

**THE CHALLENGES FACING SERVICE EXPORTERS: LESSONS  
FROM THE VICTORIA BASED TRANSPORTATION AND  
TRAVEL SECTORS**

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**Abstract**

This research looked at the challenges facing service exporters. In a follow up to a larger survey, four organisations in the transport and travel sectors were interviewed. It was found that maintaining strategic competitiveness was their main reason for internationalisation. The organisations identified that exporting a service was fraught with difficulties. Whilst internal issues such as marketing objectives, staff and quality of service could be managed, many external factors such as changing customer needs, currency fluctuation and world events required implementing effective systems. None of the organisations were found interested in obtaining the assistance of government agencies to help their internationalisation. This research developed a framework on how governments could assist new service exporters to achieve international success.

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# **THE CHALLENGES FACING SERVICE EXPORTERS: LESSONS FROM THE VICTORIA BASED TRANSPORTATION AND TRAVEL SECTORS**

## **INTRODUCTION**

The aims of this research were: to identify challenges facing the major service industry sub-sectors of transportation and travel and to suggest some initial areas of government support to overcome these challenges.

There has been a rapid growth in demand for services in Australia (LEK Partnership, 1994); they are now a significant part of the economy in terms of the number of businesses and employ 73 percent of the Australian workforce (Australian Bureau of Statistics, 2002) Many service businesses are now seeking new and more profitable markets offshore because of strategic and competitive pressures at home (LEK Partnership, 1994).

Due to the magnitude of the service industry, this research covered only the Australian transportation and travel sub-sectors that make up over 60 percent of Australia's service exports. In 2001, transportation services, including all sea, air and land transportation, comprised 21 per cent of Australian service exports. The main destinations for these services were Japan, Singapore and the United States (Market Information and Analysis Unit, 2002). Travel services dominate Australia's exports of services. In 2000-2001 travel services represented 47 per cent of total service exports. Exports of travel services include all products and services acquired for personal use by travellers and foreign workers, in-bound tourism and education-related travel (Market Information and Analysis Unit, 2002).

## **LITERATURE REVIEW**

Recently, exports have become central to the economic strength of many economies (Brown, 1993). The increase in the number of exporters has been largely due to the advantages associated with exporting, such as opening up new markets, increasing revenues, creating employment, balancing domestic fluctuations in demand, increasing client base, achieving overall economies of scale and heightening competitiveness (Industry Canada, 2002). In Australia, as in most advanced economies, there has been a rapid growth in demand for services and a strong movement of the workforce from manufacturing industries towards the service sector (LEK Partnership, 1994).

Even though the service industry has been identified as an area with potential growth (Czinkota et al. 1996), there has been little research on service exports compared to manufactured exports. Patterson and Cicic (1995), found there was limited empirical knowledge of international service organisations. A possible reason why so little information is known about service exporters could be that an agreement has not been reached on a definition of services (Reif et al. 1997). Current definitions range from a broad approach stating services as "anything that you cannot drop on your foot" (LEK Partnership, 1994, p. 18), to detailed classifications which incorporate a comprehensive range of services. The increasing number of products producing activities that contain service components adds to the difficulty in establishing a consistent definition (Reif et al. 1997).

This research used the Australian Bureau of Statistics (ABS) classification of services definition. This definition is based on the OECD's trade in services classification. According to the ABS the service industries cover: Wholesale and retail trade; accommodation; cafes and restaurants; transport and storage; communication services; finance and insurance; property and business services; government administration and defence; education; health and community services; cultural and recreational services; and personal and other services.

## Challenges Facing Services Exporters

Some of the key challenges identified in the literature were:

**Plan effectively:** Many companies make their decisions to export their services haphazardly, without carefully screening markets, conducting research, considering costs, or weighing alternatives. When early exports are unsuccessful because of poor planning, the company can be misled into abandoning exporting altogether (Reif et al, 1997).

**Maintaining a high level of commitment:** Combined with willingness to invest time and effort, commitment was found crucial to export success. According to PAN'AGRA Research Program (1997), a high level of commitment was found to be significantly associated with high firm performance.

**Guaranteeing viability:** LEK Partnership (1994) suggested that for long-term guaranteed viability a system must be developed which reproduced the service and systematised it without the physical presence of the original provider. The authors added that the inability to replicate a service often placed unsustainable pressure on individuals involved in delivering the service, thus threatening export viability.

