Abstract

This research looked at service exporters recent experiences. It was found there were key differences and similarities between goods and service exports. Some of the key advantages of service exports over goods included their more effective ability to overcome geographic and economic trade barriers. Service exports were also found to be not as price sensitive as exporting goods. Their often unique solutions became a marketing tool to promote themselves to other potential clients.

There were many challenges identified that service exporters continue to face. These include measuring their value to the economy, gaining access to finance, the high cost both in terms of time and labour in developing one off solutions, protection of intellectual property, plus attracting and keeping key staff to deliver their services. These challenges will need further attention from government, industry advisors, plus those organisations servicing service exporters.

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INTRODUCTION

Services are a vital ingredient in the Australian economy in terms of the number of businesses and employment. Two-thirds of the estimated 1,239,400 private sector businesses in Australia in 1999-2000 were service-based businesses. The service sector employs approximately 73 per cent of the workforce (Australian Bureau of Statistics, 2002). According to Austrade, the service sector provides substantial potential for future job growth and increase in export volumes.

Competitive pressures at home have led many service businesses to seek new markets offshore (Austrade 1994). In Australia, services exports accounted for nearly 25 per cent of Australia's total export income (Vaile, 2000), which rose 16 per cent to $32.9 billion in 2000-01 (Market Information and Analysis Unit, 2002).

The size of firms has affected the growth of this sector. Whereas a third of big businesses are exporters, only 4 per cent or 25,000 firms, of small and medium size businesses export (Callick, 2003). Although a small number of large companies still make the greatest contribution to service export revenues (Austrade, 1994), the small companies, which employ less than 200 people, have the potential to grow and become larger companies of the future (Austrade, 1994). Doubling the number of small and medium sized exporters would boost Australia's overseas earnings by $8 billion a year (Callick, 2003).

The Department of Innovation, Industry and Regional Development (DIIRD), a State Government agency in Victoria, Australia has committed significant resources to improving that State's export performance. As part of its on-going development of the Vic Export website it identified a need to research and recommend content that would assist both potential and existing exporters of services, in particular small to medium sized exporters.

Specifically the DIIRD wished the following issues to be examined: a practical definition of service exports; a survey of existing research material related to service exports; how the process of exporting services differs from the process of exporting products; the main problems and risks faced by exporters of services from Victoria; and information providers of services need to assist them to find overseas markets and deliver services to those markets.

The research included interviews with Victorian exporters of services, some successful and others less so. These interviews helped ascertain the problems they encountered, solutions they recommend, ways they used to minimise risk in selling and delivering services in overseas markets, and identifiable success factors in the process

LITERATURE REVIEW

Defining Services

The definition of services is a much-debated issue (Gani and Clemes, 2002). Different authors adopt different definitions, and some authors even change their definition from time to time (Carter, 1984). Although service exports can be understood as service activities that are internationally traded between residents of different countries (Austrade, 1994), the term services covers a heterogeneous range of intangible products and activities that is difficult to encapsulate within a simple explanation (Department of Economic and Social Affairs, 2002).

Current definitions range from a broad approach stating services as “anything that you cannot drop on your foot” (Austrade, 1994, p. 18), to detailed classifications incorporating: transportation, travel,
communication, construction, insurance, financial, computer and information, royalties and license fees, other business services, personal cultural and recreational, and government services (ABS, 2002).

Other definitions also include some transactions in goods where, by international agreement, it is not practical to separate the goods and services components (Market Information and Analysis Unit, 2002). The increasing number of goods producing activities that contain service components adds to the difficulty in definition (Reif et al, 1997). Some authors have even divided services into categories. For example, Lovelock and Yip (1996) divided services into three categories: people-processing services; possession-processing services; and information-based services.

**Defining service exports**

According to the DIIRD website, exports can be defined as “the provision of goods, services or know-how across national boundaries to satisfy the specific needs of individuals and organisations”. Austrade (1994) narrows this definition by suggesting that service exports are simply services consumed outside Australia. Both these definitions are clear and concise though they do not address the ambiguities that appear to exist over the meaning of the words “services” and “exports”.

For the purpose of this research the Australian Bureau of Statistics’ (ABS, 2002) classification of services combined with the definition provided by Austrade appears to better define service exports. It should be noted that as part of its definition, the ABS considers services delivered by an Australian company to a foreign subsidiary as service exports. This includes profits and dividends that are remitted between an Australian enterprise and a related enterprise abroad. This method of export service definition is based on the Organization of Economic and Cooperative Development’s (OECD) trade in services classification. It is compatible with Australia’s Balance of Payments statistics, and is compiled in accordance with the latest international standard determined by the International Monetary Fund (Market Information and Analysis Unit 2002).

