

# SERVICES EXPORT PROMOTION, A PRIORITY WITHIN THE GLOBAL WORLD ECONOMY

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## Abstract

*The basic challenge in exporting a service is to convince a foreigner to try a service that does not exist yet. The foreigners have to believe that the service will be of good quality and will meet their needs. Usually the foreigner forms that belief based on recommendations, referrals, or somehow seeing the service provider in action. There are also several roles that trade promotion activities can play in building that belief or credibility. A national TPO needs to find or reinforce some special quality that its country has so that when potential customers hear about a service supplier from this country, their first response is, "Oh yes, I've heard good things about services from your country."*

**Keywords:** foreign trade promotion, services, TPO, efficiency, export

## 1. Introduction

The importance of international trade is widely recognized not only by the business sector, but also by governments. Governments all over the world have reviewed and streamlined their trade policies during the last decade. Economic reform programmes have improved the overall policy framework and created a more favorable environment in many countries.

In spite of this considerable resource endowment of trade promotion programmes, these programmes need to be selective in terms of products, functions and/or markets. An equal distribution of trade promotion resources over all products, functions and markets would obviously not make sense, as resources would be spread too thinly to reach anywhere a critical mass.

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In the context of globalization and increased competitiveness in the world market in general, and in Central and Eastern European countries, in particular, structural adjustment programmes and trade policy reforms are preconditions for economic growth and healthy trade performance. However, macroeconomic initiatives need to be complemented and supported at the microeconomic and operational level, in order to ensure a dynamic, outward-oriented and competitive business sector. Firstly, there is a need to improve the export supply response through institutional strengthening and enterprise-oriented assistance in areas such as product development and adaptation, trade finance, export quality management, export packaging, and better management of imported inputs. Secondly, efforts towards market expansion and diversification must be intensified, for example through the strengthening of business information networks.

Trade Promotion Organizations (TPOs) have a broad mandate to provide or coordinate trade support services in these areas.

A Trade Promotion Organization (TPO) is defined by the International Trade Centre UNCTAD/WTO from Geneva like a private or public institution with the main task to facilitate entry into foreign markets for a collective group of exporters and manufacturers of the home country.

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Governmental TPOs are those bodies set up by government as part of its infra-structure in order to facilitate foreign trade in general, but exports more in particular.

## 2. Recent Trends of the International Trade with Commercial Services

The total dollar value of world merchandise exports (nominal terms) jumped 19 per cent to US\$ 18.2 trillion in 2011. This increase was nearly as large as the 22 per cent rise in 2010 and was driven in large part by higher primary commodity prices.

Commercial services exports also grew 11 per cent in 2011 to US\$ 4.1 trillion. The share of commercial services in total goods plus commercial services trade (on a balance of payments basis) was 18.6 per cent, the smallest such share since 1990.

Transport services recorded the slowest growth of any sub-category of services (8 per cent), followed by other commercial services (11 per cent) and travel (12 per cent). The slow growth of transport services is perhaps not surprising considering the close relationship between this category of services and trade in goods, which stagnated in the second half of 2011. An oversupply of new container ships may have also depressed revenues in the shipping sector.

The top five exporters of commercial services in 2011 were the United States (US\$ 578 billion, or 14 per cent of the world total), the United Kingdom (US\$ 274 billion, 7 per cent), Germany (US\$ 253 billion, 6 per cent), China (US\$ 182 billion, 4 per cent) and France (US\$ 161 billion, 4 per cent). The United Kingdom replaced Germany as the world's second-largest exporter of services compared with last year's tables, but this was mainly due to a large upward revision in official statistics on UK exports of other business services and financial services, which together make up roughly half of all UK commercial services exports.

The top five importers of commercial services were the United States (US\$ 391 billion, or 10 per cent of the world total), Germany (US\$ 284 billion, 7 per cent), China (US\$ 236 billion, 6.1 per cent), the United Kingdom (US\$ 171 billion, 4 per cent) and Japan (US\$ 165 billion, 4.3 per cent). There were no changes in the ranking of the top importers.

