



# EXPORTING SERVICES

## In This Chapter

- Role of the service sector in the United States and in world economies
- Differences between service and product exporting
- Places where service exporters can find assistance



The United States is the world's premier producer and exporter of services. As the largest component of the U.S. economy, the service sector includes all private-sector economic activity other than agriculture, mining, construction, and manufacturing. The service sector accounts for nearly 80 percent of the private-sector gross domestic product (GDP) and for 90 million jobs.

In the future, the service sector will loom even larger in the U.S. economy. Small and medium-sized entrepreneurial firms—those employing fewer than 500 employees—overwhelmingly lead this service-driven business expansion. There are more than 4 million small service companies that account for more than 16 million jobs. Although small service firms make up most of the service sector, many of the most prominent U.S. service exporters are large firms. Seven of the 30 companies that constitute the widely cited Dow Jones Industrial Average are service firms.

The dominant role that services play throughout the U.S. economy translates into leadership in technology advancement, growth in skilled jobs, and global competitiveness. U.S. service exports more than doubled between 1990 and 2000—increasing from \$148 billion in 1990 to \$299 billion in 2000. Growth continued to \$404 billion in 2006.

In 2004, U.S. service exports exceeded imports by \$80 billion, offsetting 10 percent of the deficit in merchandise trade. U.S. services compete successfully worldwide. Major markets for U.S. services include the European Union (\$140 billion), Japan (\$41 billion), and Canada (\$39 billion). At \$22 billion, Mexico is the largest emerging market for U.S. service exports.

## SERVICE EXPORTS WITH HIGH GROWTH POTENTIAL

The following sectors have grown most rapidly because of technology development and have particularly high export potential:

- **Travel and tourism.** The largest single category within the U.S. service sector encompasses all travel- and tourism-related businesses. As such, recreational and cultural services are included. The industry is diverse and encompasses services in transportation, lodging, food and beverage, recreation, and purchase of incidentals consumed while in transit. Export sales for this sector in 2006 were \$86 billion.
- **Environmental services.** The *environmental technologies industry* is defined generally as all goods and services that generate revenue associated with environmental protection, assessment, compliance with environmental regulations, pollution control, waste management, remediation of contaminated property, design and operation of environmental infrastructure, and provision and delivery of environmental resources. The industry has evolved in response to growing concern about the risks and costs of pollution and to the enactment of pollution control legislation in the United States and around the world. The United States is the largest producer and consumer of environmental technologies in the world.
- **Transportation services.** This sector encompasses aviation, ocean shipping, inland waterways, railroads, trucking, pipelines, and intermodal services, as well as ancillary and support services in ports, airports, railyards, and truck terminals. Transportation is the indispensable service for international trade in goods, moving all manufactured, mining, and agricultural products to market as well as transporting people engaged in business, travel, and tourism. For 2006, total export sales for transportation services were more than \$68 billion.
- **Banking, financial, and insurance services.** U.S. financial institutions are very competitive internationally, particularly when offering account management, credit card operations, and collection management. U.S. insurers offer valuable services, ranging from underwriting and risk evaluation to insurance operations and management contracts in the international marketplace. This sector was a \$52 billion export market in 2006.

### FACT:

In the coming decade, the service sector is forecast to account for almost all net gains in U.S. employment, with small, medium-sized, and large companies all playing key roles in capital formation, business expansion, and new jobs.

### INSIGHT:

Small firms make up most of the service sector, and small service firms will play a vital role in job growth.

- **Telecommunications and information services.** This sector includes companies that generate, process, and export electronic commerce activities, such as e-mail, funds transfer, and data interchange, as well as data processing, network services, electronic information services, and professional computer services. The United States leads the world in marketing new technologies and enjoys a competitive advantage in computer operations, data processing and transmission, online services, computer consulting, and systems integration. Export sales in this sector also totaled more than \$16 billion in 2006.
- **Education and training services.** Management training, technical training, and English-language training are areas in which U.S. expertise remains unchallenged. The export market for such training is almost limitless, encompassing most industry sectors for products and services. Export sales were almost \$15 billion in 2006 for this sector.
- **Commercial, professional, and technical services.** This sector encompasses accounting, advertising, and legal and management consulting services. The international market for those services is expanding at a more rapid rate than the U.S. domestic market. Organizations and business enterprises all over the world look to U.S. firms as leaders in these sectors for advice and assistance. This sector represented \$13 billion in export sales in 2006.
- **Entertainment.** U.S.–filmed entertainment and U.S.–recorded music have been very successful in appealing to audiences worldwide. U.S. film companies license and sell rights to exhibit films in movie theaters, on television, on videocassettes, and on DVDs and CDs. U.S. music has been successful in both English-speaking and non-English-speaking countries. The entertainment sector had more than \$11 billion in export sales in 2006.
- **Architectural, construction, and engineering services.** The vast experience and technological leadership of the U.S. construction industry, as well as special skills in operations, maintenance, and management, frequently give U.S. firms a competitive edge in international projects. U.S. firms with expertise in specialized fields, such as electric-power utilities, construction, and engineering services, are similarly competitive. Exports for this sector were about \$5 billion in 2006.
- **E-business.** This sector, which can be service or product oriented, is expected to grow dramatically. It is estimated that there are already 400 million Internet users worldwide—but that figure represents only about 7 percent of the world's population.

