



**EXECUTIVE FORUM ON
NATIONAL EXPORT STRATEGIES**

**EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?
IMPLICATIONS FOR STRATEGY- MAKERS**

**5-8 October 2005
Montreux, Switzerland**

**Exporting Business and Professional Services:
Life Wasn't Meant to Be Easy**

**A paper contributed by
Lloyd Downey
National Manager
Service Exports
Austrade
Australia**

EXPORTING BUSINESS AND PROFESSIONAL SERVICES: LIFE WASN'T MEANT TO BE EASY

One of our former Prime Ministers, soon after being elected, announced to the nation that "Life wasn't meant to be easy". This sat rather uneasily with those who had elected him hoping that life actually WAS going to be easier. But the uncomfortable truth seems to be that he was right. Especially if you were (or are) an exporter of business or professional services.

Our experience is, that it is not easy to export business and professional services. This doesn't mean that it can't be done. Such services are widely exported and increasingly so. Last year, my own organisation, Austrade, assisted some 5,000 different companies to make export sales and of these 369 were from the business and professional service sectors. If we stretch the definition to include the information & communications technologies sector and the building and construction sector the figure rises to 913 companies...or about 20% of the total.

So some are doing it. The interesting thing to me is that more companies in these sectors are not really attempting to export. In Australia we have approximately 120,000 companies in these sectors. Yet maybe around 3% of them are exporting. Why is this? Why don't more of these companies try exporting?

In this paper I have tried to identify some of the issues that face exporters of business and professional services and see what it is that makes them different to, for example, exporters of automotive accessories or commodities. I have also identified some of the tactics used by successful exporters to overcome these sorts of problems.

The Issues

- **Scale**...most of the business and professional service firms in my country are small. In fact 83% of them are micro companies (with less than 5 employees) or they are self-employed.
- **Why do it over there when you can do it here?** This comment summarises the views of most of our professional service companies. If they can make a comfortable living working in the domestic market, where is the incentive for them to seek work offshore in an unknown environment? What is the motivation for those companies that do seek to sell their services to other countries?
- **You can't send samples.** If you are exporting auto accessories or coffee you can send samples and these can be tested and assessed and compared by the potential buyers. But if you are exporting professional services you don't really know the quality of what you are getting until you have had it. And sometimes it's difficult to know just how good or bad the service was anyway. How do you know how good a job the surgeon did with the heart operation?
- **Reputation.** Basically people tend to buy professional services based on the reputation of the supplier. And reputations are very hard to establish and very fragile. One mistake can destroy an excellent track record. It takes time to build a reputation and a good reputation back home does not translate easily into a good reputation in another country...where they may not have heard of the large organisations that you have worked with back home.
- **Relying on word of mouth for marketing.** When we have talked to our successful exporters of professional services. Especially those who rely on reputation for their sales, it seems that most of them rely on "word-of-mouth" to spread their reputation. This applies both on-shore and offshore. But it is probably more difficult to make the translation to an international domain than it is domestically.
- **Recognition of qualifications.** Professional qualifications that allow you to practise law, or dentistry, or medicine or accounting in your home country are typically not recognised

by other countries unless you go through some rather complex testing and admission procedures. (And possibly not even then). Professional bodies are notoriously protective of their particular patch of “turf”. And the general public are not well informed enough to know how a graduate from some foreign university equates with a local graduate. So, typically, it is the local professional associations that restrict the entry of foreign competition by failing to recognise their qualifications.

