

# Marketing Case Study of McDonald's Strategy for the Chinese Fast-food Industry

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## **Abstract:**

With the development of civilization, more and more people are busy with their work or kinds of stuff. Many of them choose to eat outside, especially for fast food. Under this condition, the fast food industry has become one of the most important parts of the catering industry. However, due to the change in social structure, competition in the fast food industry has increased, so many different fast food brands have to innovate new products or implement trendy market strategies to improve and survive. In this bunch of competition, although McDonald's entered the Chinese fast food market lately, it become one of the biggest fast food brands in China within decades. Hence, this paper will take McDonald's as the main object to investigate what kinds of market strategies McDonald's used to help it prosper in China again. Meanwhile, through analyzing the market strategies used by McDonald's and the situation faced by most of the Chinese fast food brands recently, this research aims to provide some profitable advice for those Chinese fast food brands. In the research conclusion, by utilizing a case study and document investigation, the paper discovers that although McDonald's has some outstanding performance in the use of market strategy, due to the discrepancy between Chinese fast food and American-style fast food, Chinese fast food brands cannot just copy the strategy used by McDonald's. Inversely, combined with their specific characteristics and problems, those Chinese fast food brands should increase their control on consistent product quality and delivery speed.

**Keywords:** McDonald's; Case Study; Market Strategy; 4Ps Model; STP Theory

## 1. Introduction

### 1.1 Background Information

With the development of economics and technologies, which is undeniable, more and more people obtain their jobs or occupations while many cities improve and develop better. However, under the acceleration of urbanization and the current social environment, people tend to spend more time commuting and working instead of cooking. Therefore, the fast-food industry takes an important role and has become increasingly booming and familiar in the Chinese fast-food market. In many Chinese cities, like Shanghai, Shenzhen, Beijing, and Zhejiang, the market share of the fast-food industry accounts for nearly 50% of the whole catering market [1].

McDonald's, as the undoubted industry leader company, entered the public eye in a very early period, founded in Chicago in 1955 and currently has more than 32,000 restaurants in more than 117 countries around the world, divided into five major markets in the world, like United States, Canada, Latin America, Europe, and Asia Pacific. McDonald's is also the largest fast-food company in the world, with more than 30,000 restaurant stores distributed across more than 150 countries. Its annual turnover is more than 40.6 billion US dollars [1]. Indeed, McDonald's is one of the most valuable brands in the global fast-food industry based on its special marketing strategies.

### 1.2 Implication

Due to the change in social structure, social behavior, and competition within the fast-food industry, fast-food companies, including McDonald's, need to continue innovating brand-new products for customers and keep critical thinking when deciding on market strategies. Besides, with increased purchasing power and economic strength, people treat the catering service industry as strict and picky. Even for the fast-food service, people ask for higher service quality and better taste. Therefore, in the Chinese market, those national fast-food brands face serious problems in developing and competing for customers and market share.

In previous research related to McDonald's, Tien, N. H. et al. proposed several market strategies McDonald's used and how those strategies fit the Vietnamese market [2]. Oldfield Mark discussed how hierarchical management and probation service assist McDonald's to have higher efficiency in operating such a huge company and maintain great service quality in his article [3,4]. However, instead of discussing the market strategy, Howse, Eloise, et al. also analyzed the impact of fast-food brands such as

McDonald's on young adults' dietary behavior and food choices by stating that 'Buying salad is a lot more expensive than going to McDonald's for young adults. However, those authors did not analyze more useful information about the connection between McDonald's and the Chinese fast-food market.

Back to the Chinese fast-food market, compared to other national fast-food brands in China, McDonald's entered the Chinese fast-food market in 1990, which was not too early, even later than KFC. However, in just around 30 years, McDonald's makes the Chinese fast-food market its second-largest market with over 10000 branches [5]. Obviously, in addition to having a systematic method for operating the company, McDonald's also has an understanding of the fast-food market foresight. McDonald's knows how to attract potential consumers by grasping consumer psychology and how to combine the market strategy and various market environments effectively. Hence, to help more Chinese fast-food companies find their way into the Chinese fast-food market, this paper will take McDonald's as the main object for investigating what strategy or method allows McDonald's to occupy the Chinese fast-food market share in such a short period, and provide further suggestions for other national fast-food companies in China.

### 1.3 Methods

McDonald's is the main research object, and according to its special characteristics and market strategies, this paper will explore the successful experience and problems of McDonald's combined with the case study, document investigation, and 4P model. Combined with the 4P model and STP theory, this paper will explain some of the concepts and implications behind those strategies chosen by McDonald's.