**Managing risk:** Apart from poor commercial judgement, risks identified were: adverse exchange rate changes; natural disasters and civil disturbance requiring evacuation of staff. The significance of these risks varied according to issues such as: who was the customer, where the project was undertaken, and the time frame over which resources were required (Australia Industry Commission, 1997).

**Overcoming trade and regulation barriers:** In one study, more than one quarter of respondents identified trade barriers and 13 per cent cited intellectual property protection as constraints to delivering their services offshore (LEK Partnership, 1994). According to Czinkota et al. (1996), even if trade barriers to entry were not an issue, companies could have difficulties once they achieved access to the local market due to complex local rules and regulations including meeting social objectives.

**Setting appropriate service standards:** Standards and certification requirements differ around the world. According to Brown (1993), many exporters were unable to obtain sufficient information on foreign standards and certification requirements.

**Obtaining finance:** Finance was found to be the main barrier to new exporters, because financial institutions had conservative lending policies for service firms (LEK Partnership, 1994). Lenders insisted on borrowers providing traditional collateral such as inventory and other fixed assets. Typically, service exporters had nothing to pledge as security other than an assignment of the proceeds of the service.

**Investing in staff members:** According to Czinkota et al. (1996), staff members delivering the service, rather than the service itself, communicated the spirit, value, and attitudes of the service organisation (Czinkota et al. 1996). Whilst tight control over people may be desired, the individual customer interaction required using trusted staff and decentralisation of service delivery (Bennett, 1996). Maintaining the level of quality staff members and capacity planning were also found to be critical ( Mahoney et al., 2001).

**Creating an image:** LEK Partnership (1994) and Bennett (1996) suggested that as services were experiential, customers were uncertain of the finished result until the service was delivered. So, the reputation of the service provider played an overwhelming role in the customers' choice (Czinkota et al. 1996). Bennett (1996) added that supply institutions typically attempted to create images of trust, respectability, reliability, and immaculate professional integrity.

**Managing quality:** According to Segal-Horn and Faulkner (1999), international service delivery was about controlling the quality of the service. As services are difficult to evaluate, there existed a greater likelihood of quality control problems (Lovelock and Yip, 1996). Fulfilling customers' expectations required service consistency (Segal-Horn and Faulkner, 1999). This could be difficult because customers in various nations may have entirely different expectations of the quality of service that should be offered (Bennett, 1996).

**Ensuring culturally sensitive service:** According to Czinkota and Ronkainen, (1995), because services are delivered directly to the users, they are frequently much more sensitive to cultural factors than products. They suggest close interactions with the customers require a much greater understanding of and emphasis on cultural aspects.

## **The Role of Government**

According to Mahoney et al (2001), an important dimension of the international services market is the role of the government. Many exporters claimed that the costs of developing export markets were so high that they would not export unless they obtained sizeable incentives (Hughes, 1989).

The LEK Partnership study (1994) found that to help minimise the impact of some of the challenges and risks, more than 70% of high achieving exporters use at least one government scheme. However, they found the majority of service exporters were still unaware about the various government assistance plans

According to Hughes (1989) the cost effectiveness of assistance to exporters has been of concern for some time. Government subsidies and incentives can play a role in encouraging greater export activity in a number of different ways such as increasing revenue by reducing tax liability, production and marketing costs. Governments however, are faced with the dilemma of what assistance to provide service exporters and how to measure scheme effectiveness.

## **METHOD**

### **Research Approach**

Given that this research wanted to explore in-depth, a range of issues in the context of Victorian service exporters, a qualitative exploratory approach was adopted. This research used the case study method because it was a suitable exploratory research technique (Zikmund, 2000) that could concentrate on singular or a small number of individual instances (Birley and Moreland, 1999). According to Herriott and Firestone (1983), such multiple-case designs have increased in frequency because evidence was often considered more compelling.

Interviews were used to elicit most of the information, even though there were possible problems of bias, reliability and validity, to be addressed throughout the interview (McCracken, 1988). Since the research objectives focussed primarily on the issues faced by service organisations in their export attempts, the interviewees were expected to be employees who were familiar with the export process of their organisations, such as the export or international manager.

Prior to the commencement of the interviews, a pilot study was conducted on Organisation Z; chosen because it was similar to the other two organisations in the transportation sub-sector to be studied and its office was conveniently located in Melbourne. 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 Sample**

Four organisations, located in the Melbourne metropolitan area, were selected for the final study. These were selected from over 50 Victorian services export organisations randomly identified from the online Yellow Pages telephone book; half from the transportation service sub-sector and the other half from the travel sub-sector.