**The Differences between goods and services**

Much of the current research on exports has been based on goods exporters, and the findings cannot always be generalised to service exporters because of some inherent differences between goods and services. Austrade (1994), Grosse (1996), and Boden and Miles (2000) noted that the basic difference between goods and services is that services are intangible. Austrade added that since services are experiential, customers are uncertain what they will receive until the service is delivered. Lovelock and Yip (1996) agree with Austrade’s (1994) view on the “perishability” of services. Both recognise that services cannot be stored, and this means that services must be delivered in real time. The significance of the time factor may lead to considerable restrictions as to where the service can be delivered.

According to Grosse (1996), services depend, to some extent, on buyer-seller interaction for provision. This implies that customers are involved in its production, and people are part of the service experience. Lovelock and Yip (1996) agreed with Gross to some extent, but added that services could be delivered electronically. Arndt’s (1989) view is that that the revolution in information technology is rapidly reducing the need for a presence. Some services, such as those in financial services can be increasingly traded without a physical presence. Geography can also be a distinguishing factor. Manufactured goods are made and assembled in workshops and factories; and agricultural or mining products rely heavily on natural resource locations. This is contrasted with services, which can be produced in many locations (Austrade, 1994). Lovelock and Yip (1996) argue that unlike physical goods, the logistics of service assembly and delivery tend to be much simpler once the necessary infrastructure and network are in place.
Yip (2003) also recognised that global market participation is also often easier for service businesses compared to goods businesses because service businesses, being less visible, are usually less subjected to the trade and investment barriers common to goods.

The challenges facing goods and services exporters

The literature suggests there are some challenges and risks common to all exporters. These include:

**Need for environmental scanning and planning:** Many companies make their decision to export without carefully completing an environmental scan and preparing a business plan. In turn when early export efforts are unsuccessful because of poor planning, the company can be misled into abandoning exporting altogether (Reif et al., 1997).

**Overcoming trade barriers:** Before exporting, there are trade barriers in the host country to consider. These barriers are many and varied and can be divided into three categories: government monopolies, government regulation, and industry regulation (Sacks and Malbon, 1992). In one survey, more than one quarter of respondents identified trade barriers and 13 per cent cited intellectual property protection as regulatory constraints on their ability to more successfully deliver their services offshore (Austrade, 1994).

**Meeting customer needs:** A business must first have the right product or service to export. It is important that the product or service satisfies the needs of the end users, and is of high quality (Industry Commission, 1997). Price, linked with an understanding of how to sell the product or service to non-Australian audiences is also important (Harcourt, 2002).

**Developing export focused management skills:** Kaplan and Rieser (1994), advise that the operation must be supervised directly by quality employees who can maintain high levels of excellence. For companies dependent on key individuals to deliver excellent services, attracting and keeping key staff members in the early stages of developing a business is extremely important.

**Reducing payment defaults:** Unforeseen political, social, legal and commercial factors can prevent payment to Australian exporters. In the experience of the Export Finance and Insurance Corporation (EFIC), a significant number of non-payments occur even though the firm has enjoyed a long-standing trading relationship with an overseas customer. Often, non-payment is a result of circumstances outside that customer's control. A non-payment can be devastating, especially for small-to medium-sized businesses dependent on cash flow (EFIC, 2003).

The challenges facing service exporters

In addition to the more generic challenges facing all exporters, there are some challenges which particularly affect service exporters:

**Difficult to coordinate services:** Services need to make globally integrated moves as much as product-based companies. But the key feature of such moves, cross-country coordination, can be both easier and more difficult. Coordination can be easier for those services businesses that reproduce a strong core formula around the world. In such businesses, the corporate headquarters play a continuing role in monitoring the strategies of overseas units. However, the prevalence of franchising in services, and its concomitant dispersion of ownership, makes global coordination much harder (Yip, 2003).

**Lack of export culture:** The services sector is critically dependent on the skills of its entrepreneurs, particularly those in small businesses. Some parliamentary reports suggest that although the best Australian managers are equal to the best in the world, the majority of Australian managers do not have the education and skill levels of those of the major trading nations. When
you consider that Australia was ranked 10th in 2003 by the World Economic Forum's The Global Competitiveness Report (World Economic Forum, 2003) this criticism appears unfounded. However, a key problem identified in some parliamentary reports is Australia has not yet developed a positive export enterprise culture within its organisations (Parliament of the Commonwealth of Australia, 1996).

