

## **SERVICES EXPORT PLANNING**

### **A Guide for Service Firms**

All service exporters face the challenge that export opportunities develop and disappear very rapidly, often within six months; therefore, it may not be feasible to have a long-term export development plan. Successful service exporters, however, do have a strategy that focuses their efforts and guides their competitive decisions. This guide is intended to help you plan such a strategy in order to use your resources as efficiently as possible to succeed in your export endeavours, regardless of your size. If you are in a position to apply for export financing support, the strategic steps outlined below will not only help you succeed but they can form the components of an export business plan for your financing application.

#### **Step 1: Develop Your Export Objective**

To be successful, you need a clear objective that states the type of service you expect to export, who you plan to target (i.e., type of customer, funder, strategic partner), the level of export sales you wish to achieve, and the time frame within which you plan to achieve your target. This objective needs to be approved and supported by your senior management.

#### **Step 2: Identify Your Strengths and Challenges**

It is critical to begin with a thorough and realistic assessment of your company's resources and capabilities. The International Trade Centre UNCTAD/WTO (ITC)'s diskette, *Export Readiness Diagnostic for Service Firms from Developing Countries*, can help you with this initial review by assessing such capabilities as the following:

- The resources you have to respond to potential customers.
- Your flexibility in deploying your resources, including plans for back-up
- Your ability to offer an export service that is appropriate for the export market
- How well you can adapt your promotional approach to the export market
- The design of your market entry strategy
- How realistic you are about the export development process

Regardless of your size, you are likely to be considered small in relation to the major service transnationals with whom you will be competing so you need to be very clear about the niche expertise that you have to leverage in order to be profitable abroad.

As part of the *Export Readiness Diagnostic* diskette, you will receive feedback in the form of suggestions of ways to address challenges. That feedback is available both in relation to each of the dimensions assessed and also in the form of a summary Action Recommendations report which covers the following:

- General competitiveness issues
- Competitiveness issues specific to export initiatives
- Strengthening senior management support for exporting
- Approaches most likely to succeed in the type of market you have selected
- Training for your staff in cultural differences

### Step 3: Identify and Prioritize Market Opportunities

It is important to remember that your export readiness is always relative to the target market you choose. You may be very ready to compete in regional markets near you, for example, but not export ready for North American markets. The *Export Readiness Diagnostic* diskette allows you to test your readiness for three types of markets:

- a) Fast-paced, highly competitive markets where you must have excellent response time and quality control (such as the U.S.A. and northern Europe).
- b) Relationship-based markets in which you can expect to be paid directly by your customer (such as Japan, southern Europe, and more affluent developing economies).
- c) Relationship-based markets in which you will probably need to be funded by one of the international financial institutions or development aid programmes (such as less affluent developing economies and transitional economies lacking convertible currency).

Succeeding in an export market depends as much on your initial contacts as it does on market factors. Because service purchasers look to respected persons for recommendations before trying a new service provider, you will want if possible to select a market where you know persons who can make such recommendations.

You will want to determine the key factors that influence your success in a new market (which may include your network there, previous experience in similar markets, the likelihood that customers would need and want your service, your ability to deliver the service profitably in that market given existing competitors, the technological support available, etc.). Once you have identified a short list of factors, then you will want to use them to select no more than three markets to research more thoroughly. That research should involve factors such as the following:

#### *General*

- How politically stable or risky is the target market? Will you be able to recover your investment in market development?
- What about the target market's financial markets? Will you be able to get paid?
- Has one of the international financial institutions (e.g., World Bank) made the target market a priority (if you are depending on third-party funding), meaning that money could be available to pay for your services?
- Does the target market have any special relationship to your market (e.g., both part of a free trade area)?
- Will you or your firm experience language or cultural barriers that would make you less successful in the target market?

#### *Characteristics of Your Industry Sector*

- Will you need a licence or certification to offer services in the target market?
- How open are potential customers to dealing with a foreign service provider?
- Does the government compete with the private sector in providing services?
- How much competition is there from local firms? other foreign firms?
- Are there significant cultural differences in the way in which services are usually provided?

### *Your Capabilities*

- Are you prepared to provide services in the common language used in the target market?
- Do you already have contacts in the target market that could recommend your services to the appropriate decision makers or potential customers?
- Do you already know firms in the target market with whom you could partner to offer comprehensive solutions for this market?
- Have you had any prior experience in the target market that could speed up your market development process?
- Do you have the financial capability to develop the target market (e.g., can you afford the business development trips, can you invest for the time period needed to see results)?