*Organisation A:* was the subsidiary of a world-wide German logistics company which began its Australian operations in the 1980s, growing to become the number two IATA freight forwarder in Australia. Currently, it is represented in all states and employs 170 people.

*Organisation B:* was a wholly owned Australian company and an agent of a Dutch shipowner. Established in 1985 by the then Managing Director, it employs 35 people in Brisbane, Sydney, Fremantle, Adelaide, and Melbourne.

*Organisation C:* was a university established by an Act of Parliament in 1958. Since first admitting students in 1961, it has grown from a single campus in Australia to eight campuses worldwide, attracting a staff of approximately 5,000 and student body of nearly 50,000 students from over 100 countries.

*Organisation D:* was part the world's oldest and largest not-for-profit community organisation, owned and managed by women. The main organisation was founded in London in 1885, and is represented in 122 countries. It currently has 30 locations in all states and territories of Australia. It creates and implements programs and services in health, vocational training, housing, child care, leadership development and travel accommodation for local and overseas visitors.

## **RESULTS AND DISCUSSION**

Before proposing ways in which government might assist exporters it was necessary to find out what challenges the organisations in this study faced. Many of the findings corresponded closely with the challenges identified in the literature review.

### **Planning to go international**

According to Segal-Horn and Faulkner (1999), in services, it was often the customer who internationalised first. The service company then followed, to meet the needs of important clients. This study appeared to support that view. The organisations were aware of an offshore demand for their services and tailored their international activities in response.

While Organisation D's decision to internationalise was based on the availability of government assistance, Organisations A, B and C seemed to be engaged in international activities as part of their international strategic planning. This research found that the decisions on international markets for Organisations A and B were made in reaction to the international expansion and needs of their customers; Deresky (2000) called it a "reactive response". Organisations C and D were what LEK Partnership (1994) called "exporters by accident"; the organisations started exporting their services without a conscious plan to do so. In recent years, Organisations C and D had taken a more proactive approach in the search for international markets.

### **Mode of entry**

The four surveyed organisations appeared to have a preference for partnerships or shared control ventures as a mode of entry. According to Albaum et al. (1994), using agents, subsidiaries, local partners, or branches, resulted in the spread of risks and lowered overseas operational costs. It seemed that the organisations preferred to deal with a subsidiary or a local branch of the same organisation. Mahoney et al. (2001) attributed this preference to an existing trust factor and similar

business strategic interests. Only in cases where a partnership was not possible did the organisations enter the market through agents or unrelated business entities. When this happened, formal contracts were often put in place to safeguard the organisations.

### **Creating a market awareness of the service**

Once organisations were established in the overseas markets, they emphasised three key activities in ensuring profitability and continuity of service levels: First was the importance of networking as a marketing tool. Even though the four organisations had engaged in varied forms of promoting themselves, a clear brand awareness development pattern was apparent. This was commonly built through networks such as the alumni, word-of-mouth arrangements and referrals from other individuals or organisations.

Second, was maintaining a good brand image; done by pricing their services at a premium level and emphasising quality of services. Respondents suggested that pricing at a premium level was important for image. Most of the organisations, in line with Hill and Jones' (1995) views, mentioned that it was important for the service delivery to be of consistently high quality. The organisations did not seem to have such difficulties raised by Czinkota and Ronkainen (1995) in maintaining the consistency of their service. Third was dealing only with reputable agents or partners from within the target market.

### **Managing risk**

Risk management emerged as a critical issue. Besides dealing with the day-to-day fluctuations in the exchange rates, the organisations recognised that when they participated in global trading they were inevitably exposed to any impact of world events. Although the questions in the interviews were not worded to deal with any specific events, most organisations tended to quote recent events such as the Australian drought, the 11th. September attacks, the Iraq War and Severe Acute Respiratory Syndrome (SARS). These organisations suggested that whilst little can be done to avoid such events altogether, the adverse effects can be minimised by having a large spread of markets. Ellis and Williams (1995), referred to this strategy as a "sprinkler" strategy.

The organisations also felt they were able to handle negative world events and manage risk if they kept themselves well informed about such events or issues. Most of the organisations were extremely cautious with the issue of payment for their services, especially when they dealt with one-time or new customers. These organisations usually ensured that full payment had been made before the service was provided when there was no alternative way to terminate the provision of the service or ensure post-service payment. These organisations learned from experience to manage risk. Whilst a number of experiences were discussed, understanding culture was a common theme, although the transportation sub-sector tended to emphasise insurance and creating trust. According to Czinkota et al. (1996), insurance was necessary to cover losses due to political and economic risks.

