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RESEARCH PROJECT

ON

CANADA'S SERVICE EXPORTERS

Prepared For

INDUSTRY, SCIENCE AND TECHNOLOGY CANADA

By

THE CANADIAN EXPORTERS' ASSOCIATION

January 1991



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RESEARCH PROJECT ON CANADA'S SERVICE EXPORTERS

Prepared for ISTC

I. INTRODUCTION

World trade in services--now at a volume of approximately \$600 million annually--is becoming rapidly more competitive, with significant trends towards consolidation in key service industries. Industry analysts are predicting that there are likely to be three to five global firms in each industry before long, with others restricted to local, regional, or niche markets.

At the present time, the top service firms worldwide are primarily from the USA, with an increasing dominance of Japanese firms in finance and trade/ distribution. In fact, the top five service firms for 1989 in terms of total revenues were the largest Japanese trading houses--all larger than General Motors, the top goods producer.¹ With increasing mergers and acquisitions in the European Community member states, larger European players are expected to emerge shortly.

For Canadian service exporters, the global trends mean a further increase in the competition that they face worldwide. Only two Canadian service firms presently are among the top 100 international service firms when ranked by annual revenues--Royal Bank (#30) and Bell Canada (#54). The top 100 Canadian service firms had an average annual revenue in 1989 of C\$2.9 billion, or approximately six percent of the average annual revenue of the top 100 service firms worldwide. Business and professional services are important export earners for Canada, providing approximately one-third of service export earnings and generating approximately 45,000 Canadian jobs;² however,

¹Calculated from data in various issues of Fortune and Forbes.

²Economic Council of Canada, Good Jobs, Bad Jobs, 1990.

none of Canada's Canadian-controlled business and professional services exporters can approximate the size of the top ten international firms in each industry.

Despite the still uncertain short-term outcome of the present Uruguay Round, the long-term world trend towards progressive liberalization in services trade appears to be certain. That liberalization will bring with it both challenges and opportunities for Canadian service exporters. For service firms that are dwarfed by international giants, appropriate assistance from the Canadian government will be crucial.

The design of export assistance programs for service firms needs to be based on accurate information about present export activity and projected needs--hence this study. The study, which was comprised of two phases (see Appendix A for details), had four specific objectives:

- Provide information about the activities of service exporters.
- Identify factors critical to success or failure of service exporting.
- Identify activities that could be undertaken by the CEA to assist service firms.
- Develop a relevant seminar series for service exporters.

Due to findings in the study, comments are also provided on a broad series of initiatives necessary from the government in order to ensure the future competitiveness of Canada's service exporters in world markets.

II. CANADIAN SERVICE EXPORTERS

A. Current Success of Canadian Service Exporters

Our survey confirmed the view that the volume of earnings from Canadian service exporters (or invisible exports) is considerably higher than has been commonly believed. The 77 Canadian service exporters interviewed averaged \$33.7 million in annual revenues, ranging from \$400,000 to \$450 million (see Chart 1). Approximately \$9.3 million, or 27.6 percent, of those revenues were from export activities (see Chart 2). For firms of all size, export revenues averaged a substantial portion of annual earnings. The percentage that export earnings comprised of total revenues varied from one percent to 100 percent, with a quarter of the firms earning half or more of their revenues from export activities (see Chart 3).

These 77 service exporters were responsible last year for a significant number of Canadian jobs, averaging 417 employees each (see Chart 4). Export revenues per

employee averaged \$21,179 per year (see Chart 5). Twenty-eight percent of firms commented that they felt, however, that their contributions to the Canadian economy were truly invisible--acknowledged neither by the government nor by the public at large.

Surprisingly, the firms with the highest average export intensity were the medium-size firms, followed by the small firms. Large firms tended to be the least export intensive (see Chart 6). Small and medium size firms accounted for almost double the proportion of export revenues (22 percent) from the 77 firms that would be expected from their share of the total employees (12 percent).

If export assistance is to be geared to those firms most dependent on export earnings, it needs to be geared to smaller firms. In turn, it is clear that those smaller firms are efficient in maximizing export earnings from relatively small resources.

B. Experience of Canadian Service Exporters

Canadian service exporters also have more experience than is commonly recognized. The firms interviewed averaged 14.6 years of exporting experience, ranging from new exporters to those with over 70 years of international experience (see Chart 7). Over 20 percent of the firms had been exporting for at least 25 years. Even the small firms interviewed averaged 9.1 years of experience (see Chart 8). Consequently, they were all well-qualified to discuss the challenges and issues facing service exporters.

In comparing recent exporters (five years or less) with long-term exporters (20 years or more), some interesting similarities and differences emerged. Both groups had the same average export intensity and were as likely to have established a local presence. For small firms, the long-term exporters were approximately the same size as the more recent exporters; but for larger firms, size increased with years of experience (see Charts 9 and 10).

While exports as a percent of revenues increased slightly for long-term larger exporters, they dropped sharply for long-term small exporters (see Chart 11). Apparently, if small firms remain small, they decrease their dependence on export revenues. Similarly, while export revenue per employee remained constant for larger exporters, it dropped significantly for long-term small exporters from a high for recent small exporters of approximately double that of the larger firms (see Chart 12).

Regarding export markets, with the exception of the USA, recent exporters were more likely to be in developing country markets than in developed market economies (see Chart 13). Long-term exporters were more likely to be in the markets more difficult for newer firms to penetrate--e.g., the more distant developed markets (Japan, Australia/New Zealand), and in Eastern Europe and the USSR.

i.e. growing firms export
3

Long-term exporters tended to be in twice as many markets (5.9 versus 2.4) as more recent exporters and were more likely to have a marketing plan (see Chart 14). Long-term exporters were also more likely to have made use of PEMD and CIDA funding, while recent exporters were more likely to go on trade missions.

C. Service Export Markets

Canadian service exporters have experience, in aggregate, in virtually every world market--"invisible but present everywhere." Over 44 percent have experience in all types of markets, while 28.6 percent were focusing on developing countries and 27.3 percent on developed market economies (see Chart 15). For those firms exporting only to developed markets, the most popular market was the USA (see Chart 16). For those firms exporting only to developing countries, Africa was the most popular, followed by Asia.

Not surprisingly, the USA is the most popular single export market for Canadian service firms, with 43 percent of the exporters targeting that market (see Chart 17). However, despite its popularity, Canadian service exporters are by no means completely dependent on the US market. Firms export to the USA regardless of size, with 53 percent of the exporters to the US being small firms. The US market is the single market where special initiatives for small firms do not appear to be quite as necessary--perhaps because of a combination of physical accessibility and market similarity.

The second most popular export market for Canadian service firms is Western Europe, with 30 percent of all firms active there. Europe, perhaps because of physical distance is more likely to be selected by large firms (46 percent) than by small (24 percent). Given the sophistication of the Western European market, small firms exporting to Western Europe tended to be quite specialized (80 percent with only one service); large firms were more diversified (50 percent with only one service). It is likely that the Canadian presence in Western Europe could be increased as more firms consider developing a European base. Special initiatives for small firms might be appropriate, bearing in mind that small firms may need to be in niche markets.

For small firms, the developing countries of Asia were the most popular export markets (see Chart 18); Africa came a close third after the USA. For medium firms, activity in the USA, African, and Eastern European markets was approximately the same as for large firms.

Although the Caribbean is assumed by many to be a major Canadian service export market, only 12 percent of firms are active there. If the Caribbean is a growth market, special initiatives may be appropriate. In general, the perception of the Caribbean as a major market needs to be corrected.

The size of the exporting firm did not make a difference in geographically close markets, such as the US and the Caribbean, but it did in all others--with larger firms more likely to be exporting to more distant markets. Therefore, special assistance may be needed for small firms in all markets except USA and Caribbean.

Among the developed markets, firms exporting to Japan tended to have slightly higher years of export experience and to be more export intensive (see Chart 19); however, overall there was little difference among the developed markets regarding export experience. For developing markets the picture was somewhat different (see Chart 20), with the Caribbean providing more export returns in a shorter time than the other markets. Of the centrally planned economies, China provided a faster return for Canadian exporters than did the European economies (see Chart 21). Of course, penetration of developing country markets often depends upon aid funding, be it bilateral or multilateral, and/or export credit.

Canadian service firms tend to choose geographically close markets, with only 17 percent in Japan and 20 percent in Asian developing countries. If the high-growth markets are in Asia, special initiatives are needed, especially for small firms.

D. Services Exported

As can be seen from Chart 22, the services exported by firms interviewed were concentrated in business and professional services (such as engineering, legal services, computer services). Business/professional services were particularly likely to be exported by larger firms that were long-term exporters but not very dependent on export revenues (see Chart 23). As is true in general for the firms interviewed, the larger firms exporting business/professional services were more likely than smaller firms to have established a local presence in the export market and to have developed a formal marketing plan (see Chart 24).

Approximately 69 percent of all firms exported business and/or professional services, while 23 percent exported services related to goods. Business/professional services exporters focused on the USA, Western Europe, Asia, Africa, and Latin America (see Chart 25). Goods-related services exporters focused less on Latin America and more on China.

For the US market, the primary export has been business and professional services (73 percent of firms), with a moderate degree of specialization as two-thirds of the exporters export only one type of service. Trade policy issues in services with the USA, then, include issues around temporary labour movement and professional credentials in addition to more traditional non-tariff barriers such as government procurement policies.

For Western Europe, business and professional services were again the primary export (78 percent of firms); however, 44 percent of the firms exported goods-related services, making access to distribution networks of concern in that market. In general, goods-related services were most likely to be exported to markets that are relatively difficult to access (e.g., Japan, Australia/New Zealand, China, Eastern Europe).

The data on Western Europe raises a more general question about the relationship of export activity on the part of goods-related service exporters to volume of goods trade between Canada and that market. Is the higher proportion of goods-related service exporters to markets such as Japan, Australia, China, or Eastern Europe a function directly of goods flows or of a need to adopt more traditional trade approaches in those markets? Such a question is relevant to export support strategy, but the number of goods-related service exporters in the present study does not allow for more detailed analysis.

Infrastructure services such as utilities, construction, and transportation are being exported primarily to developing countries, usually with Canadian aid or export credit support. Opportunities in these services may be limited as local firms gain in competence or may need to take the form of a joint venture with a local partner. One interesting issue is why Canadian firms do not seem to be providing such services to developed markets--perhaps due to government procurement or monopoly practices?

Over 69 percent of the service exporters provided only one type of service. The specialization by service was particularly strong for small firms, as one might expect (see Chart 26). Thus, smaller firms appear to be following a niche strategy building on focused strength--most appropriate in a highly competitive environment. Canadian service exporters tend to be most specialized in Australia/New Zealand, Western Europe, Africa, Asia, and the Caribbean. But in approaching markets in Japan and Latin America, their export activity is more broad-based. Perhaps trade commissioners could assist firms in identifying whether or not the market necessitates a specialist or a generalist approach. For example, in Japan integrated services rather than specialist services are generally needed--does that account for only 17 percent of firms being in Japan?