**Lack of commitment to export by small service businesses**: Difficulties may arise within some firms regarding the maintenance of a high level of commitment (Industry Canada, 2003). Commitment is important for the flexibility in handling foreign clients. It is a combination of willingness to commit time, effort and follow-ups. However, many young companies with less than five years in business have become exporters by accident, through unsolicited external enquiries, rather than because of a strategic plan to expand internationally (Austrade, 1994). This suggests that the businesses may treat exporting more like a sideline than a commitment.

**Lack of finance**: Hughes (1989) notes that service exporters face problems in securing finance, as financial institutions are usually very conservative in their lending policies for service firms. Lenders insist on borrowers providing, as security, traditional collateral such as inventory and other fixed assets, which includes plant and equipment (Shuman, 2002). This researcher suggests that typically, service exporters have nothing to pledge as security other than an assignment of the proceeds of a service. This situation occurs because the most valuable asset a service company has is usually the intelligence and competence of its people, which is not shown in the balance sheets.

**Services difficult to duplicate**: Austrade (1994) suggests that in order to guarantee viability in the longer term, service enterprises must develop a system to reproduce the service and to systematize it without the physical presence of the original provider. It added that the inability to replicate a service often places unsustainable pressure on individuals involved in delivering the service and threatens the viability of the export.

**Intellectual property**: Attempts to replicate a service can sometimes mean less control over how the service is delivered. It could leave the service originators open to having their service taken over by local partners, although demonstration of best practice and protection of intellectual property can help reduce this risk (Austrade, 1994).

**Current support from the government**

To help minimise the impact of some of the challenges and risks, more than 70 per cent of high achieving exporters use at least one government scheme (Austrade, 1994). However, the report noted that majority of the service exporters were unaware of the various government support schemes (Austrade, 1994). Austrade suggests that raising community awareness of trade and investment issues and of Australia's place in the global economy was an important Government objective.

Australia is pushing most of its major trading partners to open their markets to service industries by lodging a series of proposals seeking the removal of barriers to trade in services (Davis, 2002). The General Agreement on Trade and Services (GATS) is critical to liberalising international trade in services. GATS allows firms to obtain exact information on the regulatory framework of their priority markets. It also gives governments additional opportunities to negotiate the removal or reduction of barriers (Austrade, 1994) by targeting restrictions on market access in the financial services, telecommunications, legal services, environmental services and education sectors (Sacks and Malbon, 1992).

The cost effectiveness of assistance to exporters has been of concern for some time (Hughes, 1989). Government subsidies and incentives can play a role in encouraging greater export activity in a number of different ways, such as increasing exporters’ revenue, reducing
exporters’ tax liability, reducing exporters’ production costs, and reducing exporters’ marketing costs (Hughes, 1989).

METHOD

So far two studies have been undertaken. Initially 400 service organisations were randomly identified from the Melbourne Yellow pages and sent a mail survey with a reply paid envelope. These were followed up with a reminder letter and a further 150 surveys sent out. All potential participants were offered the opportunity to be interviewed. Only 45 useful surveys were returned and 82 returned with “return to sender” suggesting that a better method of identification of this group is warrant in future studies e.g. use of Industry Associations to coordinate mail outs and use of the Austrade exporter database.

From the initial survey, 12 organisations were identified for follow up face to face interviews as well as several consultants with experience in dealing with organisations with service exports. The interviewer used a semi-structured set of questions, developed from previous reading, research and observation by the researcher. The interviews were tape-recorded. In each organisation, multiple interviews were undertaken where possible to gain a more accurate representation organisation.

The result of the questionnaires and interviews were used to provide triangulation. The research included interviews with Victorian exporters of services, some successful and others less so. These interviews helped ascertain the problems they encountered, solutions they recommend, ways they used to minimise risk in selling and delivering services in overseas markets, and identifiable success factors in the process.

RESULTS

Definition concerns

The Australian Bureau of Statistics’ (ABS) definition is based on internationally accepted definitions and allows for direct comparison between countries. Or at least that is the idea. Preliminary investigations into the sub-sectors of services suggest that there is widespread confusion regarding how to categorise a range of businesses. As businesses grow they may diversify their activities. The result of this diversity is they might find their operations defined in one of the “other business” categories to the detriment of statistical accuracy and meaningful cross-nation comparison. Diversity within a business means that there is often a range of goods and services being provided to customers yet both the supplier and customer are more likely to relate to their business in terms of a core activity not the entire business scope.