- **Capacity to only do a part of the whole job.** As I mentioned above, in my country, a high proportion of the professional service companies are very small or are sole operators. So, typically, they do not have the capacity to take on major projects by themselves. They have to find niche opportunities or they have to be subcontractors to the larger firms who can tender for the big projects.
- **Financial risk.** There is always going to be some financial risk with any job. But when you are working in a foreign country where the legal systems are unfamiliar, where your partners may be untested, where the political regime may be unstable, where business practices are unfamiliar etc. Then the financial risk is magnified. This is one of the reasons that business and professional service firms prefer to work at home rather than seeking “adventure” internationally.
- **Language/cultural skills.** When you are delivering a professional service...especially a personal service of some kind then there are always going to be cultural differences. And the case studies that worked at home may not translate easily into a foreign business environment. Obviously this is exacerbated by language differences. We are fortunate to have English as our mother tongue, and this seems to be an advantage internationally. But it does not overcome the need for skilled translation. (I recall our own staff struggling to translate into Chinese, a term that I had used about service exports generally being calculated by subtraction; what was left after one subtracted agriculture and manufacturing and mining from the gross exports).
- **Very short term contracts.** With traditional merchandise exports, contracts tend to be either one off or long term. So that you can send a container load every month for the next ten years...and hopefully the business will expand over this time. But a professional service consultant may typically be looking at a job that lasts a few weeks and then they have to find another job. This is very difficult for them. And it is very difficult for a Trade Promotion agency to keep finding new relevant opportunities.
- **Difficulty getting finance.** Business and professional services generally do not require a lot of capital. This is one of the advantages. It's relatively easy to establish such a business. But it's also a drawback when you need a line of credit so that you can undertake a lengthy service contract. The banks don't want to know people who rely on their wits or what's in their head as their main asset. They want “bricks and mortar”...realizable assets that they can sell if the deal goes wrong. So this is a special challenge for the consultant who needs to maintain a cash flow.
- **Difficulty getting paid.** At the other end is the challenge of getting paid. A client may feel that they have not received the contracted service or may feel that the service was not what they were expecting. But their expectations may have been unrealistic. Or they might just turn out to be a dishonest company. Either way, the service provider can be placed in a very difficult situation if they are not paid on time or not paid at all. And the judgement about the quality of services provided is always going to be very subjective. (It's much easier with merchandise to check against the reference sample supplied). To resort to the legal system of the foreign country may be prohibitively expensive and legal systems are notoriously to the advantage of the locals. Getting paid is a risk which has to be factored into the equation for exporters of professional and business services.
- **Access and visa issues.** Hand in hand with the difficulty of having professional qualifications recognised, comes the difficulty of getting a work permit and a visa to operate within a foreign country. Sometimes, “professional” visas are issued only to those who have the recognised qualifications. Frequently, the laws are opaque and interpreted differently by different people. It's hard or impossible to get a definitive

answer. So professional service providers may enter the country on a tourist visa and carry out their work. This has the obvious risk that a tourist visa normally does not allow them to work. Getting appropriate visas is another issue that has to be taken into account by business and professional service exporters. But is rarely an issue for exporters of merchandise.

- **Loss of intellectual property.** When you sell your knowledge to a non-resident and thus become an exporter, you are at the same time transmitting your intellectual property. Usually this is being done with a full recognition of the consequences but we have many examples of companies who have given copies of their training manuals and their methodology and their plans etc, before any contracts were signed. And have thus lost their intellectual property without any compensation. Even where there are copyright and trademark and patent protection, it can be difficult and expensive to pursue the infringers. We also have examples of companies who have taken all the possible measures yet found that their intellectual property leaked. So, where is the incentive for them to go to a foreign country where this is a strong possibility? They have to feel that the risk is worthwhile and the potential profits are worth this risk. And this does not just happen in developing countries. We have significant problems with developed countries in terms of losing control over intellectual property.
- **Difficulty finding the opportunities.** My agency has looked long and hard at ways that we can identify opportunities for business and professional service providers. But to reflect the theme of this paper, we have not found it to be easy. From the perspective of our overseas trade posts, it is easier for them to concentrate on the traditional areas or merchandise...where the channels of import and distribution are easily identified. In contrast, a company that really needs an information audit, or needs to transform their management structure, may not recognise this until they are reviewed by a management consultancy. But if they don't know they need the management review how is the management consultancy going to identify them as a potential customer. The argument is obviously circular but it underlines a critical issue for these types of service. It really is very difficult to know in advance where and when the opportunities may arise.

What Can You Do?

OK, I've highlighted all the difficulties. And I think we need to squarely face the facts that it IS difficult to export business and professional services. Probably much more difficult than it is to export merchandise. But many companies are doing it. What's their secret? What can others replicate and what can Government agencies do to assist?

It's probably worthwhile pointing out, right at the outset, that there are a variety of ways that professional services can be exported. We typically tend to think of professionals travelling to a foreign country and selling their services as a consultant. (Mode 4 in GATS terms). But many such services are being sold at home as services to non-residents. Some legal services fall into this category and some medical services also. (This is Mode2 in GATS terms). Some services require an on-the-ground presence. Banking services and advertising services, for example, typically require offices close to the clients. This is a Mode 3 export in GATS terms...when you have (or control) an entity in a foreign country. We have recently completed the first ever study of such overseas investment by Australian firms and discovered that the sales by offshore affiliates of service companies is twice the size of all the other, traditionally measured service exports. And the single largest sector by far is financial and business services. It illustrates the importance of measuring and having a good understanding of the service trade statistics. The actual flow of wealth back to Australia has not been measured and may be virtually impossible to measure...but I estimate on the basis of some "back of the envelope" calculations that it is probably about 10% per annum of the total sales by the overseas affiliates. And business services can also be traded across borders...as with the sale of franchises or the delivery of software across borders. And some architects can organise their work so that much of it is delivered over the internet and they can stay at home and still work with their clients via the internet. This is a Mode 1 service export in GATS terms.

