

REACHING GLOBAL MARKET SEGMENTS WITH DIRECT MARKETING

Fernando Robles, The George Washington University
Salah S. Hassan, The George Washington University

Abstract

This paper offers a framework to identify key benefits, dimensions and trends associated with the internationalization of the direct marketing industry. It underscores the importance and need to carefully select products, segments and countries where direct marketing programs could be most effective. Further, the paper discusses recent development in global market segmentation and draws implications for future expansion of direct marketing in world markets.

Introduction

Today, the direct marketing industry in the U.S. is reaching a mature stage. It is to be expected that the only way to continue growing is to expand to international markets. This scenario, facing the direct marketing industry today, is a repeat of the evolution that many industries experienced in the past as they expanded outside their domestic markets. The manufacturing industry expanded internationally during the late fifties and early sixties as many firms found cost and market advantages in operating outside their national boundaries. The service sector also went through a similar process in the seventies and early eighties. The financial, hospitality and other industries of the service sector discovered the benefits of operating in an international marketplace.

The major difference today that did not exist in the sixties, seventies or early eighties is that the world's economies and markets are much more integrated in many respects. Consequently, the direct marketing industry will experience an internationalization process in a very short span. What took decades for the manufacturing industry to integrate, coordinate and organize international operations, may take few years for the direct marketing industry to become more internationalized in the nineties.

This paper reviews two trends in the internationalization of the direct marketing industry. The first trend is the development of direct marketing in many national economies. This trend is important as the precondition for analyzing appropriate direct marketing strategies for international expansion. The second trend is the globalization of markets and the emergence of world segments that transcend national boundaries. Technological advancements in communications,

transportation and manufacturing have led to the convergence of world markets. Today, global telemarketing is dramatically changing; for example, AT&T International 800 services are now available from 41 countries (Butkus 1989). Toll-free calls are now available and being accepted from worldwide segments of callers. The main thesis of this paper is that direct marketers can reap many benefits if they concentrate their efforts on emerging global market segments.

The Direct Marketing Industry Around the World

The U.S. has led the world in the development of this industry due to: (1) the large domestic market and the receptiveness of American consumers to direct media and (2) the favorable regulatory environment or lack of it. In recent years other countries have made great progress in the use of direct marketing applications. Nevertheless, the sheer size of the U.S. direct marketing industry dwarfs the size of even the closest country, West Germany. In spite of the paucity of data on direct marketing industry in many countries, we were able to assemble some indicators of the volume of direct marketing sales presented in [Table 1](#).

It is clear from the data in [Table 1](#), that the U.S. has a formidable lead in terms of direct mail volume and number of telemarketing operators. Next to the U.S., West Germany, The Netherlands and U.K. are the countries with a larger direct marketing volume. Asian countries like Japan, Hong Kong and Singapore may have substantial direct marketing volume but at the time of this writing statistics on these countries were not available.

It is also interesting to note that the volume of direct marketing in a given country corresponds with the level of credit card penetration, with the exception of West Germany. As the U.S. direct marketing industry reaches maturity and perhaps saturation levels, U.S. direct marketing companies would naturally look at the rest of the world for continuing expansion opportunities.

Internationalization of the Direct Marketing Process

A great challenge comes when companies plan to

internationalize not only the consumer base but also selected aspects of the direct marketing process -- from conception to fulfillment. Some aspects of the international direct marketing process will tend to internationalize rather quickly. Purely on economic grounds, direct marketers may find that moving parts of the process off-shore could represent substantial cost savings. For instance, telemarketing bureaus may find cost savings in labor, space and taxes without sacrifices in the quality of the communication. Countries that provide the telecommunications infrastructure and good economic incentives will attract substantial investment in direct marketing applications. Countries such as Singapore, Ireland, Australia and some Caribbean islands have received some direct marketing investment in recent years. For example, fulfillment and distribution centers tend to go off-shore to countries that provide cost efficient operations such as Ireland and The Netherlands for European operations and Hong Kong for Asia.

Other operations that tend to be located off-shore include data entry and processing, customer service information and reservation centers. These operations do not require substantial modifications. If the language of the off-shore base is the same, operators could follow simple instructions and productivity could be as high as in the domestic operations. A critical aspect of the off-shore location of direct marketing operations is economies of scale. To justify an investment, firms will need large-scale operations that result in substantial cost savings. For instance, telemarketing operators may need to allocate a large call volume to an off-shore facility. Countries would have to provide quality communications as well as the ability to handle large call volumes.