## 2. Case Study

### 2.1 Case 1: McDonald's Price Market Strategy--Segmentation and Coupon

Due to the natural characteristics of the fast-food industry, the price of products within the industry usually tends to be cheaper than other types of food. At the beginning of McDonald's, it aims to provide convenient, cheap, and valuable products for customers. Therefore, the price advantage is always one of the major factors affecting the success of McDonald's. However, the exchange rate and cost of products, normally the price of most products ranges from 20 yuan to 150 yuan, which means some of the products do not seem as inexpensive as people

have thought about fast-food service before. It is easy to observe that McDonald's will provide different meals in special activities that are cheaper for consumers. One major activity McDonald's launched is spending 10 yuan to eat hamburgers by using coupons from the website or app or during a specific period. Besides, when consumers buy a meal, McDonald's will provide an extra ice cream for them with spending one more yuan [6]. However, McDonald's still maintains those products or meals that are around 50 yuan to 80 yuan with richer ingredients or greater taste for some other customers to choose. This is the beneficial price strategy McDonald's uses for segmenting customers into various categories and provides a different quality of service and products for customers to decide.

## **2.2 Case 2: Quick Service of McDonald's with Self-ordering Kiosk and McDonald's APP**

To provide customers with a quick and comfortable service, McDonald's utilizes the Self-ordering Kiosk in its branches and Delivery APP in an early stage. When customers walk into the restaurant, to reduce the time they waste during orders and increase efficiency, McDonald's positions several Self-ordering Kiosks to divert customers so that they don't have to wait in line for manual service. This strategy is also friendly to consumers who are introverted and poor at communicating. The Self-ordering Kiosk allows consumers to enjoy a relaxing ordering process. Additionally, in the fast-food industry, McDonald's has come up with an official delivery app for its users to have a better experience enjoying McDonald's products [7]. When its customers stay at home and want some food from McDonald's, they can easily pick the foods they want and get their food within at most half an hour in China.

## **2.3 Case 3: The Product Market Strategy of McDonald's -- Quality Assurance and Localization**

Although McDonald's is a relatively cheap fast-food brand in the fast-food market, in terms of product quality and safety, McDonald's has a strict and scientific system for selecting materials in various regions, including China, to provide fresh and standardized products for its customers. If the products do not match the criterion or reach a certain storage time, McDonald's will ask its staff to throw away all those substandard products to make sure consumers will not eat those degenerative products. Meanwhile, as an American fast-food brand, instead of directly putting its primary products from Americans in China, McDonald's spends much time investigating their

favorite tastes and actively implementing localization in China. Fries and wings have a consistent and standard taste, but McDonald's also launched some special products that are only available in China based on the taste of Chinese customers, such as Old Beijing Chicken Roll.

## **3. Analysis of the case study & Problems in the Chinese fast-food market**

### **3.1 Successful Market Strategy of McDonald's**

#### **3.1.1 Success factor of case 1: price segmentation**

First of all, since the relatively low price, the products of McDonald's are valuable for most consumers, which means the low price allows more people, whether white collars, young adults, or students, to have a chance to enjoy McDonald's creating a larger user pool for McDonald's. Furthermore, McDonald's does not frame the price of its products as only around a low price, from 10 yuan to 40 yuan. Inversely, McDonald's also provides some relatively expensive and rich choices for its customers who want to treat themselves or who can afford higher prices. For poorer people, if they want to have a try at McDonald's, they can enjoy 10 yuan burger or buy one get one during activity. Rich people have choices when selecting expensive products with richer ingredients and better taste. This is an intelligent price market strategy because, with a wider range in price and abundant choices in products, McDonald's can attract even more potential customers and create higher profits. Earning more profits and potential customers, McDonald's can improve its services and spend more on advertising. Combined with a larger user pool, the effectiveness of their advertising will be higher as well, and that is called sales to ads ratio, which means McDonald's can spend less money on advertising but gain more sales from that.

#### **3.1.2 Success factor of case 2: quick and comfortable service**

In the fast-food industry, those fast-food brands not only involve the quality of products but also quick service. Besides, due to the development of the digital market, many delivery apps influence customers' higher expectancy for the quick service those fast-food companies provide. It can be said that the fast-food industry sells time. Therefore, the accessible experience of ordering and delivery of food is also the core factor in attracting consumers.

When people choose fast food, it means they need to save their time. The use of the Self-ordering Kiosk relieves the pressure of manual ordering during the period with

most customers so that those customers do not have to wait in line or waste time to negotiate with staff and get their orders quickly. At the same time, the arrangement of products on the screen of the Self-ordering Kiosk shows the picture and price of products and categorizes different types of products into various categories. This market strategy affects consumer behavior in selecting products and saves time in finding products they want.