One item of interest was the frequency with which firms reported that initial exports led to further exports of different types (see Chart 27). For 69 percent of the firms, service exports resulted later in Canadian goods being sold abroad. For 31 percent of the firms, sales of one type of service led to sales of another type of service (e.g., accounting, stockbroking, real estate, legal services). In only 8 percent of the cases did firms report being able to export services because of initial goods sales. Such data is documentation of anecdotal evidence that without front-end service, subsequent goods sales are by no means assured. Rather than demand for service exports being created by goods exports, services appear to be the "leading edge" in the export arena.

E. Trade Barriers Encountered

One of the most interesting findings of the study was that service exporters pointed as often to domestic barriers as to external barriers as problematic to trade (see Chart 28). Small firms without formal marketing plans and larger firms with marketing plans were more aware of domestic barriers, while the reverse was true for external barriers.

The major domestic barriers to export performance identified were a lack of access to working capital (due to a lack of acceptable tangible assets for collateral), delays in receiving government program funding as well as export funding, and delays in receiving requested market intelligence from foreign posts (see Chart 29). All forms of funding delays were targeted particularly by smaller exporters and firms with marketing plans--i.e., they had set out to identify sources of funding, been awarded funds, and then all too frequently experienced delays. Unfortunately, the policies and procedures in government departments, EDC, and CIDA are often such that service companies do not receive adequate assistance or support in a timely manner. Regarding market intelligence, it is interesting that it was the larger firms with formal marketing plans that express the most concern--when presumably they might have the internal resources to gather needed information themselves.

The top external barriers to trade identified were foreign government subsidies, foreign government procurement practices, and burdensome requirements for documentation (see Chart 30). Note that the number of firms identifying government subsidies (external) as a problem was just over half as many as those identifying lack of working capital (domestic) as an issue. Thus, the major work in aid of service exporters is within Canada.

III. SERVICE EXPORT STRATEGIES

What do we know about the types of strategies used by Canadian exporters? Definite patterns emerged as the firms talked about their export experience.

A. Marketing Strategies and a Marketing Plan

Overall, approximately 60 percent of the firms had a marketing plan to which financial and human resources were dedicated; however, small firms were significantly less likely to have formal marketing plans than were larger firms due to lack of human resources (see Chart 31). Firms exporting goods-related services were also less likely to have formal marketing plans, presumably due the direct goods link.

The most common marketing strategy, regardless of firm size or whether the firm had a marketing plan (see Chart 32), was that of direct calls on potential clients (65 percent). For small firms in particular, direct calls were more likely to be made if the firm

had a formal marketing plan. Next came participation in trade seminars or conferences (56 percent). Trade missions, one of the most common forms of government assistance, were used by small firms regardless of marketing plan, but for large firms more often by those without a marketing plan.

Regarding export markets, only in Africa and the Caribbean were firms more likely not to have a formal marketing plan (see Chart 33). Perhaps the frequent use of third-party funding (e.g., CIDA, World Bank) makes it possible for firms to bid successfully without having to outline a long-range marketing strategy. In markets where firms average high export revenue intensity and where market entry is difficult (e.g., Japan, China, USSR), the preponderance of firms did have marketing plans.

Firms with a marketing plan had one-third of their revenues from exports, compared to 20 percent for firms without a marketing plan. They also tended to have been exporting longer (see Chart 34), especially the small firms.

B. Gathering Market Intelligence

To be successful, any firm needs information about its competitive environment. Service firms reported that, by and large, they were on their own in acquiring market intelligence. For most service firms (with the exception of those exporting services closely linked to goods), difficulties were experienced in obtaining appropriate market intelligence from all but the largest posts. Information from trade commissioners was often not of the type needed, and market information through official channels frequently arrived too late to be of use. Interview comments underlined that all too often trade commissioners, though well-intentioned, were not familiar with what type of information to gather for service firms and hence did not have it readily available. Since key information needed was of a type gained from local networking (as an "agent" for firms not established in the local market), the relatively short term in-country for trade commissioners also proved a barrier.

Strategies used by firms included tracking project funding trends, monitoring multiple sources of economic and political information, attending trade and professional conferences, employing local agents--but mainly personal contacts. Enormous amounts of time are expended on networking through industry associations, meeting and corresponding with actual and potential clients, and marketing to embassy staff abroad. Large, highly-successful firms had offices worldwide that could gather information and provide the necessary contacts. But for smaller firms, contacts were maintained primarily through frequent (and expensive) travel. One-third of the firms identified social activities as their most important marketing investment, and 22 percent identified such "non-traditional" marketing strategies as membership in professional associations, attendance at professional conferences, and writing and publishing activities.

C. Use of Local Establishment

For 79 percent of the firms, some form of local establishment formed an integral part of their export strategy, even for small firms (see Chart 35). Goods-related service exporters were slightly more likely to have a local presence. The most common form of local establishment was a sales office, followed by use of an agent, and joint ventures (see Chart 36). Larger firms were more likely to have established stand-alone operations such as sales offices or direct investment operations, while small firms were more likely to be involved in joint ventures or franchise operations where risk is shared. Firms without some form of local presence were most likely to be exporting to the USA (see Chart 37).

There was no difference between firms with and without local commercial presence regarding the degree of export intensity, the average number of years of export experience, or the sensitivity of the firm to domestic export barriers in Canada. However, the firms without local presence averaged a lower annual revenue per employee (\$33,203) than did those with local presence (\$81,310). The larger firms without local presence had been exporting almost twice as long (34.4 years) as had those with local presence (18.2 years). Finally, firms without some form of local presence were less likely to cite foreign barriers to services trade than were those with local presence (see Chart 38).

IV. CORRELATES OF EXPORT SUCCESS

Firms interviewed in more detail described their success in exporting much as any exporter might--excellence of service and reputation, marketing ability, and care in selecting foreign partners/agents. The key elements that stood out for successful service exporters in particular were the range and quality of personal contacts and the willingness of personnel to visit foreign markets regularly in order to service customers and maintain and develop contacts.

In exploring further the personal dimension of service exporting, it was clear that successful firms depend upon staff that can develop and maintain relationships with both clients and referral sources. Several firms commented that it was necessary for senior persons to touch base abroad with contacts at least once a year, with subordinates travelling more frequently--a substantial expense of doing business. Knowledge of the local culture, customs, and language were also cited as crucial. Some firms have been particularly successful in utilizing Canadian immigrants from the foreign market in this regard.

Because of the importance of the personal relationship, firms expressed the view that it is more expensive for service exporters to undertake export marketing than it is for goods producers. To develop the appropriate contacts and reassure potential customers

that they will receive quality service, firms estimate a minimum of \$100,000 to enter a new market--with no assurance that any export business will result. Asian markets, for example, despite their growth potential require substantial surplus capital to fund the necessary frequent initial developmental travel and underwrite the unbillable time involved on the part of staff.

A. Exporters versus Non-Exporters

Several differences were apparent between the 77 firms continuing to export and those 8 firms that had stopped exporting. As all of the firms that had stopped exporting were small firms, they were compared with the small firms still exporting.

A major difference between the two groups was in the markets that they targeted (see Chart 39). Only 36 percent of the current exporters focused exclusively on developed markets, where presumably the competition is stiffest, while 63 percent of the non-exporters had focused exclusively on developed markets. With regard to the US market specifically, only 28 percent of the current exporters were operating in the US while 75 percent of the former exporters had targeted the US market.

A second difference had to do with awareness of externalities in export markets (see Chart 40). Only 25 percent of the non-exporters reported being aware of foreign barriers to services trade, compared with 44 percent of the current exporters. None of the non-exporters reported having had a marketing plan, compared with 44 percent of the current small business exporters.

B. High versus Low Export Intensity

In order to determine if there were differences among firms related to the degree of export intensity, those firms with less than 5 percent of revenues from exports (LO EXPORT) were compared with those having 50 percent or more of their revenues from exports (HI EXPORT). There was no difference between the two groups in the number of years of export experience or the proportion having some form of local presence; however, the HI EXPORT group averaged a much higher revenue per employee (\$172,489) than did the LO EXPORT group (\$5,156).

For the larger firms, there was no difference in the proportion from each group active in Western Europe; but twice as many HI EXPORT large firms were active in the US market (56 percent) as compared with the LO EXPORT large firms (29 percent). HI EXPORT firms in general were most likely to be exporting to the USA (see Chart 41), while LO EXPORT firms were concentrated in low-margin markets such as Latin America and Africa.

Significantly, a much higher percentage (83 percent) of the HI EXPORT firms had formal marketing plans, as compared with the LO EXPORT firms (45 percent). There was little difference between LO EXPORT and HI EXPORT firms in identifying either domestic or foreign barriers to services trade (see Chart 42). In each instance, though, it was the small firms that were most concerned--domestically with a lack of working capital, and in foreign markets with government subsidies.

V. THE SMALL SERVICE EXPORTER

The small Canadian service exporter would appear from this study to be the backbone of Canadian service exporting. Over half of the firms interviewed had under 50 employees; some with as few as one. Average export revenue per employee in small firms was considerably higher than that for large firms (\$63,391 versus \$35,079).

Size is not necessarily related to length of time in export markets as 20 percent of the firms had been exporting for over 10 years. Similarly, 69 percent of the small firms had established a local presence abroad. As can be seen from a comparison of Charts 43 and 44, small firms were more likely than large firms to have established local presence only in Japan and Europe.

Of necessity, small firms face human resource constraints. Less than 44 percent had marketing plans, compared with over 73 percent for the larger firms. In comparing Charts 45 and 46, it is obviously that in no markets do small firms match the likelihood of larger firms to have formal marketing plans.

Fewer small firms than large firms had been accessing government assistance programs (see Charts 47 and 48), though they in actuality need more assistance to supplement scarce resources. For the PEMD program, small firms were as likely as larger firms to receive assistance, provided they had a formal marketing plan. Larger firms were more likely to receive assistance through the trade commissioners, CIDA and export financing.

VI. ROLE OF PRESENT GOVERNMENT EXPORT ASSISTANCE

The success of Canadian service exporters has occurred almost "despite" government export promotion initiatives. Most firms interviewed reported that they "didn't fit" into the categories of firms for which export assistance was available or that specific information requested of trade commissioners was not available in a timely manner as it was not routinely gathered. Those firms with more positive experiences were typically large, well-known firms whose service activities were directly linked to goods trade or infrastructure construction.

The problem goes beyond a simple absence of support. Service exporters report that the lack of awareness regarding service exports on the part of government staff actually creates problems for them. A number of firms mentioned the need to allocate resources to marketing themselves to officials in Ottawa as well as to the trade commissioners abroad and provide basic education on the nature of service exports--thus doubling or tripling their marketing expenses.

VII. SUMMARY OF ISSUES FOR CANADIAN SERVICE EXPORTERS

One major theme that emerges from the study is that government agencies and crown corporations have difficulties in dealing with a broad range of issues related to Canadian service exports. These difficulties encompass the problem of definition, the importance of service exports to our economy, developing awareness of the importance of service exports in government and overseas, as well as creating appropriate policies and program support for service exporters.