Dimensions of International Direct Marketing

In the course of identifying dimensions of international direct marketing it is necessary to offer key operational definitions. In the literature there is no clear distinction as to what is to be considered international direct marketing. **Table 2** offers a typology of international direct marketing activities. This typology is based on three dimensions: Product-consumer-process. Each one of the dimensions is categorized under a continuum ranging from domestic to global. This framework helps in positioning our paper in the proper context.

Three different major categories of worldwide direct marketing activities are identified in **Table 2**. The first international type is defined in terms of export and import oriented direct marketing efforts. This is an area that will grow rapidly as exporters use mail,

telephone, fax and other forms of direct marketing media. Traditionally, some of these forms of media have lacked the power of using contemporary databases and other sophisticated direct marketing tools.

An example of this type of international direct marketing activity relates to those companies that are interested in exporting services and products. Retailers and catalogers seeking international consumers are in this group. For example, three European retailers launched a concerted direct response advertising campaign to reach the U.S. buyer. In the period of 1986 through 1987, Harrods of London, Galleries Lafayette and Salvatore Ferragamo of Italy placed print advertisements in U.S. newspapers and magazines. Readers were asked to call an international toll free number in order to place their orders. Merchandise in this promotion included furs, china, crystal, cutlery, and high fashion apparel.

Another type of worldwide activities is related to the multinational direct marketing category. This type includes direct marketing programs by multinational corporations in several countries. The interesting aspect of this type is that each direct marketing program is tailored to each national market. An example of multinational direct marketing is when Colgate-Palmolive launched direct response advertising campaigns throughout Europe to support or to introduce new brands. Colgate-Palmolive supported the introduction of a new detergent, Galaxy, in Denmark in 1988 with a direct response print ad that included a 70-cent coupon. This campaign generated 46,000 responses. This volume of response represented an impressive 10.4 percent of dishwasher households in Denmark (*Advertising Age*, 1988). Multinational direct marketing programs differ from domestic marketing programs in that the results from multinational direct marketing programs are used to improve the existing domestic marketing programs of another country.

The final type of worldwide activities relates to programs designed to reach global market segments of consumers in several countries with a single direct marketing program. Some degrees of adaptation in the program or offer may result from language differences, regulations or competitive/economic factors, however, these adaptations do not deviate largely from the global appeal. One example is when American Express offers the opportunity to join the privileged group of card members to college graduates in the U.S., Canada and Singapore, with a friendly and less intimidating approach (Pickholz, 1988).

Benefits and opportunities In the Emerging Global Market Segments

In contrast to the traditional way to market products and services in international markets, direct marketing approaches offer substantial benefits. Direct marketing offers fast consumer response -much needed in today's global competitive environment. Direct marketing also offers differentiation -providing an international flavor to the marketing program- a direct mail package coming from a foreign postal system or an international call from Paris certainly is different from a similar solicitation received from a local marketer.

On a global scale direct marketing is a way to serve marginal country markets that would otherwise not have been served through traditional investment and subsidiary sales. Consumers also benefit from direct marketing promotions in terms of greater access to products and services not available in the domestic market or substantial cost savings from either better prices or favorable exchange rates at the time of the purchase.

Although the opportunities for international direct marketing are large, the risks are also high. The scale of operation requires large budgets and investments. The adaptation of the direct marketing program to the many cultures and regulatory and financial environments is complex. To minimize the risks, direct marketers need to carefully select the products, segments and countries where international direct marketing could be most effective.

Perhaps the most difficult decision is the selection of the consumer segment that may be more receptive to direct marketing promotions. The careful selection of these market segments is key to the formulation of an effective international direct marketing strategy. This paper argues that global market segments present the best opportunities for direct marketing today. The next section reviews recent developments in global market segmentation and draws implications for the direct marketing industry.

Global Market Segments

The convergence of today's world markets has led to dramatic changes in consumption behavior (Levitt 1983; Sheth 1986; Kreutzer 1988; Jain 1989; Hassan 1990). It is essential to analyze commonalities and differences in consumption patterns as keys to the identification of emerging global segments (Hassan 1990). This is, in fact, the essence of segmentation. This approach enables the international direct marketer to determine similarities across national

boundaries while assessing domestic (within-country) differences. The case example discussed here shows how direct marketers have reached and met the wants and needs of globally segmented consumer markets.