In addition to offering a diet-in-service service, McDonald's also puts huge effort into providing service by creating McDonald's APP. McDonald's APP helps McDonald's to create a great connection between the brand and its users. McDonald's can provide coupons or post information about new activities within the app. Moreover, the arrangement of products in the app is just like the Self-ordering Kiosk. Users who download the McDonald's APP cannot only get to know those coupons or activities immediately but also obtain their food after ordering within 30 minutes. Hence, McDonald's APP creates a community for both McDonald's to gain data and information from users and for customers to save time and enjoy service.

### **3.1.3 Success factor of case 3: localization and quality assurance**

McDonald's can be one of the most active companies in supervising and managing the food and product quality. After decades of investigation and exploration in catering service, McDonald's gradually establishes a complete set of raw material procurement inspection systems. The products provided by McDonald's conform to HACCP professional certification and are strictly controlled to ensure the high quality of products. In simple terms, McDonald's achieves its concepts- no matter when and where no matter who does it, and no difference in the taste and quality of products in any branches of McDonald's [6]. The attitude of keeping product quality assurance supports the brand image and reputation of McDonald's and earns the trust of its consumers.

Simultaneously, McDonald's promotes the localization of the taste and products that are familiar to Chinese flavors when entering the Chinese fast-food market. This is called "adapting measures to local conditions". Although the strategy in localization is still in the exploration stage and faces many troubles since most customers still treat McDonald's as American-style fast food, McDonald's launched many products, like soybean milk and Old Beijing Chicken Roll, to observe the market changes and consumer reaction to catch any possible breakthrough point in localization. Indeed, these three factors establish the strong loyalty of its customers to McDonald's.

## **3.2 Problems Faces by National Fast-food Brands in China**

### **3.2.1 The product quality under the price competition**

One of the disadvantages of national American-type fast-food brands, such as Tastien or Wallace in China, is the late start. Since McDonald's entered the Chinese fast-food market early and owns a huge market share already, those national American type fast-food brands started using price competition to attract more consumers. In the progress of competition, which brand is cheaper, the low selling price triggers many further problems. With such a low price and thin margins under a relatively small market share, those brands have to control their cost of raw materials and labor. Consequently, it is difficult for national fast-food brands such as McDonald's to control and maintain their product quality. From the perspective of consumers, they may enjoy a great taste in products at first but suddenly find that the food tastes differently or even awfully different from those national fast-food brands next. When the production process lacks a basis for establishing standards, it is hard to provide consistent service and taste to customers. This kind of fuzzy standards in food culture causes a significant negative impact on the operation of modern Chinese fast food [8]. In this situation, customers cannot build high loyalty to those national American-type fast-food brands and generate repeat consumers for further development of those brands.

### **3.2.2 Delivery speed due to the complicated process of making Chinese fast food**

Another distinct difference between Chinese fast food and other types of fast food is that Chinese fast food usually has a more complex production process, causing relatively slow meal delivery speed. For example, the processing techniques used in Chinese fast food include boiling, roasting, steaming, cooking, and stir-frying [8]. Meanwhile, a seemingly simple product may contain more than a dozen condiments when manually processed. Consequently, despite ignoring the complicated process may cause any difference in the taste of food, to provide foods with consistent taste under manual process, it also takes much time for the Chinese cook to do it. Therefore, the relatively slow meal delivery speed for Chinese fast food cannot be avoided. However, the paper states that one of the services that the fast food industry provides is saving time. If customers choose fast food service but do not obtain the sense of saving time, those Chinese fast food companies may lose passenger flow and struck with a negative loop of losing consumers.

## 4. Suggestion

### 4.1 Suggestion for Product Quality in the Chinese Fast Food Industry

Just like McDonald's, it spends a lot of money on controlling the quality of raw materials and the consistent taste of food so that its customers can enjoy the standard quality in both food and service in all its branches. McDonald's "standardized" indicator system is detailed, strict, standardized, and unified, which is an "intangible" asset for McDonald's [9]. Therefore, it is the same for those Chinese fast-food brands. It is crucial to create a relatively well-established system to provide accurate and strict monitoring of consumption demand at different periods. This strategy assists brands in calculating and summing up the order volume, which allows those brands to allocate resources for ordering raw materials rationally and improve operational efficiency. With the help of the strategy, the waste in raw materials is reduced, further influencing the cost of the company. Hence, when the cost of products and the monitoring of the allocation of resources are controlled, the food quality of those Chinese fast-food brands increases, which means the issue of food spoilage causing inconsistent taste in products can be dramatically reduced.

