

Introduction

For any business, becoming and staying the market leader is a huge task, even for household names such as McDonald's. Keeping ahead involves continuous hard work to enhance the reputation of the brand, coupled with product innovation



based on detailed market research that indicates how to please customers.

McDonald's has built its success around a formula of providing a range of standardised high quality products quickly and cheaply. The McDonald's concept was originally developed in the USA, but is truly global with over 25,000 restaurants in more than 114 countries.

Today, many people live busy lives and place great importance on convenience when buying and paying for goods and services. They are attracted by modern, quick service products such as drive-in car washes, mobile phones and ready meals. For many people (though not all), this emphasis on instant service is a winning formula, particularly for younger people and young families. However, research indicates that modern consumers of all ages are seeking experiences that are more individualised than in the past. McDonald's is developing new concepts and products that provide a more personal experience while still giving excellent value for money.

This case study examines the positive way in which McDonald's is responding to changing customer habits and increased levels of competition.

The competitive environment

For businesses to understand adequately the nature of the competition they face, they must define their market accurately. This involves recognising a broad base of competitors. McDonald's has thousands of competitors, each seeking a share of the market. McDonald's recognises that it is up against not only other large burger and chicken chains but also independently owned fish and chips shops and other eat-in or take-out establishments. A company like McDonald's therefore, has to develop competitive strategies that differentiate it from its rivals.

All organisations need to be in touch with their business environment in order to make sure that what they do fits with customer expectations. These expectations change over time. Moreover, the IEO market in which McDonald's operates is becoming increasingly competitive, as the chart below illustrates.



Recently, in this crowded market place, McDonald's competitive lead came under pressure largely because many fast food outlets have either:

- copied the trail-blazing ideas that previously set McDonald's apart and put it ahead of the field
- promoted new ideas of their own e.g. urban supermarkets and petrol stations that sell convenient, portable mealtime replacements.

McDonald's recognises the need to respond. It is looking to increase the competitive gap by:

- adding greater value through innovation
- making the process of visiting a McDonald's less routine and controlled
- enhancing the overall in-house experience.

Consumer trends

Over time, consumers' tastes evolve in response to changing fashions and greater awareness of alternative lifestyles. Businesses need to monitor these changes and, whenever possible, anticipate them. In terms of the product life cycle, quick service restaurants have reached maturity in the UK and need an injection of fresh life through innovative ideas if their lifespan is to be prolonged.



Market research reveals that snacking is an increasingly important trend and is particularly popular amongst teenagers and young people. However, the total number of meals eaten in the non-quick service restaurant sector has risen while meals eaten in the Quick Service Restaurant (QSR) sector have fallen in total. The convenience meal market is now worth over £800 million, with over 60% growth since 1996.

The causes of this shift in tastes are not yet completely clear. Rising incomes allow people more opportunities to turn eating out into a more individualised experience rather than

a routine 'quick fix'. At the same time, when it comes to informal eating out, people may be moving away from burgers and fries towards other meals that are promoted as 'the healthy option' e.g. sandwiches and salads.

Organic food is rising in importance and is forecast to account for 20% of all supermarket food purchases by 2010. Chicken continues to increase in importance, as white meat is perceived to be healthier and safer than red meat. At the same time the traditional mealtimes of breakfast and lunch are becoming less significant and arrangements for the main meal of the day need to be increasingly flexible to accommodate changing consumer lifestyles. McDonald's is looking to provide appropriate solutions to these changing trends. In particular:

- consumers are seeking more food variety and healthier eating - McDonald's is providing a more balanced offering that includes fruit, sugar-free fruit drinks for children and more chicken products
- price is becoming more critical to decision-making - McDonald's has created an Extra Value Meal and a McChoice menu offering a flexible combination of drinks, sandwiches etc in addition to the meal, thereby providing excellent value for money.

The marketing mix

Enlightened businesses respond to the data they gather through market research by providing the best possible marketing mix (the four P's) for their customers. This involves providing:

- appropriate products e.g. chicken as well as beef, salad items, and healthy drinks for children
- the right price: in this case providing food and drinks in a value for money way
- in the right place (at convenient locations) e.g. in shopping areas/malls
- through the right form of promotions. McDonald's spends more on advertising its promotional offers than all of its competitors combined.



The McCafé Concept

Even mature markets can have gaps in provision that leave some potential customers unsatisfied. The McCafé development is the result of intensive market research that has identified a group of potential customers that had remained largely untapped.



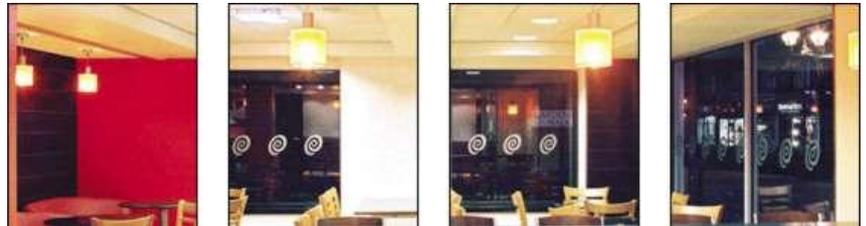
McDonald's recognises the importance of listening to the needs and requirements of this substantial group of users. McCafé provides an avenue for McDonald's to target these consumers by offering high quality coffee served by specially trained café staff in a café style environment.

McDonald's has defined its target market clearly. The McCafé target market is customers who appreciate quality coffee and who want an excellent product in an attractive, undaunting environment. This concept has already worked well in Australia and New Zealand where the café concept is less developed than in Europe and America. These examples suggest that while McCafé works well and is profitable in both city and suburban locations as city locations in the UK become increasingly flooded with new entrants to the café market, competition for 'the coffee £' will continue to increase as will the need to continue to look for new ways to compete within cities.

Suburban and regional McCafés offer a new group of customers a way of taking 'time out' with a good cup of coffee. Demographically this group is primarily female, aged 25-39. Many within this group have young families. McCafés are designed to offer them a place to meet friends and enjoy a quality coffee experience as well as keep the children fed and entertained.

A casual welcoming environment

The emphasis is on a casual coffee experience in a comfortable place where people can relax and feel welcome. At the same time, McCafé's association with McDonald's brings with it a 'Family Friendly' environment and, unlike some of the more pretentious cafés, a place where children are welcome and specifically provided for. The convenience of car parking and playgrounds also makes McCafé a highly attractive destination for these people.



McCafé customers are busy people. Whether they are 'Mums with Kids' in search of a little 'time out' to themselves, or white-collar city workers in search of a quick break from the office, they all have one thing in common -the need for a promptly-served high quality drink. McCafé offers a haven in which they can spend whatever time they have available with a good quality coffee at a value for money price.

Conclusion

As the market leader and as a pioneer of the Quick Service Restaurant concept, McDonald's has to respond to a changing business environment. It is well placed to do so. It has listened to its customers, and also observed them. Based on its research, it has launched McCafé and McChoice - new products conceived and designed to complement and extend what it already offers and to keep the company 'ahead of the game' in an increasingly competitive market place.