### ASPECTS OF SERVICE EXPORTS

Services can be crucial in stimulating goods exports and are critical in maintaining those transactions. Many U.S. merchandise exports would not take place if they were not supported by service activities such as banking, insurance, and transportation. There are many obvious differences between services and products, including differences in tangibility and

customer involvement (see Box 9.1). Because services are intangible, you may find that communicating a service offer is more difficult than communicating a product offer. Also, services frequently must be tailored to the specific needs of the client. Such adaptation often necessitates the client's direct participation and cooperation. Involving the client requires the service provider to possess interpersonal skills and cultural sensitivity.

The intangibility of services makes financing somewhat more difficult—given that no form of collateral is involved—and financial institutions may be less willing to provide financial support to your company. However, many public and private institutions will provide financial assistance to creditworthy service exporters. Trade organizations offer two important finance services under various terms and conditions. One is a guarantee program that requires the participation of an approved lender; the other program provides loans or grants to the exporter or a foreign government. Exporters who insure their accounts receivable against commercial credit and political risk loss are usually able to secure financing from commercial banks and other institutions at lower rates and on a more liberal basis than would otherwise be the case.

### MARKETING SERVICES ABROAD

Because service exports may be delivered in support of product exports, you might find it sensible to follow the path of complementary product exports. For years, many large accounting and banking firms have exported by following their major international clients abroad and continuing to assist them in their international activities. Smaller service exporters who cooperate closely with manufacturing firms are operating internationally and aim to provide service support for those manufacturers abroad.

Also, your service firm may seek affiliation with a foreign firm. An agent, representative, or joint venture relationship could prove beneficial to your firm. An indigenous service

#### BOX 9.1 THE UNIQUE CHALLENGES OF EXPORTING SERVICES

The most obvious way in which exporting services differs from exporting goods is that you are exporting something invisible or intangible. Most likely, this will mean

- **More travel.** Without a tangible product, you may have to make special efforts to elevate the profile of your company and the credibility of its services.
- **Awareness of labor requirements.** You may be in-country for an extended period of time, or you

may need to hire local workers. Be aware of your legal obligations, such as securing work permits.

- **More intensive market research.** Market research methodologies and business opportunity indicators are unique for service firms, often requiring more in-depth and detailed activities, information, and intelligence than are routine for exporting goods.

firm already has knowledge of the various aspects of marketing in a particular country, such as regulations, restrictions, primary participants, potential clients, and competitors. The indigenous firm will also have market research, exposure, and contacts that you can use to your advantage.

### **OBTAINING GOVERNMENT SUPPORT FOR SERVICE EXPORTS**

The Manufacturing and Services unit of the Department of Commerce's International Trade Administration provides support to U.S. services exporters by conducting policy research and industry analysis, coordinating advisory committees, and advocating for U.S. interests in trade negotiations. More information is available on the Web at <http://trade.gov/mas>.

The U.S. Commercial Service, through the network of domestic U.S. Export Assistance Centers, provides counseling and assistance to services exporters. A list of Export Assistance Centers appears in Appendix B. For more information, call the Trade Information Center at 1-(800)-USA-TRADE (1-800-872-8723) or go to the U.S. government export portal, [www.export.gov](http://www.export.gov).

CASE STUDY:

## Two Men and a Truck

*“From a practical standpoint, going international protects our brand globally and it lends credibility to the domestic market.”*

—Melanie Bergeron, president and chief operating officer, Two Men and a Truck

### THE COMPANY

Mary Ellen Sheets never imagined herself being in the moving business—that is, until her sons Brig and Jon scraped together some money to buy a truck to help raise extra cash for college.

Although they soon left the nest to attend school, Sheets knew a good idea when she saw one. In 1985, with \$350, she started a company called—what else?—Two Men and a Truck. She wouldn't have to worry about moving again and, more important, neither would her customers.

“Believe it or not, moving is ranked as the third most stressful event, after death and divorce, so there is a real demand for a service that makes the customer king,” says Sheets. “Our goal is to do things right the first time. The most important concern customers have about moving is that the moving company be there when it says it will.”