### **The importance of staff**

Fisher and Fisher (1998) and others have suggested it is crucial to the success of the organisation that the best export professionals are employed. These authors suggest that attracting and retaining good export professionals is a major challenge for all firms. However, most organisations in this study do not appear to face this challenge.

Staff members were constantly referred to as being crucial in maintaining the viability of the business. Larger service organisations did not have a problem with attracting and retaining staff. All had low staff turnover as their large size and numerous resources enabled them to encourage employee welfare and create career enhancement opportunities.

## **Handling customers with care**

The importance of customers was also frequently mentioned. Most organisations minimised problems through risk management strategies. These included lessons from prior experience, ensuring effective communication, or establishing formal contracts. All had contingency plans to rectify a dispute. Such plans usually involved working towards a mutually beneficial solution within the ethical principles of the organisation. Mendenhall et al. (1995) noted such an approach was especially crucial for organisations operating overseas.

## **Awareness and use of government assistance**

Whilst the service organisations faced many challenges most of them did not usually seek help from the government; possibly because they viewed the problems as short term in nature. Where any assistance was required, it was usually in the form of linking with overseas governments. The research did find that all four organisations were familiar with several Federal government plans but most were unaware of the help provided by the Victorian State government. They acknowledged that they would be open to using such assistance if they felt it appropriate or necessary, though many comments were made about the challenges in dealing with Government agencies.

## **CONCLUSION**

Overall, many of the challenges facing the transport and travel sectors of the service industry appeared to be consistent with the challenges identified in the literature as applicable to the entire service sector.

The main challenges identified as important were: managing risk, investing in staff, creating an image and managing quality. Some of the expected challenges highlighted in the literature were not overtly present. These included: high commitment; guaranteeing viability; and overcoming trade and regulation barriers. Whilst some of these aspects could be inferred, it was clear that these service organisations did not regard trade and regulation barriers as critical impediments to their international expansion.

Exporters of services in this study agreed on the benefits of Government support. However their general lack of enthusiasm to seek out further Government assistance appeared to relate to past experience or conceived attitude to the role of Government in export development. In view of the issues faced by the exporters, appropriate government support could be of significant benefit. in expanding service exports.

The government could assist service export organisations and their customers through:

- Increasing awareness of their services: Government agencies should more aggressively market their services ensuring they target service exporters with appropriate policies and support mechanisms.
- Reducing paperwork and streamlining the approval process: Dealing with bureaucratic processes appeared to be daunting for service exporters interviewed. Many opportunities to enhance the experience of service exporters were identified. These included streamlining current large and complex application forms, reducing the number of applicant interviews, and speeding up the approval process by reducing the number of levels of approval required. Service exporters often cannot wait six to twelve months for government approval and receipt of support funding. They are used to responding to their clients in significantly shorter timeframes.

- Education. Government agencies can utilise their own knowledge and consultant network to develop education services appropriate to service exporters. Issues identified as appropriate included finding appropriate and trustworthy partners in overseas markets, protecting intellectual property and ensuring payment for work undertaken. Advice such as that given on the Victorian Government “Vic Export” website is only useful when potential users can find it or know it exists.
- Networking. Agencies could provide opportunities to match supply and demand. Opportunities include working with industry associations, business angels and business networks.
- Money. Organisations could be reimbursed for appropriate export development costs.
- Risk reduction. Agencies could ensure adequate finance and insurance is available, either directly or indirectly via the private sector.
- Export policies. Policies that encourage and reward new and existing exporters should be developed at both Federal and State level. These need to be integrated to overcome potential duplication.

### **Research Limitations**

Two main limitations were identified. First, a very small number of organisations were studied, with the sample drawn only from the transportation and travel sub-sectors of the Victorian service industry. Second, most of the organisations were privately owned and declined to share their financial statements thus creating some limitations in the analysis as the interviewer had almost no other way of verifying if the organisation had benefited financially from the export of its services.

Some specific suggestions for future research include undertaking a more comprehensive study of types of providers and their geographic location to further develop the issues and points raised; studies on the entire service export industry at both State and national levels; a comparison of the issues and challenges faced by products exporters with those of the service exporters; and an analysis of the needs of non-profit service export organisations and how they differ from those of commercial enterprises.

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