While there is general acceptance that Canadian service exports contribute significantly to wealth and job creation in Canada and frequently result in follow-on exports of goods and services, little is known about either the Canadian service export community or the best means of providing export assistance. The best known Canadian service exporters are the large companies, but it is actually the medium-size firms that have the highest export intensity. Medium- and small-size firms demonstrate a marked efficiency in maximizing export earnings from relatively small resources, and in turn are the most in need of export assistance.

A recurrent theme throughout the study was that government personnel frequently are either unaware of Canadian service exports³ or did not understand the unique marketing challenges confronting service exporters. As a result, these exporters presently bear the burden of educating government personnel regarding their activities and the types of market intelligence they need. Accessing the export assistance currently available is a particular challenge for small and medium-size firms without the extra resources needed to engage in marketing to those responsible for export programs. The larger firms who do have the resources necessary to market themselves extensively to government departments do not, on average, have export revenues as their major activity. Much of the recent focus of programming for service exporters has targeted the U.S.; however, that highly-competitive market is not necessarily the market of choice for smaller firms or may be one that they can enter without much assistance. The availability of export assistance is most straightforward when the exporter has a service that is

³Publications from both External Affairs and Statistics Canada continue to equate "trade" with goods trade and report exports and imports without reference to service exports and imports.

goods-related; however, it is the "pure" business and professional services that have the most difficulty in identifying and accessing channels through which to enter new markets, both in Ottawa and overseas. In short, the government has not yet put in place the mechanisms necessary to allow service exporters to participate fully in pursuing export markets.

Another theme was that of the need for marketing "infrastructure"--i.e., assistance in gaining market intelligence and developing broad initiatives as global competition increases. In this context, the small service exporters stand in need of specific assistance in developing a marketing plan. All firms, though, need timely market information and availability of personnel skilled in marketing and cultural issues. The experience of service exporters suggests that trade commissioners and their staff do not necessarily know what to look for in the way of market intelligence for service firms and (especially in smaller posts) may lack a mechanism for regular information collection and dissemination. Program support required for service exporters may be somewhat different from that for goods producers. Since networking and personal contacts are key to acquiring needed information, travel and communications costs are typically high. While initial market reconnaissance may be eligible for government funding support, repeated visits and attendance at professional conferences to establish credibility are critical--perhaps suggesting the need for a more flexible mechanism for service exporters with regard to travel.

Financing for service exporters emerged as another critical issue. Difficulties in accessing working capital and growth capital affect most service firms. Parallel constraints such as the lack of export financing, or delays in payment from Canadian-funded sources, can stretch an already thin resource base. The financing problems become more acute when small firms are competing against foreign firms receiving government subsidies. There is a need to develop and encourage new approaches to financing for service exports, including changes in the manner in which risk is evaluated and managed.

VIII. TYPES OF EXPORT ASSISTANCE DESIRED

As a general trend, service industries will have the opportunity during the next decade to experience unparalleled export growth. With the globalization of service trade, Canadian service firms will be facing stiffer competition both abroad and at home. It is assumed that the government recognizes that ensuring the global competitiveness of Canadian service firms is important not only for the sake of increased export earnings but also in order not to lose substantial domestic service markets to foreign service firms. It is also assumed that the government has a vested interest in helping maintain and expand the employment generated by services trade, while also recognizing that to the extent that service firms look beyond their traditional market bases they stretch their marketing dollars. Finally, it is assumed that the Trade Commissioner service is intended

to provide Canadian firms (especially smaller firms) with a market intelligence infrastructure and assistance in market access.

The strongest message from Canadian service exporters could be phrased, "If you're not going to help, at least get out of our way." Interestingly enough, most of the assistance desired relates to structural issues within the government itself--matters at least theoretically within the government's control. In a nutshell, the major issues are to streamline and focus any assistance provided to service exporters--i.e., to develop policies and procedures to work with and assist service industry firms in export-related endeavors.

A. Focal Point for Services Promotion

The strongest and clearest request from the firms interviewed was for a private sector association to coordinate the activities of the multitude of government departments and non-profit associations concerned with particular service industries. Without a focal agency, firms have to expend scarce resources to provide their own co-ordination and follow-through. Over half of the firms interviewed proposed that the CEA serve as an advocacy organization for service firms to work with the various service industries toward achieving the changes necessary within the governmental structure (see Chart 49). The objectives identified by firms to be achieved include:

1. Streamlined Service to Service Exporters.

To identify the broad parameters of issues facing service exporters and work with the appropriate governmental agencies to implement strategies such as a "one-stop-for-service-exporters window" approach to services export promotion (to reduce domestic barriers to services trade), an increase in executive exchanges with the private services sector, the efficient transmission of market intelligence to service firms, etc.

2. Enhanced Publicity about Service Exporters.

To ensure that the importance of service exports is recognized within the government and by the public and that Canadian services are actively promoted, including approaches such as consistent featuring of service exports alongside goods exports in the various government export publications, fair and appropriate evaluation of service exporters for export awards (rather than based on criteria devised for goods exporters), etc. Further, to ensure that government personnel understand clearly the crucial ways in which the various types of services differ from goods, strategic implications of those differences, how services are linked to goods both as key inputs and as demand creators, how services are linked to other

services in precisely the same manner, and how services exports serve as the "leading edge" in generating demand for Canadian goods abroad.

3. Responsive Sounding Board for Service Exporters.

To serve as the point where concerns of service firms are gathered, appropriate policy positions to enhance service exporting are developed and implemented, and accountability to the private sector occurs.

B. Services Marketing Assistance

Because services cannot be protected (even for a short time) by patents, firms must continually innovate in order to maintain their competitive edge; therefore, service firms are time-sensitive in identifying market opportunities and developing export strategies. In addition to a basic marketing plan, firms need skilled personnel able to respond to new opportunities and access to timely market intelligence. The following roles to be played by the CEA were identified by the firms interviewed:

1. Upgrade the Service Marketing Skills of Government Personnel.

To assist with assessing what key government staff (e.g., trade commissioners, local commerce officers, EAITC Canada-based personnel) know already about services and the export promotion of services; supplementing that knowledge via seminars, workshops, and resource materials; revising the basis on which trade commissioners are evaluated (to increase the likelihood of small service firms receiving assistance); and identifying what additional resources are needed to be effective.

2. Human Resource Development in Marketing.

To secure funding for on-the-job training of private sector personnel (especially those in small firms) in services marketing and services export plan development, and a cost-sharing program for small firms to hire international services marketing externs in order to supplement staff temporarily.

3. Provision of Seminars

To plan and coordinate the provision the launching of a series of educational seminars on relevant aspects of services exporting (see detailed discussion below). Specific requests for marketing assistance are listed in Chart 50.

C. Financial Assistance

Financial issues are both structural and funding based--i.e., firms need to avoid incurring unnecessary costs as well as receive cost offsets where appropriate. In addition, service firms without large capital asset or inventory bases need assistance in securing working capital as human assets are not sufficient to acquire funding through regular capital market channels.

1. Adequate Access to Funds.

To develop modalities and procedures for various types of service firms to access adequate working and growth capital in a timely manner through mechanisms such as co-signing loans, loan guarantees, loan insurance, and insurance of accounts receivable. Further, to identify the full range of problems related to funding for service exporters, such as funding and payment delays and work with the appropriate government agencies to develop more effective support systems.

2. New Fiscal Measures.

To review existing fiscal policies and draft recommendations in areas such as investment tax credit for service firms, tax credit for market development activities, tax credit for export revenues, etc.

3. Expansion of Funded Activities.

To identify other sources of export funding for Canadian service exporters (e.g., multilateral programs), spearhead a cooperation effort to pool funding available from different government departments, and lobby for the underwriting of "non-traditional" market development activities (such as attendance at professional international conferences, trips to Ottawa to promote the firm to government agencies, etc.).

IX. Seminars and Workshops to Be Designed and Offered

When the study was originally envisioned, there was an assumption that what service exporters needed was training in export techniques, which could be provided by seminars and workshops. As the study got underway, it quickly became apparent that Canadian service exporters are on the whole a highly sophisticated group. While several types of information desired (suitable for a seminar format) were identified, the audience for the seminars has been expanded beyond that of the service exporters themselves.

The role of the CEA in launching seminars such as those listed below would be that of an organization positioned to plan, promote, and coordinate the delivery of the seminar or workshop, while involving appropriate expert consultants to develop the specific content and make the presentations. The titles given are intended only as an illustration of the types of seminars or workshops that have been identified as appropriate and desired.

A. Seminars for Service Exporters

Canadian service exporters are a sophisticated group and have little patience with general, broad-brush "dog-and-pony shows." Therefore, seminars for current exporters should address a specific current issue, be pragmatic in format, and be targeted particularly at small firms with formal marketing plans (see Chart 51). More general seminars like "Marketing to the Far East" have less appeal (see Chart 52). Some of the seminars would most appropriately be "sector-specific--i.e., geared to all service sector firms, as distinct from goods producers. Others would need to be "industry-specific"--i.e., for a particular industry such as banking or management consultants.

1. Sector-Specific Seminars and Workshops

- "Educating Clients about GST Charges"
- "Professional Credentials in the US under FTA"
- "Profitable Niche Strategies in the E.C."
- "How to Get the Market Intelligence You Need"
- "Enhancing the Image of Canadian Services Globally"
(focused on business referral and networking)
- "Creating and Implementing a Services Export Marketing Plan" (for small firms)
- "Sustained Growth in Service Exporting" (for small firms)
- "Diversifying Your International Client Base" (for small firms)

2. Industry-Specific Seminars and Workshops

- "Innovative Sources of Export Financing for Small Firms"
- "Profiting from the Current Trend in ..."