## 3. Service Innovation Management

Innovation in any industry requires a conscious allocation of resources and careful management of the concept development and implementation process. The firm is at risk if the innovation fails; however, there is also the potential for major market rewards if the firm is able to sustain intentional, repeatable change. Services firms face some additional challenges related to innovation that are not shared by goods-producing companies:

- Need the most skilled staff in direct contact with customers, but promotion means moving away from direct contact.
- Need staff to be highly motivated, but staff have flat career paths.
- Need staff to take initiative in solving customers' problems, but staff need to conform to standard service procedures.
- Need staff to use information technology, but there is no time available for training.
- Need staff to "recover" well with customers, but often they do not have the authority to act.
- Need customers to cooperate, but customers do not know or accept their role in co-production.
- Need customers to recommend the service, but customers' perceptions are shaped after they receive the service.

To manage these additional challenges, managers of services firms need to be able to address the issues discussed below: reducing the risk, managing the customer interface, "training" customers, managing staff performance, engaging front-line staff, linking innovation options to the type of service, and using information technology.

*Reducing the risk.* One of the main barriers to innovation adoption is the customers' fear of the risk involved. For services firms, risk is already a factor in that customers never know ahead of time how well the service will be provided. While customers may find a service innovation intriguing, they may also be concerned that the service firm is less likely to be able to control quality in providing a service with which they are less experienced.

The issue of risk is particularly critical in regard to business services (i.e. those provided to businesses rather than to households) as the consequences of service failure are often more serious. Business services typically comprise half of all the output of the services sector, or as much as 40% of overall economic activity, and are the most likely candidates for export.

*Managing the customer interface.* Manufacturers produce their goods away from the customer and so can separate the operational and marketing functions. This is not the case for services firms. In most cases, customers have too levels of direct interaction with the service production process, whether virtually or in person (so called line of interaction and line of visibility) and one level of indirect interaction (so called "line of internal interaction").

While the technical aspects of the service may be provided by professional staff, the customer's experience of the service process is shaped in large part by the front-line contact staff, which performs both as administrative and marketing staff. The "line of interaction" represents the potential moments of truth when the customer is in direct contact with the company's employees, and so he is gaining a positive or negative impression of the company service capabilities.

The "line of visibility" indicates the point at which the customer is aware of being in direct contact with the firm. Poor service at this interaction point often reflects a staff attitude that views customer contact as disruptive. Alternatively, poor service may result from not having analyzed all aspects of the service delivery process from the customer's perspective.

The "line of internal interaction" refers to interactions between those responsible for services to customers and those who provide the support functions within the firm (e.g. accounting, computer network administration) which affect how well the service can be delivered to the customer. This is the place within a service firm where organizational innovations are most promising but most often overlooked. The ease with which this interaction is handled is often referred to as "internal service quality".

*Training customers.* Often customers must themselves play a role as "co-producers" or "unpaid staff" for the service to be delivered. This requires them to learn their role and execute it properly. In this respect it has to be mentioned the conclusion of the United States Technical Assistance Research Program (TARP) that 30% of customer dissatisfaction results unwittingly from their own inadequate performance.

When considering service delivery innovations, firms often overlook the customer's role, which overlaps significantly with that of staff at all three stages of the service (service design, service delivery, service evaluation). At the service design stage, an increasing number of services firms solicit customer input on what would make a new service or service delivery process most attractive to them. Once the service is being delivered, both customer and staff roles may vary. If the design is for self-service, then customers will be taking the lead "production" role.

Alternatively, staff may provide the service to customers without requiring customer participation, or both customers and staff may collaborate in creating the service experience. Once the service experience has been completed, staff will want to review and evaluate it, but customers play the dominant role.

When services firms introduce an innovation, the customer's role may need to change. This raises issues about whether or not customers want to take on the effort of learning a new role. Services firms also need to think through how they will communicate those changed role expectations and what additional benefits customers could expect to receive if they are willing to adopt a new role.

*Managing staff performance.* When customers assess service quality, what they are typically assessing is staff performance (i.e. how the service was delivered) rather than the service offering *per se*. This means that successful innovation needs to focus on execution in the interaction in the web of relationships. One of the challenges for managers is that, while customer satisfaction increases with consistent task execution, staff motivation may decrease if they feel that their work has become routine. Generally staff is motivated by increased task complexity and increased discretion in task execution.

Because research for innovation begins with assessing customer needs, it is usually counterproductive for services firms to segregate research and development into a separate department. In fact, the most knowledgeable staff is often those who interact directly with customers.

Traditionally, “research” has been viewed as a technical skill that is not part of front-line responsibilities. Services firms which overlook the potential for input from front-line staff are severely limiting their chances of success.