With its emphasis on putting the customer first, it wasn't long before the Lansing, Michigan, firm was expanding its franchising concept across the United States, with Sheets serving as its founder and chief operating officer. By 2001, with her daughter, Melanie Bergeron running

day-to-day operations as president and chief operating officer, Sheets was ready to take the franchise concept internationally.

### THE CHALLENGE

One of the biggest challenges for Sheets and Bergeron was that they were only just breaking into the export market. Fortunately, they had attended an International Franchise Association training seminar in Minneapolis, where they connected with Bill Edwards, president of Edwards Global Services, a consultancy company specializing in international franchising expansion. “The biggest challenges for franchisers in going global is getting accurate market research and identifying potential master franchisees,” Edwards says. “In the case of Two Men and a Truck, they faced a third challenge known as market differentiation—otherwise, with plenty of moving businesses out there, why should a potential master franchisee in another country sign on with Two Men and a Truck? What makes it a cut above the rest?”

The company already had an answer to that question, as it placed an

exceptional focus on customer service and sophisticated Web-based tracking systems. Those systems would enable Two Men and a Truck's potential master franchisees to monitor quality control and to improve performance measures such as labor costs and the time it takes to complete a move. The company's tracking systems created a potentially larger profit margin as compared with other moving companies. What Two Men and a Truck needed now was solid market research and a list of highly qualified prospects to convey their business model to potential master franchisees.

### THE SOLUTION

Edwards Global Services was a long-term client of the Commercial Service's Newport Beach U.S. Export Assistance Center and had used the center's export counseling and other services to help several premier franchise brands enter international markets. Among these programs was the Gold Key Service, which arranges business appointments abroad with potential foreign partners, all set up and prescreened by the Commercial Service. Would Two Men

and a Truck be Edwards Global Services' next success?

By 2003, Two Men and a Truck, through Edwards Global Services, worked with the Export Assistance Center to search for a franchise partner in Ireland. The company was assisted by the U.S. Commercial Service post in Ireland, whose commercial specialists provided key market research and designed a customized search strategy that included reaching out to databases of existing and potential master licensees. An advertisement was also placed in a local business newspaper highlighting the company's search for a master licensee. Then, in December 2003, Edwards met with nine qualified prospects in Dublin. Partially as a result of those meetings and ongoing follow-up by the Commercial Service and Edwards Global Services, Two Men and a Truck signed a master license for Ireland in May 2006 with DMG Services. The agreement was valued in excess of \$300,000, and it included the rights for the U.K. market.

"From a practical standpoint, going international protects our brand globally and it lends credibility to the domestic market," Bergeron says. "Exporting also makes us more competitive and allows us to diversify our portfolio and weather changes in the economy."

### LESSONS LEARNED

Edwards, whose franchising clients have benefited from many Commercial Service programs over many years, has some important suggestions for franchisers looking to go global:

- **Don't cast a wide net when looking for potential partners.** Instead, use the Commercial Service to target the best prospects. "Being able to meet

with reputable, motivated prospects really helped us in targeting our search efforts," he says. "Not only was it cost-effective for us, but it would have taken months longer on our own to narrow down the best prospects. The Commercial Service is a source of information, market research, and due diligence that we know we can depend on when doing business around the world."

- **Register your trademark.** "Not enough people do this, and if you don't, it can really cost you a lot of money in the long run," he says. He also recommends that franchisers invest in good market research and personnel training to increase their chances for international franchising success as buyers are becoming very sophisticated.
- **Know the culture where you are going to do business.** For example, Bergeron says that when it comes to moving there are differences. "Americans have so much stuff and bigger houses, while people in emerging markets have much less," she says. "In emerging markets, many families live together, but we are seeing a growing trend in the use of moving services as people don't wish to trouble their relatives in helping them move."

### ACTION

- **Contact a business consultant.** A business consultant that is experienced in the international market can offer invaluable advice. The U.S. Commercial Service is also an excellent place to start exploring your exporting potential.
- **Use the Gold Key Service.** The Commercial Service offers this customized service in key export markets around the world. From making appointments with potential partners, to providing interpreter services for meetings, to helping you close the deal, ship the goods, and get paid, the Gold Key Service offers top-of-the-line assistance. Contact your local Export Assistance Center for more information.



Mary Ellen Sheets (left to right), founder and chief executive officer of Two Men and a Truck, is pictured along with Brig Sorber, vice president; Melanie Bergeron, president and chief operating officer; and Jon Sorber, vice president. The Lansing, Michigan, firm completed 335,000 moves last year and recently entered the Irish market.