B. Seminars for Potential Service Exporters

Export-ready service firms comprise a different type of audience, with different needs. One of the issues raised several times in interviews was that Canadian tended to be a bit insular and to see operating in foreign markets as too risky. By addressing such concerns and familiarizing export-ready firms with generic strategic models, the service export base can be expanded. Topics to be covered could include:

- "Easing Your Way into Service Exporting"
- "Keys to Success in Service Export Markets"
- "Developing a Services Export Marketing Plan"
- "Identifying Viable Export Markets and Export Partners"

C. Seminars for Trade Commissioners and EAITC Staff

Once the needs identification of EAITC staff has been completed, a series of specific training experiences would need to be developed, which might include seminars such as the following:

- "The Role of EAITC and the Trade Commissioners in the Export Promotion of Services" (including identification of types of market information of use to service firms and strategies for promotional support)
- "Creating Visibility for Canadian Service Exporters in the Global Marketplace"

D. Seminars for Support Agencies

For most service industries, there exists already at least one industry association; however, few of these are export-oriented. CEA would be in a position to provide vertical services to assist such associations in helping their service firms. To assist in developing such a partnership arrangement, the following types of seminars might be useful:

- "Relevant Services Marketing and Export Promotion Strategies for Your Industry"
- "Creating Visibility for Your Service Exporters"
- "Developing an Export Focus"

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- 1 Average Total Revenue by Firm Size Category
- 2 Average Export Revenue by Firm Size Category
- 3 Distribution of Service Exporters by Exports as % of Revenues
- 4 Average Number of Employees by Firm Size Category
- 5 Revenue per Employee by Firm Size Category
- 6 Exports as a Percent of Total Annual Revenues
- 7 Years of Exporting Experience: Canadian Service Exporters
- 8 Average Years Exporting by Size of Service Firm
- 9 Changes Over Time: Number of Employees
- 10 Changes Over Time: Total Revenues
- 11 Changes Over Time: Exports as % of Revenues
- 12 Changes Over Time: Export Revenue per Employee
- 13 Service Export Markets by Exporting Experience
- 14 Differences between Recent and Long-term Exporters
- 15 Type of Market Focus
- 16 Service Export Markets by Market Focus
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- 19 Export Experience: Developed Markets
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- 29 Domestic Barriers by Firm Size
- 30 External Barriers by Firm Size
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- 34 Export Experience of Firms with Marketing Plans
- 35 Exporters with Local Presence
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- 43 Small Service Exporters by Local Presence
- 44 Large Service Exporters by Local Presence
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- 49 CEA Assistance Desired by Firm Size
- 50 Marketing Assistance Desired by Firm Size
- 51 Seminars Desired by Firm Size
- 52 Seminars Desired by Firm Size

CHART 1

Average Total Revenue by Firm Size Category

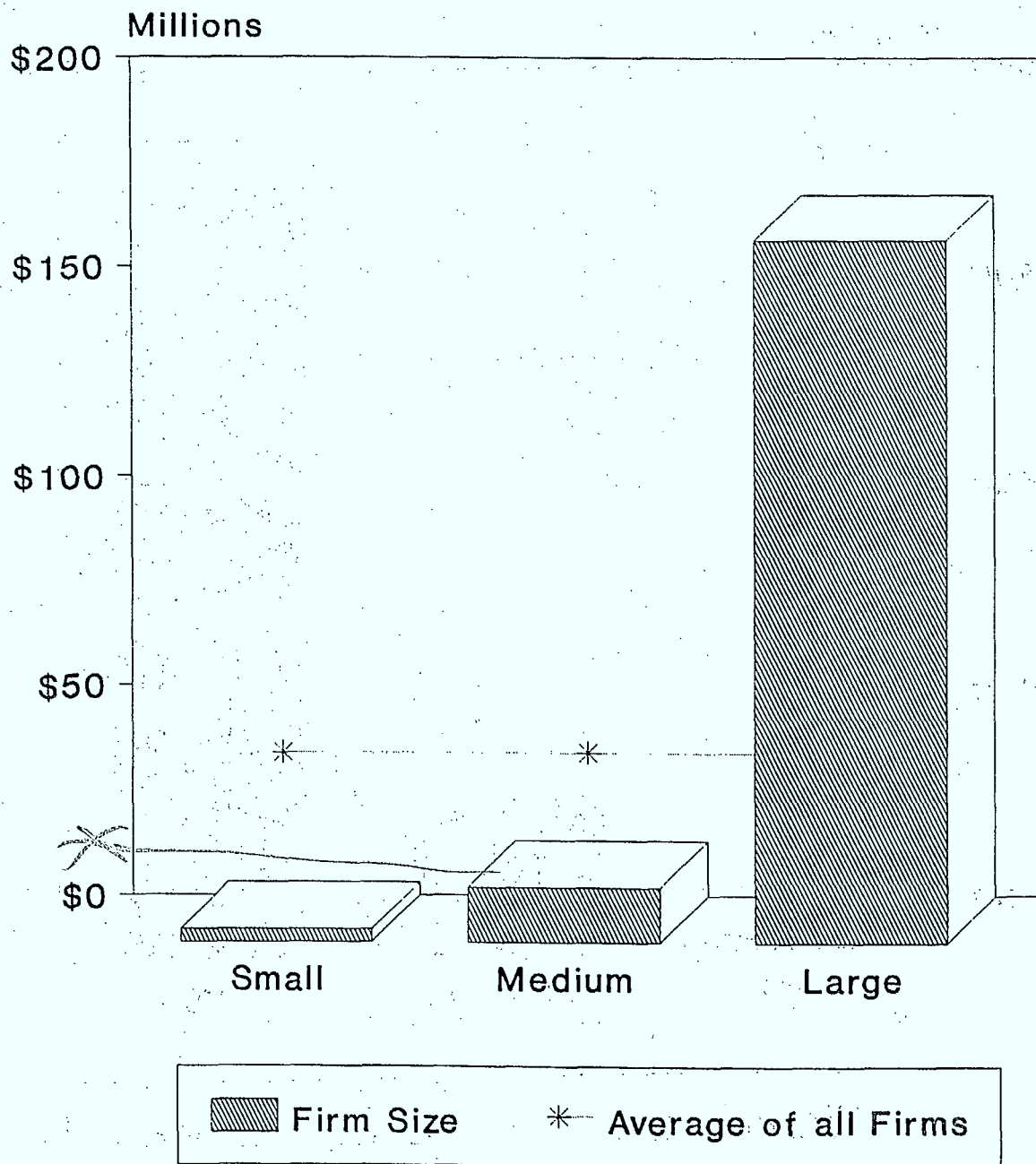


CHART 2

Average Export Revenue by Firm Size Category

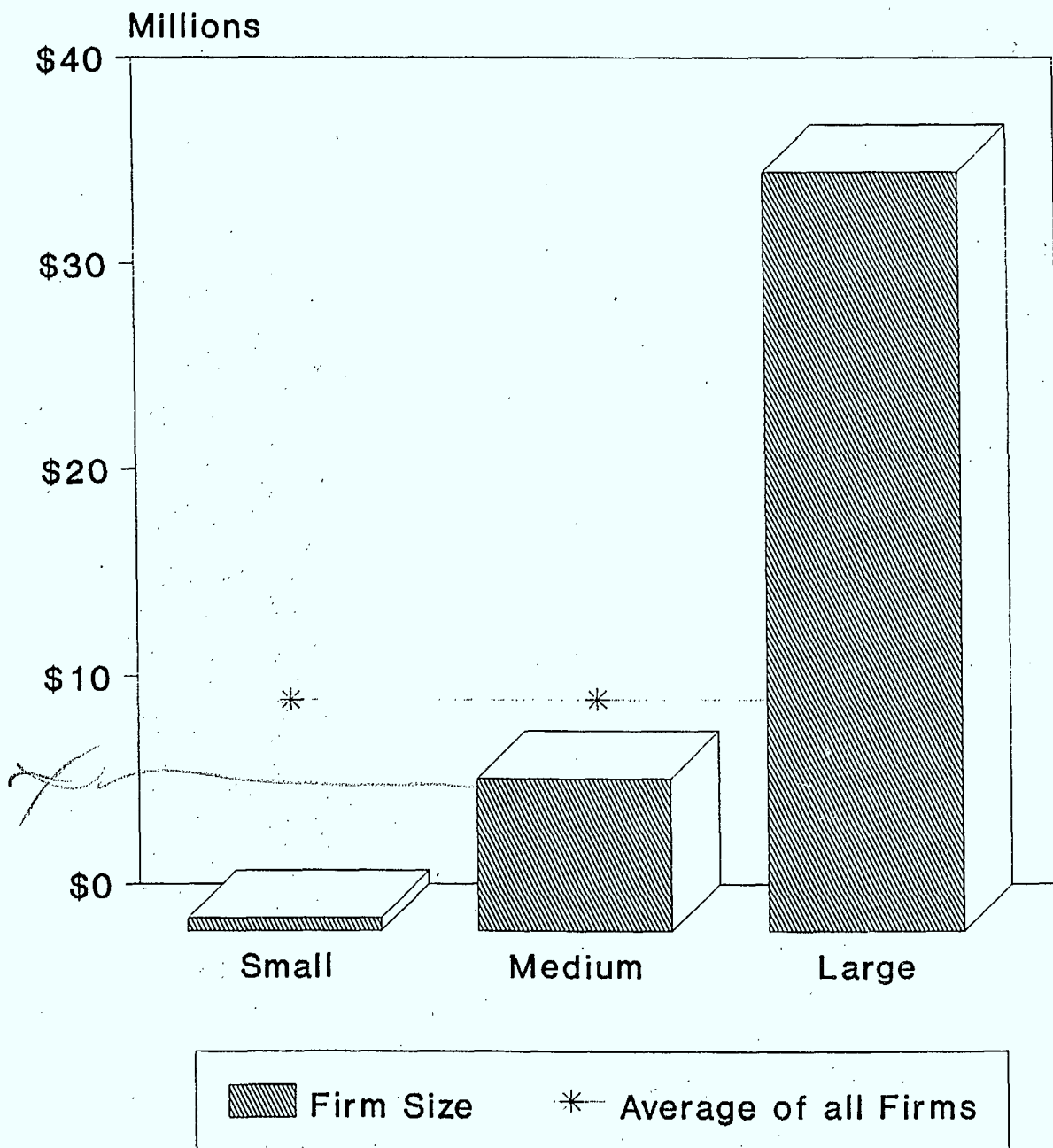
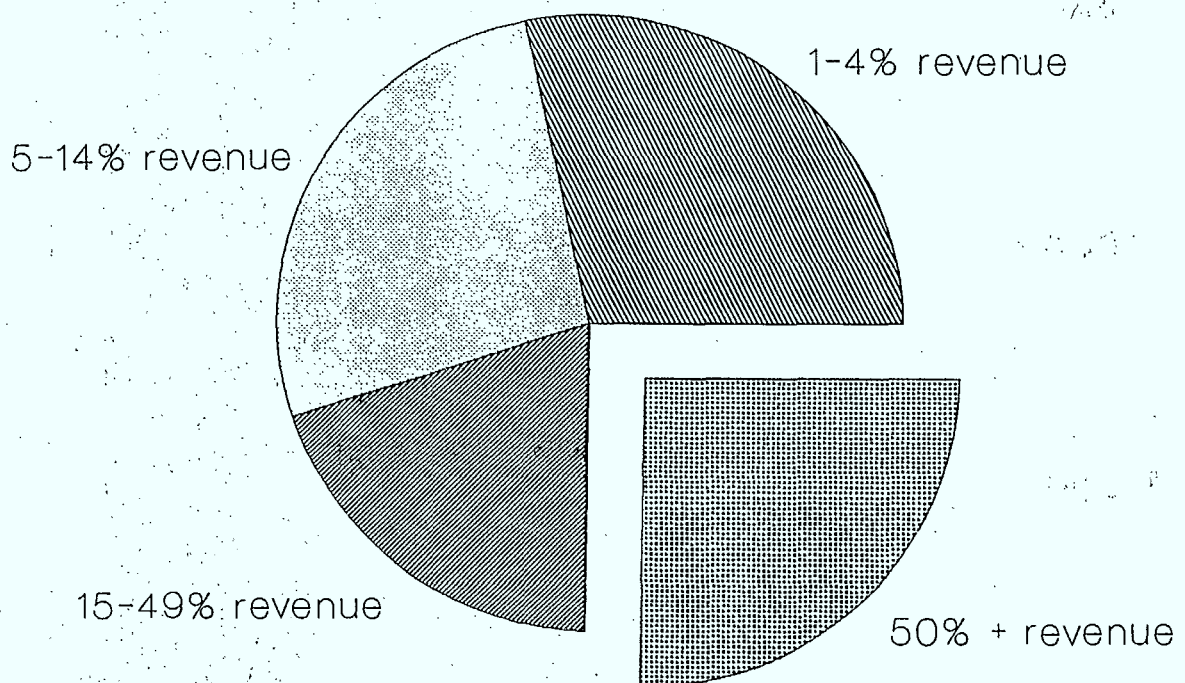