The essential point in all of this is that by delivering the service in a different way...delivering it to customers who have come to you; or delivering it over the internet...a supplier of business and professional services can avoid some of the issues that I've highlighted above. (Issues with visas, and legal systems, and recognition of qualifications and so on, can be bypassed).

One way of getting around the problem of scale is for individuals to join together. The large international legal firms and the large international accounting firms have tried and tested this technique of partnerships over a long period and managed to make it work extremely effectively. Though, my experience with micro firms in Australia leads me to the conclusion that most of them want to be independent and are not prepared to sacrifice this independence for the advantages of combining, with others, into a larger unit. (These advantages include the ability to share research costs and overheads; the ability to have professional back-up if you are sick or incapacitated and the ability to tender for larger projects which require a greater depth of skills that one individual just cannot deliver). So there appears to be a solution to some of the issues such as scale, reputation, ability to do the whole job, perhaps difficulty getting finance...but many companies are not willing to go down this route.

Although it is difficult to build a reputation and rely on word of mouth for marketing many of the Australian companies which we have worked with have been successful because of this word of mouth. How have they done it? There appear to be no really special tricks. The first principle is just to be very good at what you are doing. The second is to get exposure...via international conferences, via publications, via formal and informal networking. And to network effectively...following up correspondence, staying in touch, etc. Then when an opportunity does arise...they think of you. Sometimes it means taking on unprofitable work for a period to establish a reputation. Or doing something for free. (Somewhat like the samples that merchandise exporters can provide).

And we should not forget the GATS negotiations. Many of the issues that are raised above such as recognition of qualifications, visa issues, are being raised in the GATS negotiations and hopefully we will start to see some real progress in these areas. But it requires a concerted effort by all nations...not just a few.

Over the last year, Austrade conducted a major direct marketing campaign to the business and professional services sectors, precisely because they were large in number but relatively few seemed to be interested in exporting. We contacted some 70,000 companies, which is about 60% of the total population of these sectors. And we had expressions of interest from about 2,000 companies (or about 3%). Though very few of these were really in a position to export now. Many were simply curious; many were doing research or thinking of exporting in the future. We regard this as a hopeful trend but we did not uncover huge numbers of companies who were both interested and who had the capacity to export. Nevertheless, another 2,000 companies...if they all eventually do become exporters would probably double the number of exporters in these sectors.

And the above exercise underlines another fundamental issue. That is, that the exports of business and professional services has to be underpinned by a competitive domestic service sector. We don't know the exact number of such companies exporting from Australia but it would appear to be around 3% of the total and perhaps another 3% are thinking about getting into export. Perhaps the percentages would be larger if we had fewer sole operators and more, larger, professional practices. And perhaps this would overcome some of the scale issues mentioned above. We have experimented with encouraging networks of small companies to pool their resources for specific projects. And we have examined ways in which we might be able to formalise networking or do some sort of group marketing. (One of the issues we have discovered with trying to do group marketing is that the diversity of business services works against it. It's hard to form a group when their services have very little in common).

Perhaps the greatest help that we, as a Trade Promotion Organisation have been able to deliver to these sectors is with the introduction of relevant potential business partners. This seems to

have worked in many casesthough it is true that a high proportion of business arrangements between professionals have been serendipitous.

And the other major assistance that we have been able to give is in the raising of awareness about the possibilities of exporting and highlighting the achievements of those business and professional service firms who were actually doing it. The power of example is profound ...and it speaks more eloquently and persuasively than any government advertising.

The Bottom Line

So we have had modest success with encouraging networking, and with matchmaking with partners, and we have publicised the possibilities of the sectors in exporting and tried some group marketing techniques. But the bottom line is that we have found that exporting professional services is not easy. Nevertheless, significant numbers of companies are successfully doing it on a sustained basis and, if our feedback is correct, many more will be starting to export in the future. That's the corollary of the need for a reputation. That is, that once a firm has a good international reputation that reputation continues to deliver work. Sometimes it's hard to see things in perspective when you are closely involved in them but if I recall our situation 30 years ago we probably had less than 100 professional service companies exporting. Today we have about 40 times that number. So despite the difficulties we will persist.

Basic list of Business and Professional Services

Accounting, Advertising services, Administration, Architecture, Auditors, Banking, Building admin, Business associations, Business services, Call centres, Computing services, Consulting services, Convention organisers, Copyright, Credit bureaux, Design, Economists, Employment services, Event management, Facility management, Feasibility studies, Financial services, Graphic design, Human resources, Industrial design, Insurance, Interpreting, Investment, Leasing, Legal, Management, Market research, Marketing, News services, Office support, Pension management, Photographic, Project management, Property management, Public administration, Public Affairs, Real estate, Recruitment, Risk management, Sales, Scientific research, Security services, Statisticians, Social services, Taxation, Technical consulting, Training, Translation, Urban studies.
--