Otherwise, to provide a consistent taste of food, only controlling the quality of raw materials is far from enough. A standardized process in production is also necessary. Referring to McDonald's, the company will provide its staff with the employee brochure. The employee brochure not only contains the requirements for service provided to consumers but also includes the process of production in detail, such as the time required to fry and how much seasoning to add. This method assists its staff in following the process of production step by step and provides a consistent taste of products.

All of the systems or methods to control food quality and taste need money to support. However, for Chinese fast-food brands, the investigation discovers that one of the reasons behind the problem of food quality is the low price and virulent price competition. This is a rough condition and even a dilemma for Chinese fast-food brands, as they need to solve the problem of low profit and limited budget. One of the reasons McDonald's set a higher price and averted virulent price competition is that it is a brand overseas. Normally, customers have a higher tolerance for price when facing brands overseas because they understand the effect of tax on imports. Nevertheless, as national fast-food brands, they do not gain understanding from customers, which means when they raise their prices,

inversely, they will obtain more dissatisfaction from consumers. Thus, more suitable market strategies still need to be considered to solve the food quality issue.

### 4.2 Suggestion for the Delivery Speed in the Chinese Fast Food Industry

From the customers' purpose of saving time in choosing fast food, combined with the complicated process of the production of Chinese fast food, the main object here is to simplify and standardize the production process of Chinese fast food.

The first strategy is to improve employee training both for catering staff and cooks. Pull back to McDonald's. Nearly 85% of customers are satisfied with the delivery speed of McDonald's since it will provide an employee brochure for its staff to follow and implement standardization [10]. Although the process of production for American-style fast food is easier than that of Chinese fast food, Chinese fast food brands can also engage in a standard production process with a number of seasonings, cooking time, and cooking steps as detailed manuals for their staff. This strategy can largely prevent manual mistakes in cooking or catering that both increase the efficiency of delivery and quality of service.

Besides, factory pre-made dishes should also be taken into consideration by the Chinese fast food industry. When seeing factory pre-made dishes at first glance, Chinese customers may resist or oppose them due to some stereotypes, like foods that need to be fresh. However, one of the factors that caused this cognition is that most of the factory pre-made dishes are of low quality or bad taste. To utilize the factory's pre-made dishes and achieve a faster delivery speed, the fast food industry should take responsibility for providing the factory's pre-made dishes with standard raw material quality, a safe production process, and consistent, good taste. When the factory's pre-made dishes meet and satisfy the needs of customers, with the assistance of a monitoring system in consumption demand, those national fast food brands can be prepared in advance by using the factory's pre-made dishes and significantly save meal preparation time. After achieving a sense of saving time, those Chinese fast food brands can build their brand image and awareness better and attract more potential consumers.

## 5. Conclusion

In summary, this paper concludes that three factors, price segmentation, quick service, and food quality, affect the success of McDonald's in the Chinese fast food market. Inversely, this corresponds to the problems faced by Chi-

nese fast-food brands, like inconsistent food quality and taste and delivery speed, which are still issue that needs to be modified and improved. Regarding those problems, the solutions or suggestions this paper provided include establishing a monitoring system and brochure for staff and controlling costs, as well as the factory's pre-made dishes. This research mainly focused on solving those two specific problems faced by the Chinese fast food industry. The value of the paper is that it aims to help other national fast-food brands improve their market strategies so that they can compete for larger market shares and build better brand culture and image. Meanwhile, when those fast food brands can improve their products and services, customers in China can also enjoy higher food quality and quicker service. The improvement and development of Chinese fast-food brands will allow for further prosperity in the fast-food industry.

This paper on McDonald's' marketing strategy conducted detailed research and evaluation based on the information and theories collected. However, due to limitations of personal research depth and timeliness of secondary data and information collected, coupled with many different types of issues faced by the national fast food market and the diverse situations that may cause any fluctuation in the Chinese fast food market, this paper's optimization advice for those Chinese fast food brands may also have limitations. Therefore, those brands still need to reach their optimal market strategies based on characteristics, brand positioning, and brand image.

Further research will based on advanced methods and updated information to conduct a more comprehensive paper discussing the marketing model of McDonald's, even some problems faced by McDonald's. Through deeper discussion in McDonald's, this paper hopes the investiga-

tion contributes to other national fast food brands with a more detailed analysis of successful market strategies and helps the national fast food industry improve.

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