CHART 3

Distribution of Service Exporters by Exports as % of Revenues



Proportion of Service Firms

CHART 4

Average Number of Employees by Firm Size Category

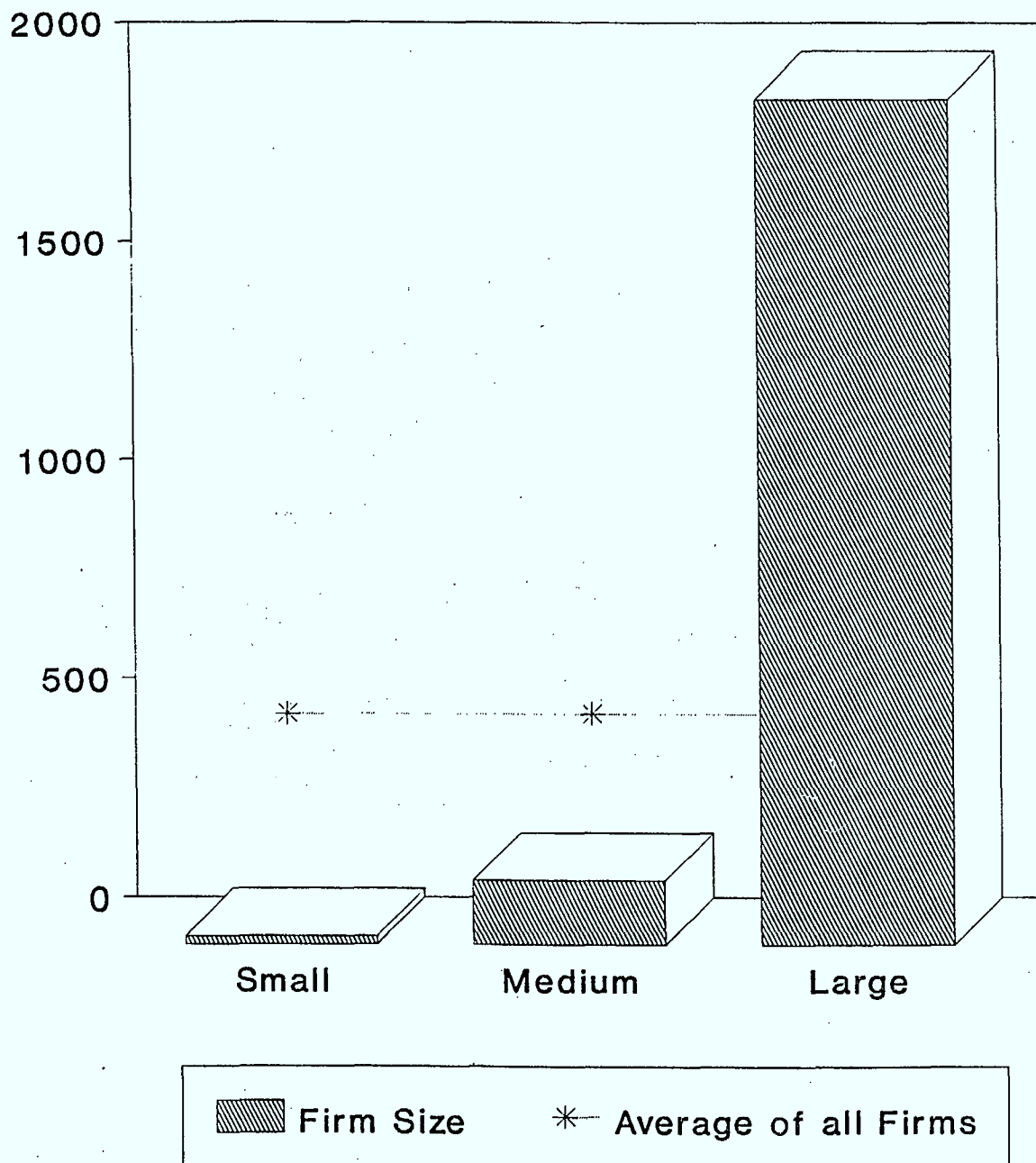


CHART 5

Revenue per Employee by Firm Size Category

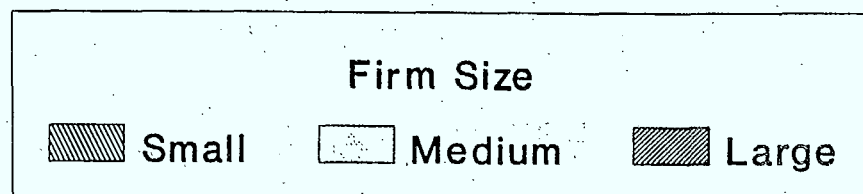
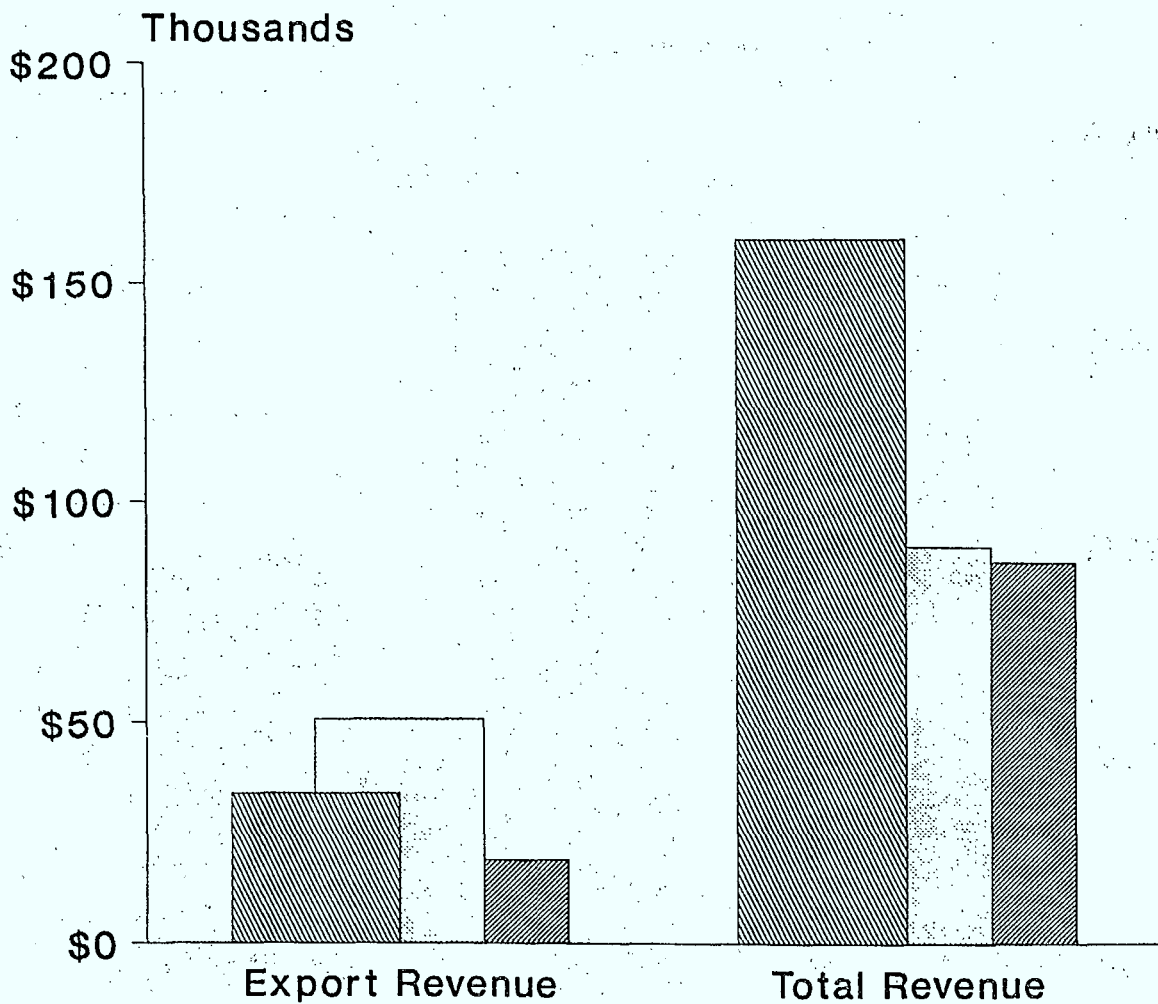