Most respondents had different interpretations of exports versus their other activities and often related exporting to mean only the physical transfer of a product to an overseas destination. At the same time they often dismiss the royalty based income they receive from overseas as something other than exporting. Few in the survey understand that a service could be exported, and none of the manufacturers were able to identify that value added services were in fact service exports, or measure their monetary value. Whether value-added services are considered the domain of the distributor or other parties is unclear and further investigation will be required to clarify why manufacturers may not be taking the opportunity to differentiate themselves from competitors via the use of complementary services.

Service exporting process versus product exporting process

Respondents’ comments regarding exporting goods versus exporting services highlighted many points that were important to both types of exporters and supports the findings of the literature
review. This section highlights some common concerns, however some differences in emphasis and solution were detected, including:

**Business planning:** All respondents suggested the usual approach to internationalisation was taking advantage of opportunities when identified and planning later. Four advisors interviewed said service exporters can fall into the trap of assuming the delivery of services will be the same as in Australia. By following this approach there is a danger that deals will be done too quickly without undertaking necessary background checks.

**Use of Government funding and support services:** Respondents did not clearly identify what different Government assistance was important to service exporters compared to exporters of goods. Most recognised a clear range of support programs available to goods exporters particularly at a Federal level via Austrade. However, there was little recognition of programs available at State or Federal level for service exporters.

**Provide high quality service:** Quality needs to be defined in terms of the customer’s requirements. Service contracts provide a greater degree of uncertainty regarding quality expectations than the provision of goods.

**Developing trust:** Respondents, especially those providing intellectual property services, felt the need to gain trust with customers was not only to ensure payment for a job completed, but also to enable repeat work and referrals to be obtained.

**Sustain your local partner in the initial stage and through the maintenance stage:** For a service provider this might mean working with a manufacturer who is paying you a royalty under license, or a Master franchisee/licensee or joint venture partner if you are a franchisor.

**Be proactive in planning rather than waiting for someone to contact you:** Respondents and advisors all agreed that service exporters need to be proactive in identifying potential sales opportunities. However, four companies interviewed that had failed in their initial export attempts were found to have been proactive in planning, but failed to integrate cross cultural differences into their plans.

**Have risk reduction strategies in place throughout the project:** Both goods and service exports face similar risks but their ability to reduce their risks appears to vary. For example though there is a range of bank products to cover shipping and payment for goods, there are really only performance bonds (to guarantee completion) and bid bonds (guarantee the bidder has the financial viability to undertake a project) available to service exporters; these only apply to major project operations and are not available nor appropriate for many service exporters.

Interviews were held with specialists from the ANZ and National Bank on products developed to support service exporters.

These interviews highlighted the following:

- There were few tailored products for service exporters
- The needs of service exporters was not greatly known or understood by bank staff
- There was no great enthusiasm in developing new products for service exporters at this stage as the level of demand was not perceived to be high.

Another area of concern identified by respondents was insurance. Though there are many products available to cover shipping and payment of goods exported, for example letters of credit, there was little identified as available for service exporters. The main cover appears to be from EFIC guaranteeing performance for major projects, however guarantees for payment on completion of a service does not appear to exist. Respondents generally stated that to overcome this you needed to consider: up-front and progress payments; independent holding of funds by a
financial institution pending meeting of certain milestones i.e. performance bonds or escrow accounts; and building long-term relationships and trust.

**Be quality assured in Australia:** The main comment made here was that quality assurance did not just apply to goods; being an ISO accredited service provider could give you an advantage in international markets.

**Keep networking:** Some respondents felt that too often Australians underestimate the importance of keeping in touch with a range of related networks and at times did not seek appropriate counsel.

**Measuring value is more difficult for services:** It was felt that this factor alone may lead to a significant under-estimation of the value of service exports by both Federal and State Governments, the Australian Bureau of Statistics and supporters of service exports. How much data is not being collected relating to licensing fee income, franchising fee income, counter trade related income etc as it applies to services is unknown but academic estimates suggest that counter trade related income that is not included in trade statistics ranges from between 10-35 per cent of recorded trade income.

**The tyranny of distance is not such an issue for service providers, either between countries or within Australia:** Many respondents felt that service exporters had an advantage over exporters of goods in that delivery of services was not bound by geographic distance as improving communication systems and travel meant it was easier than ever before to enter export markets.

**Barriers to trade are less strenuous than those that apply to goods:** It was noted by many interviewees that international governments did not always place the same restrictions on services that were often found on goods.

Services are not quite as price-sensitive as products because clients are looking for quality (although price is still a consideration): It was felt that there was often the capacity to generate greater income abroad for service exports due Australia’s expertise and international reputation for certain skills. Whether this reputation for excellence is deserved was questioned by some respondents, however all agreed that what really mattered was taking advantage of Australia’s image with targeted service exports.