On a global scale, consumers aspiring to an "elite" lifestyle or teenagers seek products and services that fit their prestige and youthful images and the expectations of being universally recognizable (Hassan and Katsanis 1991). Direct marketers may identify commonality in prestige and teenager segments and target them accordingly. For example, European retailers such as Harrods, Ferragamo, and Galleries Lafayette and Benetton reach U.S. consumers with up-scale and unique leading-edge style fashions. These retailers targeted consumers directly through telemarketing/catalogue retailing and direct response advertising campaigns without having physical presence and with relative ease.

Such emerging segments can be targeted globally by direct marketing programs that offer exclusivity, high quality and status, in a similar way to the domestic market. Elite consumers often differentiate themselves through buying and using products that are distinguishable from that of mainstream consumers (Quelch 1987). Identification of behavioral factors related to media, information processing, acquisition, and purchasing decisions can be essential to successful direct marketing efforts. For example, the marketing mix should be managed in a way that will target this segment with high quality and high priced products that are promoted and distributed through selective channels (i.e. prestige catalogues) in order to build and maintain the image of exclusivity.

Summary

Many consumer products are becoming global in nature such as consumer electronics, watches, fashion, home appliances, and beverages. Many of these products cut across national boundaries. This paper identified the "global elite" consumers as a market segment with universal needs for products and services that are targeted via global direct marketing programs.

It is a major challenge for international direct marketers to identify segments that transcend national and cultural boundaries on a global scale. However, this challenge is even greater when it requires the actual execution of global direct marketing programs. The processes of identifying such global segments occur on two levels: identification of general behavioral and demographic characteristics of global segments and analysis of behavioral characteristics that reveal receptivity to direct marketing media.

TABLE 1
DIRECT MARKETING INDUSTRY IN SELECTED COUNTRIES

country	mail order sales \$million	direct mail volume	telemarketing service	in-house telemarketing	credit card
U.S.A.	83,500	153,930	100	313,600	85
Canada	3,200				
Belgium	580	556	9	24	23
Denmark	415	235	8	24	13
France	6000	2500	7	65	66
Ireland	30	20			
Netherlands	910	780	7	85	18
Norway		200	6	25	57
Sweden		481	8	35	57
Switzerland		579			
U.K.	6240	1766	21	150	59
Germany	14750	3607	19	290	31
Italy	1050				
Austria			9	24	23

sources: a) British International Mailing Services, "European Economic Community Facts, 1989, Services Postaux Europeens, "Usage Trends in the European Direct Mail Market 1986/1987", April, 1987.

TABLE 2
TYPOLOGY OF INTERNATIONAL DIRECT MARKETING

Continuum	Product/Service	Customer Base	No. of	DM Process
Domestic	domestic	national	one	domestic
International	foreign	international	several	international
Multinational	adapted	international	many	multi-domestic
Global	standardized	international	many	standard

Future research should focus on the development of a methodology to screen products, global segments, direct marketing applications, and regulatory environment with the best prospect for globalization.

REFERENCES

- Advertising Age (1988), "Marketers Queue Up to Race Through Freer Europe," October 17), s6-12
- Butkus, R. (1989), "Global Telemarketing," Export Today, (December), pp. 5-7.
- Hassan, S.S. (1990), "Dynamics of Global Consumer Marketing," Abstract In John Thanopoulos (Ed.), Southwest review of International Business Research, Akron, Ohio: Academy of International Business-Southwest Proceedings, P.35. Full Length In Robert Moran et. al. (Eds.), Global Business Management In the 1990s, Beacham Publishing Inc., Washington, D.C., pp. 199-203.
- Hassan, S.S. and L.R. Katsanis (1991) "Identification of Global Consumer Segments: A Behavioral Framework," Journal of International Consumer Marketing, Vol. 3, No. 2 (Forthcoming).
- Jain, S. C. (1989), "Standardization of International Marketing Strategy: Some Research Hypotheses," Journal of Marketing, (January), 53, pp. 70-79.
- Kreutzer, R. T. (1988), "Marketing Mix Standardization: An Integrated Approach in Global Marketing," European Journal of Marketing, 22(10), pp. 19-30.
- Levitt, T. (1983), "The Globalization of Markets," Harvard Business Review, May/June, pp.92-102.
- Pickholz, J. (1988), "Market Segmentation is Changing the Way the World Turns," Direct Marketing, (Spring), pp. 42-45.
- Quelch, J. (1987), "Marketing the Premium Product," Business Horizons, (May/June), pp. 38-45.
- Services Postaux Europeens, (1987, April) "Usage Trends in the European Direct Mail Market 1986/1987".
- Sheth, J. (1986), "Global Markets or Global Competition?," Journal of Consumer Marketing, (Spring), 3(2), pp. 9-11.