CHART 6

Exports as a Percent of Total Annual Revenues

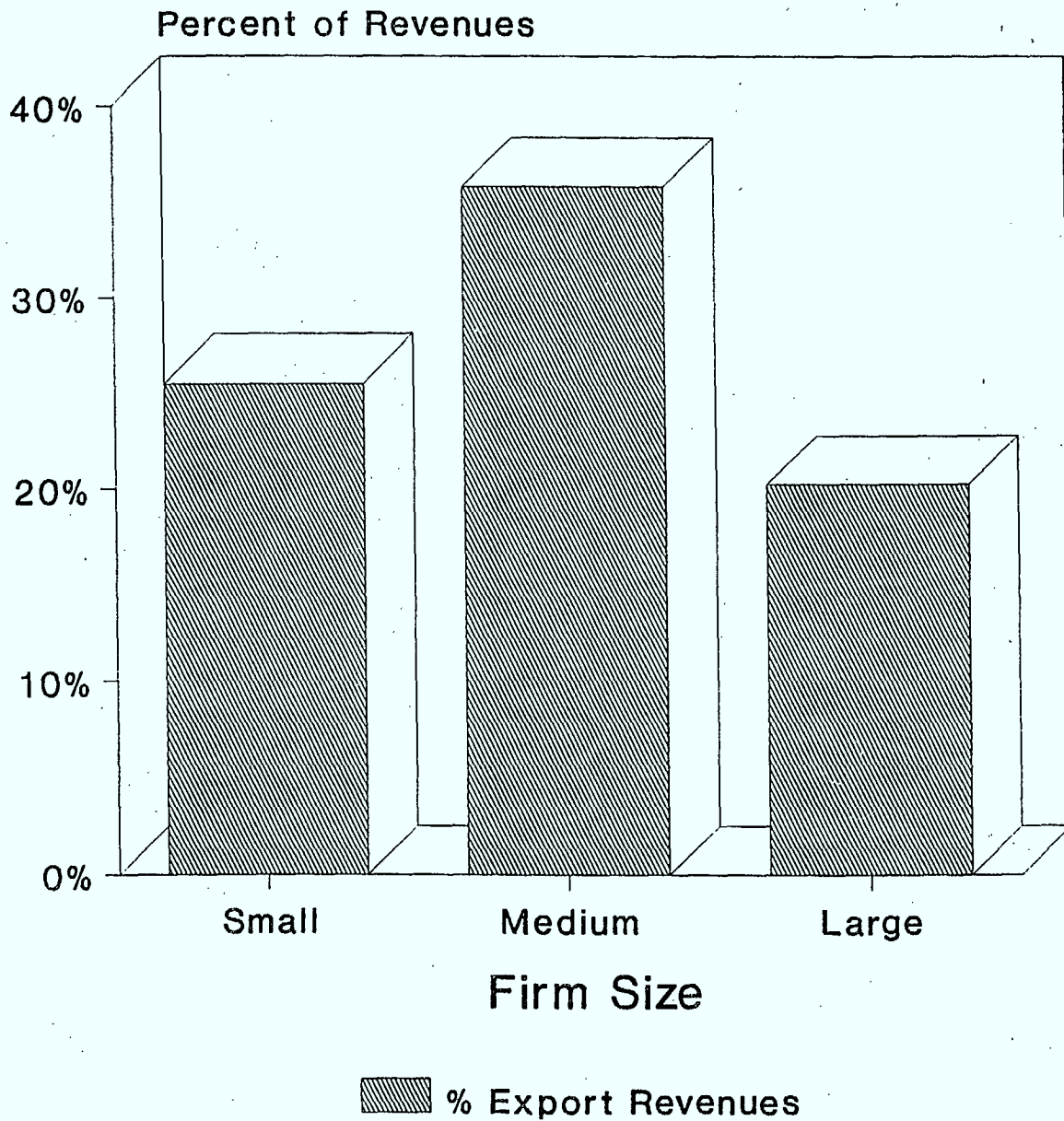
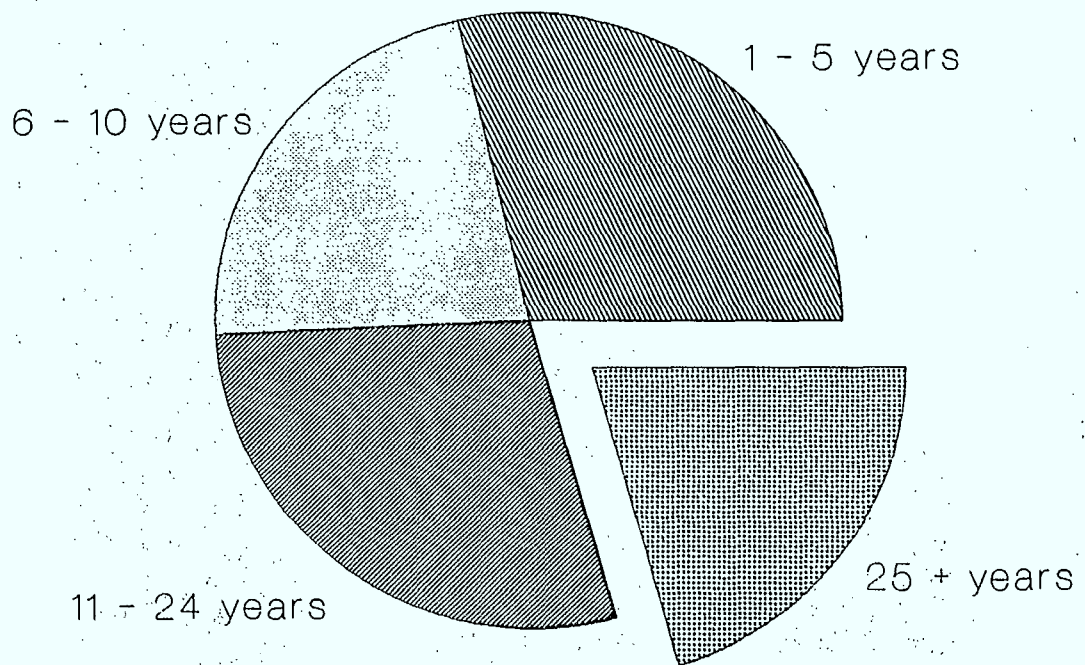


CHART 7

Years of Exporting Experience Canadian Service Exporters



Proportion of Service Firms

CHART 8

Average Years Exporting by Size of Service Firm

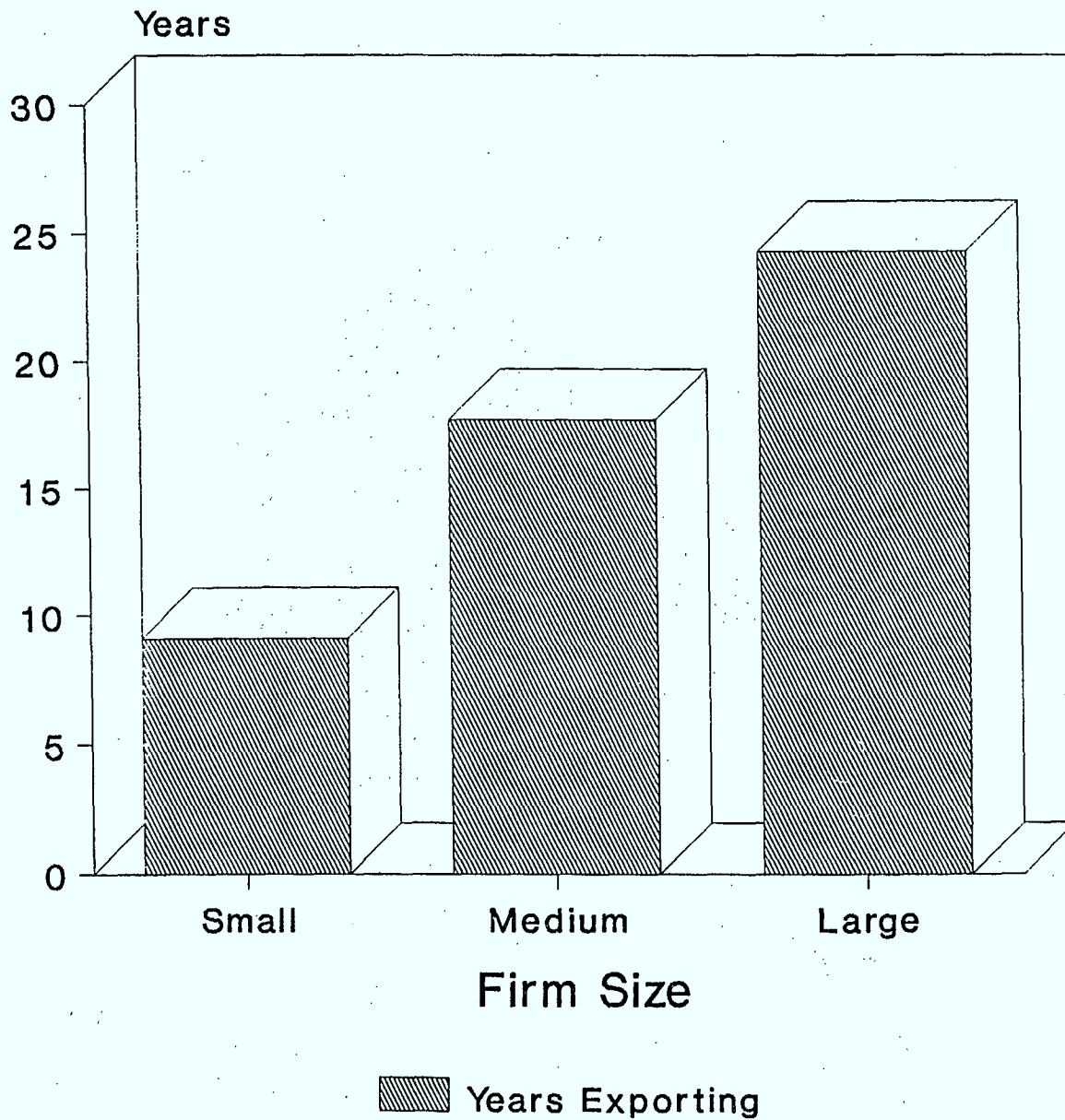


CHART 9

Changes over Time Number of Employees

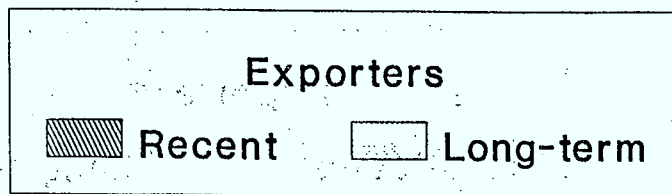
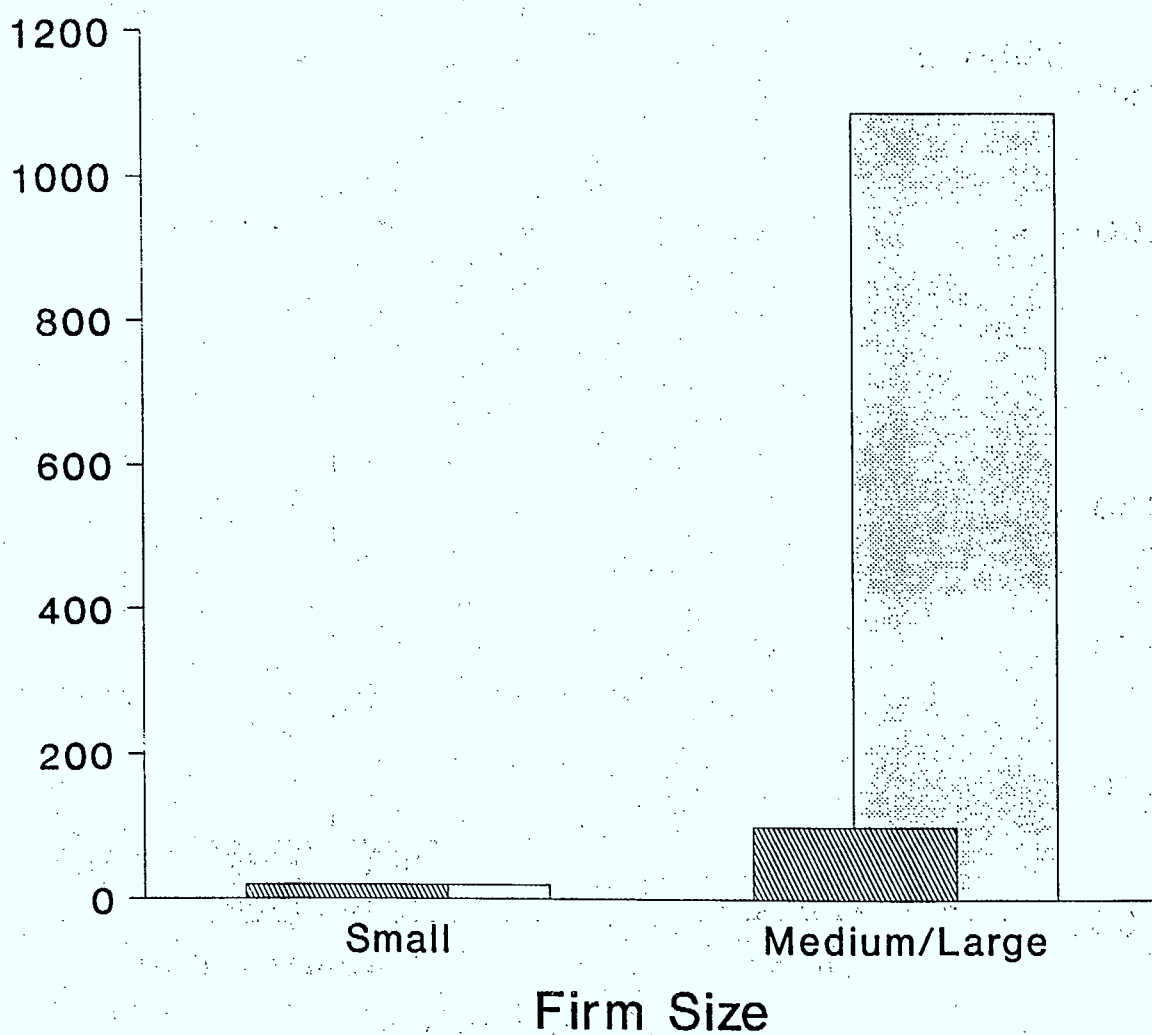