Services usually offer unique solutions for each job, so the job actually becomes a marketing tool to demonstrate capability for other clients: The fact that many service exporters were dealing with unique problems and therefore offered unique solutions allowed them to tailor solutions and promote their abilities to other potential customers. Respondents generally felt Australians were good at adapting to international conditions possibly due to our geographic isolation from some key foreign markets and our flexible small and medium size organisations.

**Services often operate on a more limited time scale – once the client has used the service they may not need it again:** This was considered both a threat and opportunity by some respondents. Concern that jobs might be one-off worried some but others thought that demand was so large and growing in international markets that we should worry more about capacity to deliver rather than lack of demand.

**Problems and Risks Facing Service Exporters**

The following problems and risks were identified from the survey and interviews and some possible solutions provided by export advisors.

**How do I decide when to go “International”?** Most respondents believe you need to get it right at home prior to international expansion. It was emphasised in most interviews that unless you have the resources (and in particular financial and human resources) you may fail to take full advantage of international opportunities because you cannot meet the on-going demands of
foreign customers. In particular it was noted that too much success too quickly could easily lead to failure as your resources became stretched.

Do I build locally and then expand globally or do I go global from the start? Most respondents believe it is best to have developed a successful system at home first then when you know it works and meets local customer requirements you look to the export market for growth.

How do I build overseas markets and how do I get to meet the “right” contacts? This point emphasised the importance of developing and maintaining effective networks in country and in Australia.

Which markets should I enter? In general responses emphasised the need for careful planning and market research. Though the largest market opportunities may be in developed countries with high GDP/GNP, smaller niche markets in developing countries should not be ignored. Some respondents mentioned they had their greatest successes in developing countries where competition was less and the Australian services on offer where significantly more advanced than that offered by local providers.

What type of organisational structure should the overseas venture take? This question was raised several times but not really answered. The most common point made was that the structure would depend on what was best for the company to achieve its foreign objectives and should take into account its current local operational structure.

How do I handle financial transactions, including getting paid? Most of the respondents comments related to risk reduction strategies such as taking insurance, contracts and cash flow arrangements.

What are the challenges of working in different cultures? The issue regarding culture came up in all interviews and was a key point emphasised in the survey. Though many respondents raised the concern of language differences and the need to ensure documents were checked for their English translation by at least two different translators, other issues emerged. The most common one related to negotiations. Concerns were expressed that what was said may be different to what was meant, that face saving was important and respecting local cultural nuances would help the relationship develop.

How do I protect my intellectual property? Concerns raised were similar to those relating to goods though there was less concern here as it was felt many services adapted to individual project needs.

What will it cost to maintain operations overseas? It was emphasised by most interviewees that too often Australian organisations failed to budget correctly for their international expansion. Most suggested the need to add significantly both to the time required to complete work overseas and the costs involved.

How do I compete with government enterprises for human resources? There were a number of concerns raised about Government involvement in international trade. The main concerns were around the failure of Australian Governments to support local business to the extent provided by foreign Governments. Two respondents suggested that governments should remove themselves from managing major projects and rather than competing for local resources, work with the private sector to win international projects.

How do I get access to resources to be competitive? Respondents suggested many service exporters were comfortable growing their international business with alliance partners. Respondents were also keen to see greater involvement by the Victorian Government in assisting service exporters, particularly with monetary support.
Some other responses made in interviews or from questionnaires are summarised below:

- “We often underestimate how advanced our services are”
- “The trap is assuming that things are the same in other places as they are in Australia because that’s unlikely to be the case”.
- It’s possible for service industries to provide openings for manufacturing companies.
- Exporting can lead to import opportunities and vice-versa.

CONCLUSION

The research undertaken to date has identified many issues that need further research. A practical definition for service exports was identified, but the problems of measurement, poor recording by official organisations and general lack of understand by industry as to the meaning of services remains.

Research into existing material on service exports highlighted some key differences and similarities between goods and service exports. Some of the key advantages of service exports included their ability to overcome geographic and economic trade barriers. It was also found that service exports were not as price sensitive as goods exports and that their uniqueness provided them with a marketing tool to gain further work.

Some of the challenges that service exporters continue to face that need further attention by both Government, advisors in those servicing service exporters eg finance and insurance companies, law firms, accountants and government agencies include: measuring their value to the economy, access to finance, the one off nature of services, protection of intellectual property, plus attracting and keeping key staff to deliver their services.
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