*Linking innovations options to the type of service.* While in general service operations differ from goods production in the tangibility of their output, they also differ amongst themselves in critical ways. One of the dimensions most relevant to innovation is the perceived degree of risk. Experience shows that customers will expend much more energy seeking out specific services firms if the potential for nonperformance is high and the consequences are highly negative. Customers select some services primarily on the basis of convenience of location and are unlikely to travel to a distant location no matter how innovative the service offerings are. More risky services purchases (e.g. medical care, security services) usually result in customers researching options carefully and selecting a service provider largely because of its ability to deliver rather than for reasons of convenience.

*Using information technology to innovate.* Both domestic and export service operations have been revolutionized by the links between information technology and telecommunications. The Internet is being utilized for marketing, partner search, service delivery, inter-staff coordination, and interactive customer research, among other uses. The successful launch several years ago of amazon.com, the first bookstore to exist only in cyberspace, is one example. Medical specialists provide real-time consultations to remote communities that they may never visit in person. Customer service telephone numbers may be answered from anywhere in the world.

#### **4. Main Approaches in Trade Promotion of Services Exports**

At micro - economic level, the main approach for a services exporter is represented by his ability in promoting his new product on the international market. In this respect, the basic challenge in exporting a service is to convince a foreigner to try a service that does not exist yet. The foreigner has to believe that the service will be of good quality and will meet their needs. Usually the foreigner forms that belief based on recommendations, referrals, or somehow seeing the service provider in action. There are also several roles that trade promotion activities can play in building that belief or credibility.

At macro – economic level, the main task in promoting the national business opportunities in the field of services on the international market is in charge of the national TPO, which, in cooperation with the non – governmental organizations and the economic operators has to create a general favorable image of a certain branch on a well defined segment of the world market. In this respect, the national TPO needs to find or reinforce some special quality that the national providers of a specific service have, so that when potential customers hear about a service supplier from this country, their first response is, “Oh yes, I’ve heard good things about services from your country”. An example in this respect is the following: when people think of computer software and IT services, they think of India which now has 12% of the global market. Any Indian IT firm benefits from that reputation, which was built up over a period of ten years.

Here are some questions to ask yourself to help a national TPO to identify the competitive advantage of the national providers of service:

- *Does the country have a geographic advantage?* For example, Panama is already known for being a transportation and distribution hub due to the Panama Canal and its strategic position between Central and South America. Based on its infrastructure and links to four submarine fibre optic cable systems, Panama can now market itself as the regional hub for e-services.

- *Does the country have a language or cultural advantage?* For example, Peru has large Japanese and Chinese immigrant communities.

- *Does the country have a human resources advantage?* For example, Jordan has a number of well-trained professionals who were trained in the U.K., U.S., or France and have extensive work experience in the Arab Gulf countries.

- *Does the country have a reputation for being particularly business friendly or familiar with other ways of doing business?* For example, Barbados has a reputation as a politically stable, open economy with over 8,000 offshore businesses.

- *Does the country have a reputation in a particular sector that can be leveraged as a country image?* For example, Jamaica has a global reputation of reggae music, which is being leveraged as a lead sector.

- *Can the country provide the foreign customer access to a range of other markets?* For example, a CARICOM country like Trinidad & Tobago can position itself as the gateway to the Caribbean (and South America through links with Venezuela) for services like market research.

### 5. Selecting Priority Sectors and Target Export Markets

Usually, a country is offering over 60 categories of services being exported. For successful trade promotion, the national TPO will need to pick priority sectors for the focus of its promoting resources – i.e., sectors where the local companies have:

- Some competitive edge to exploit.
- Sufficient domestic capacity to support rapid export growth.
- Some potential for synergies among services.
- A service industry association to work with government on trade promotion strategies.

In general, services are exported to a wider range of markets, at least 30 different export markets, than are goods. For effective use of resources, the national TPO will need to select geographic markets that hold the greatest growth potential. For this reason, the national TPO has to take into account the following:

- The number of firms already exporting to, or interested in, that market.
- Economic growth patterns in that market.
- Attitudes in that market towards importing services.
- Historical links with that market, including investment and tourism.
- Ease of access for exporters (direct flights, visa requirements).
- Ability to pay, including exchange restrictions, inflation rate, currency stability.

### 6. Services Trade Promotion Activities

While goods promotion typically focuses on the tangible product (making use of virtual trade shows and online catalogues), services promotion needs to focus on the solutions that can be provided by the service companies. Customers are particularly interested in onestop solutions. For example, a consortium that includes architecture and design, engineering, construction, and project financing is more competitive than any of those services on their own.