CHART 10

Changes over Time in Total Revenues

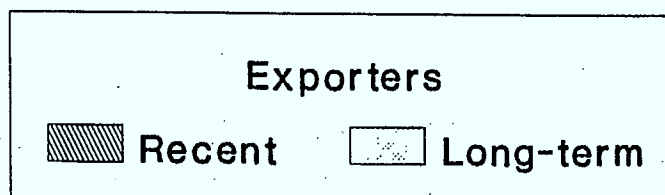
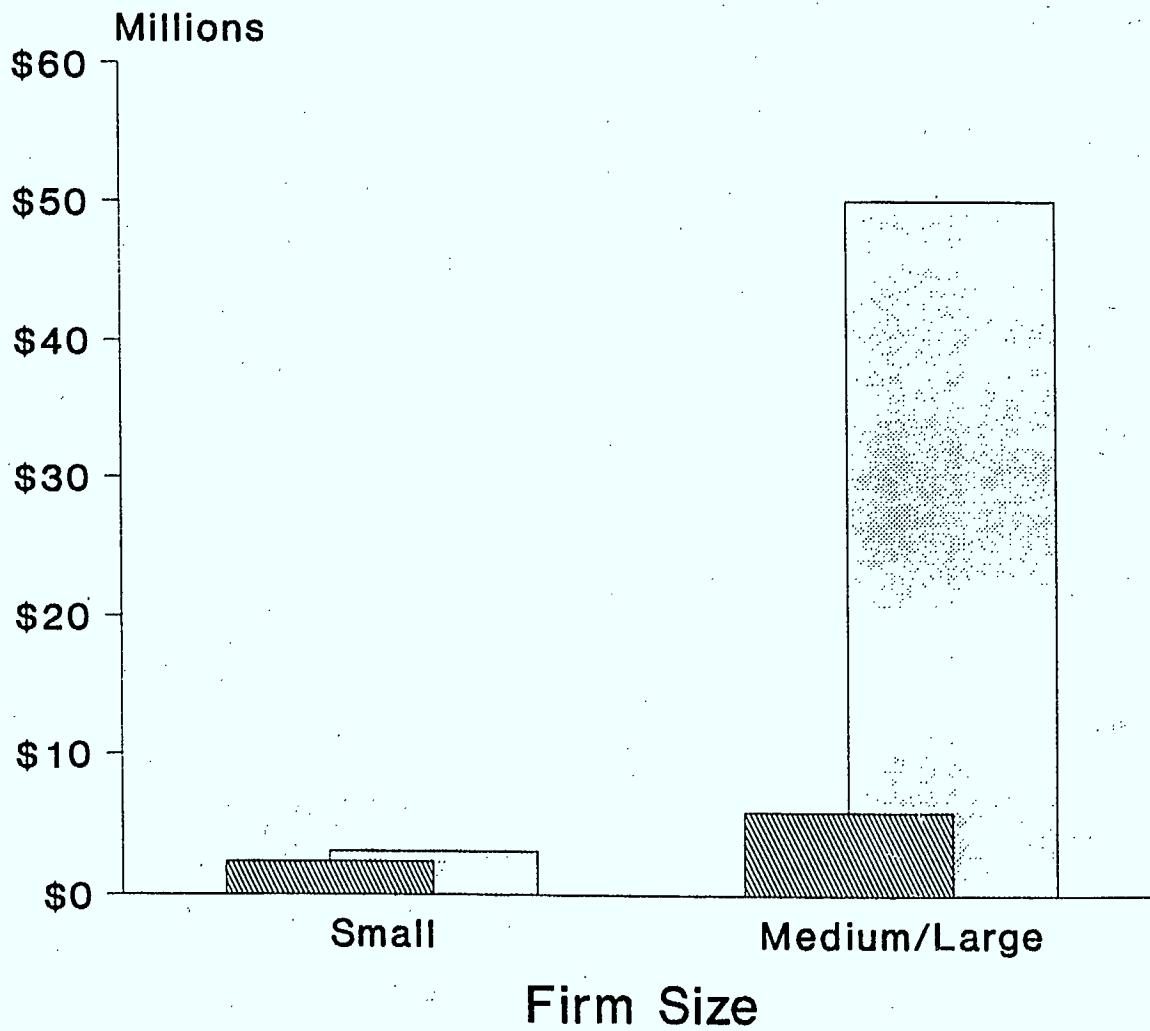


CHART 11

Changes over Time in Exports as % of Revenues

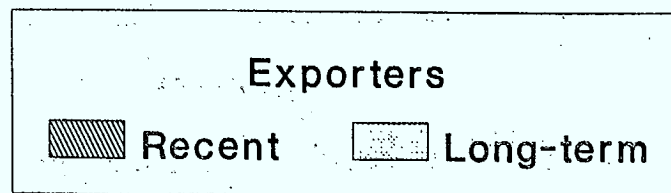
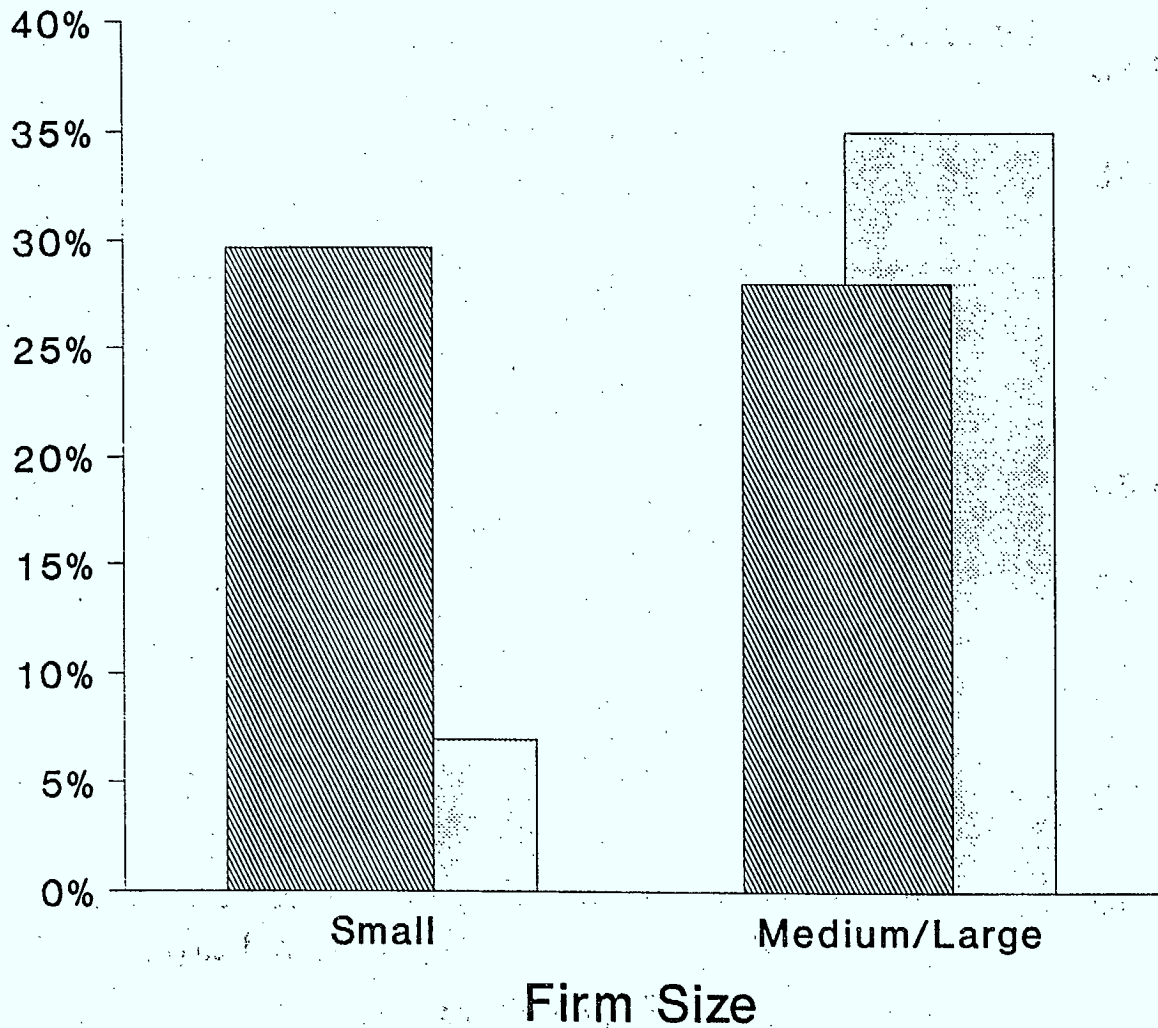
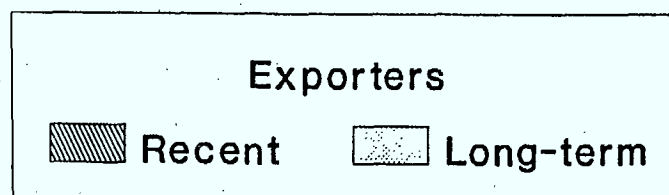
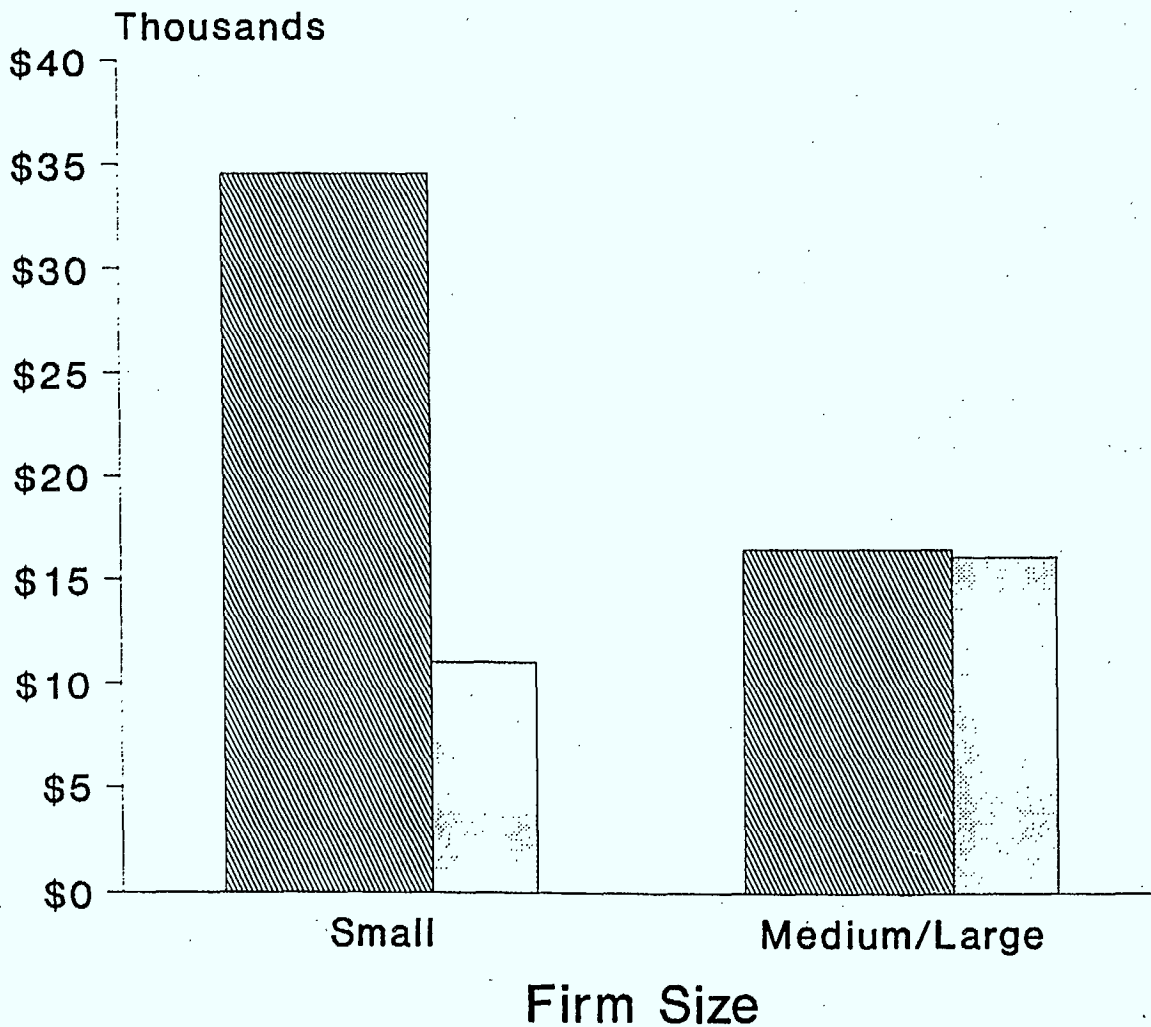


