Besides age/generational segments, what other market segmentation approaches could McDonald’s use?