While there is a wide range of services being exported, from a trade promotion perspective there are five general categories of services that benefit from slightly different promotional approaches:

- *Infrastructure services.* These include architecture, engineering, construction, transportation, distribution, and financial services.

- *IT-related services.* These include computer consultancy, software development, data processing, database management, and call centres.

- *Business services* (non-IT-specific). These include a wide range of business support activities such as research & development, equipment leasing or maintenance, market research, management consulting, translation, investigation & security, etc.

- *Professional services.* These include the licensed professions (other than architecture and engineering) like accounting, legal services, medical & dental services, nurses and veterinarians.

- *Quality of life services.* These include education & training, health-related services, entertainment services, cultural services, recreational services, and sporting services.

There are eight general types of activities that have proven useful in promoting the above mentioned five categories of services.

- *Participation in global or regional trade events.* For some services, there are annual or biannual trade events that provide excellent profile building and networking opportunities. Examples include CeBIT, Medtrade, and WTA. In some instances, it is possible to find that a regional trade event that is held in an export market of priority is even more useful. To maximise effectiveness, it is useful to have some kind of export country presence – a booth with information about service capabilities, a sponsored reception for participants from targeted export markets, speakers on the program, etc.

- *Sector-specific trade missions.* These trade missions would be comprised of service firms that are already exporting or wishing to export. To maximise effectiveness, the TPO which is in charge with the mission has to think to have some kind of theme to the mission and organise opportunities for mission participants to meet not only with potential customers but also with potential partners. A component of the mission would be educational presentations by mission participants. An example of this type of mission is the health services missions Malaysia has led to Cambodia and Brunei in order to convince local health practitioners to refer patients to Malaysian hospitals for specialised care.

- *Cross-sector trade missions.* These trade missions would be comprised of service firms from several industries willing to work together to provide “bundled” services.

- *Partnering events.* The purpose of such an event is to encourage collaboration between organisations, either across national boundaries or across sectoral boundaries. Such events can be held for service firms and/or for service industry associations.

- *Media tours.* The purpose of this type of event is to promote the profile of service firms’ capabilities in the media of developed markets where media coverage confers credibility. The structure would be to identify a small group of service firms with unusual capabilities and successes, and then to hire a public relations firm in the target market to arrange a series of media interviews with those firms.

- *Incoming missions.* Incoming missions from target export markets provide a low-cost opportunity to acquaint potential foreign customers with the capabilities of service suppliers. The structure would be to have an business event at which service suppliers could provide useful information, followed by a networking reception.

- *Networking with investors.* Sometimes foreign investors import services (especially professional and business support services) because they are unaware of local capabilities. Providing a structured opportunity to highlight national expertise gives the local firms the chance to engage in exporting.

- *Missions to international finance institutions.* These missions would be comprised of service firms that provide the types of services currently being funded by international financial institutions such as the World Bank, the regional development banks, or bilateral aid agencies. The

purpose would be to apprise the officers of the capabilities of country's service firms both to deliver IFI-funded projects in their country and also to deliver quality services in other donor-funded markets.

### 7. Conclusions

Export readiness is the capability to succeed in export markets. Innovation links to export readiness in several ways. First, in order to resource a company export initiative effectively, it may need to introduce internal organizational innovations to handle different customer demands. Second, the manager will find that his company will profit the most in an export market if it is offering a service or service delivery process that is new to that target market. Third, in order to adapt to the cultural norms of the target market, it is very likely that the company will need to change features of its service or the manner in which its service is delivered (again an innovative activity).

Exporting can strengthen overall competitiveness if the company is able to select target markets where the services it can offer are a good match with local needs and cultural values. Foreign customers can offset low demand in a home market and may provide hard currency earnings. However, because of cultural variables, it is all too easy to misread customer needs, motivations and priorities. The same is true with local partners and staff.

To improve a service company's chances of export success through innovation, there are several strategies to put into practice:

- It has to target ethnic subgroups with cultures similar to the services provider.
- It has to target expatriates from the services provider's home country who are living in the target market.
- It's very useful to find a local partner and let them lead on issues of services design and delivery that are culturally specific.
- It's considered to be efficient to hire local staff for the lead front-office, high-contact positions.

Entry into new export markets can be speeded up through strategic alliances with local service providers. A local partner can vouch for the service exporter capabilities and can provide it with ready-made networks. Strategic allies can also help exporter to succeed in third markets due to their reputation and profile.

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