### **Step 4: Reinforce Your Service Exporting Capabilities**

Especially if you are new to exporting, there are several low-risk ways in which you can gain experience, such as:

- a) Expand the number of locations within which you deliver services in your domestic market to consolidate skills in coordinating resources over a distance.
- b) Subcontract to an experienced exporter in your market on one of their international projects. While this would not be an export contract (since you would be paid by a firm in your own market), it would give your staff valuable experience and contacts abroad.
- c) Join a bilateral trade association with the market in which you are interested in order to become accustomed to the different business practices and establish a network within that business community.
- d) Seek out foreign firms from your target market in your domestic market and provide services to them. This will give you experience with foreign customers without the cost of travelling abroad and can result in referrals into your target market.

### **Step 5: Build Market Credibility to Generate Queries**

In order for potential customers to take a chance on an unknown foreign service supplier, they must have confidence that you can deliver. There are a number of strategies that you can use to create credibility internationally, including conference presentations, articles, certification to international standards, media coverage, testimonials and referrals. See the ITC's *Successful Services Exporting: A Handbook for Enterprises, Associations and Governments* for specific suggestions.

### **Step 6: Finalize a Market Entry Strategy**

Once you have selected a target market and laid the groundwork of international credibility, there are a number of strategic decisions that you will need to make. In order to do so, you will need current information about the following:

- Temporary business entry requirements
- Leading trade or service industry associations to join
- The role of government in the provision of services
- Plans to outsource business services
- Professional credentialing requirements
- Options for "mini-office" space to get started
- The quality of the telecommunications infrastructure
- Cultural factors influencing business practices
- The best ways to meet potential local partners

The most critical decision you will need to make will be whether or not to work with a local partner. If you do have a local partner, you can reduce your market entry time significantly as that partner will already be known in the target market; however, the quality of the partner's work will reflect on you.

### **Step 7: Address Export Risks**

There are three types of risks to consider as part of the export development planning:

- a) *Getting paid for your work*  
Generally speaking, developing a good relationship with customers is the best guarantee of getting paid. However, you will want to investigate how other foreign service providers ensure prompt payment.
- b) *Professional liability*  
Depending on the target market and the type of service you are offering, you may wish to subscribe to professional liability insurance (generally available through service industry associations) to limit your exposure. This is particularly true if you are targeting a market like the U.S. which is very litigious.
- c) *Fluctuations in foreign exchange rates*  
When you export, there is a strong likelihood that you will receive payment in a foreign currency (often US dollars). If your contract is large and the likelihood of an adverse change in exchange rates is high, then you may want to consider forward hedging to protect your revenue stream.

### **Step 8: Manage the Export Market Development Process**

As you manage the process of developing a new export market, you will need to make financial projections so that expectations are clear. In many instances, it is unlikely that you would become profitable in a foreign market in less than 12 months. You may also want to consider the following questions:

- Do you have adequate phone line access?
- During what hours is your phone answered, and in what language(s)? Will your present coverage meet the needs of your target market?
- How can you best gain insight into the business practices of your target market — e.g., do you have one or more individuals from your target market(s) on staff? could you hire a graduate student intern from the target market?
- Have you discussed your export plans with advisors such as lawyers, accountants, and business mentors in export strategizing?

- Have you made the appropriate cultural and linguistic adaptations to your promotional materials, including your website (if you have one)?
- Have you made the appropriate cultural adaptations to your service?
- Do you know which foreign service suppliers are already successful in your target market, and why?
- Do you have a staff person dedicated as a “champion” for export development? If so, has the person been trained in services exporting?

As you refine your export strategy, remember that the ITC has a Services Exporting Homepage (<http://www.intracen.org/servicexport>) where you can find a wide range of resources to assist you, including strategic global profiles for selected service industries:

- Accountancy
- Back office services
- Business tourism
- Commercial education & training
- Computer services
- Environmental management services
- Health care services
- Industrial design
- Insurance
- Internet management services
- Temporary staffing services
- Reinsurance

In addition to the resources mentioned above, you may also find the following ITC resources helpful:

- *Successful Services Exporting: A Handbook for Enterprises, Association and Governments*
- *Trade Secrets for Services*
- *Using the Internet for Services Exporting*
- *Innovating for Services Export Success*
- *ISO 9000: A Handbook for Service Firms in Developing Countries*
- *A Business Guide to the General Agreement on Trade in Services*

26 October 2006