CHART 12

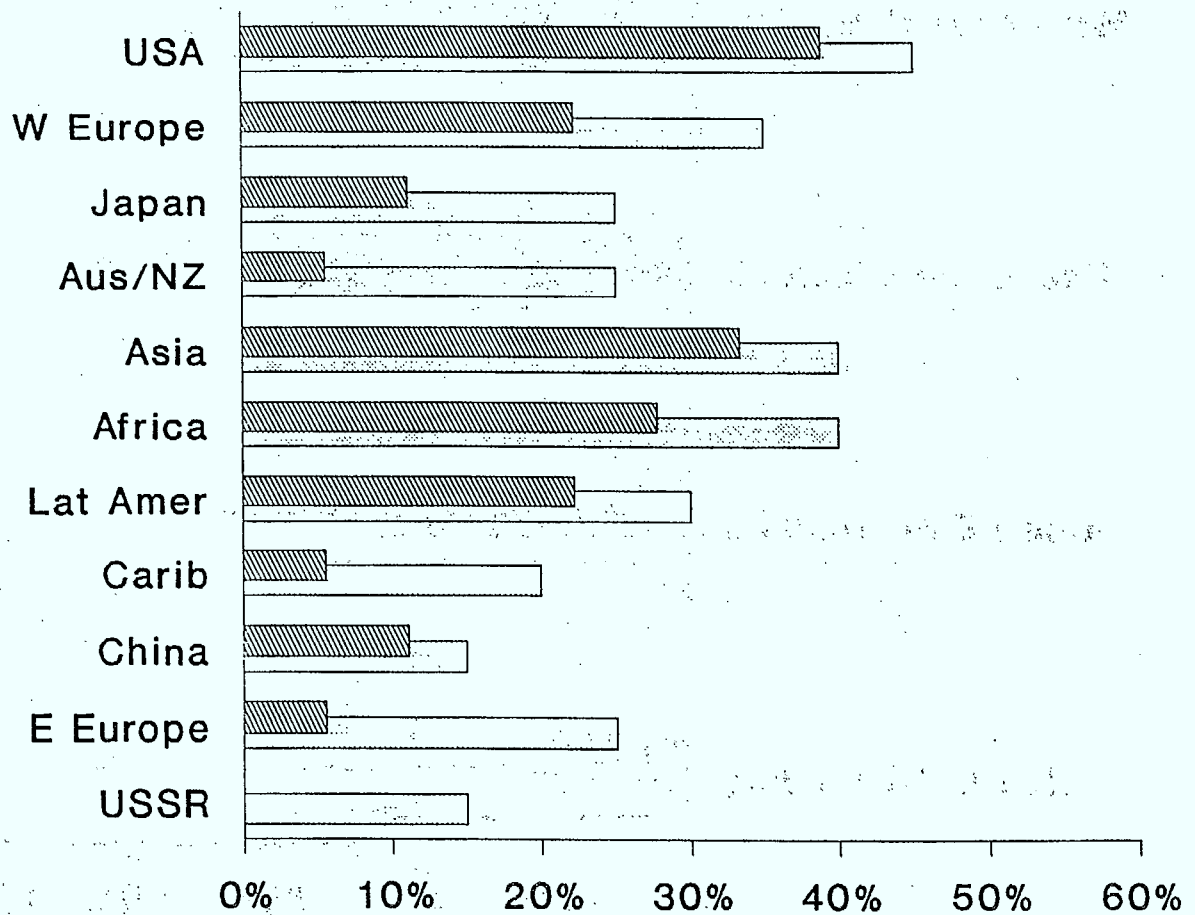
Changes over Time

Export Revenue per Employee



Service Export Markets by Exporting Experience

Markets



Years Exporting



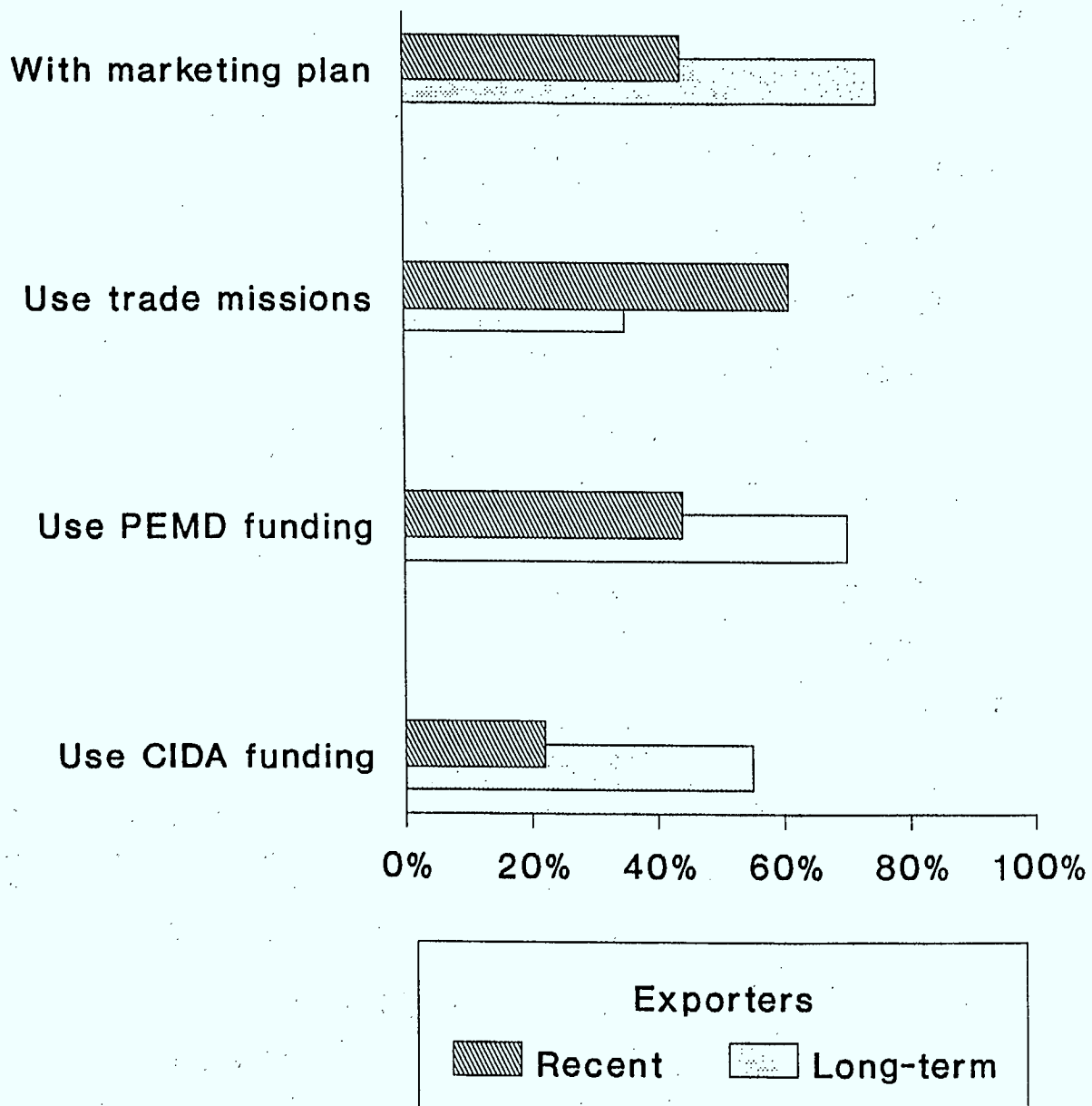
1 to 5



20 plus

CHART 14

Differences between Recent and Long-Term Exporters



Type of Market Focus

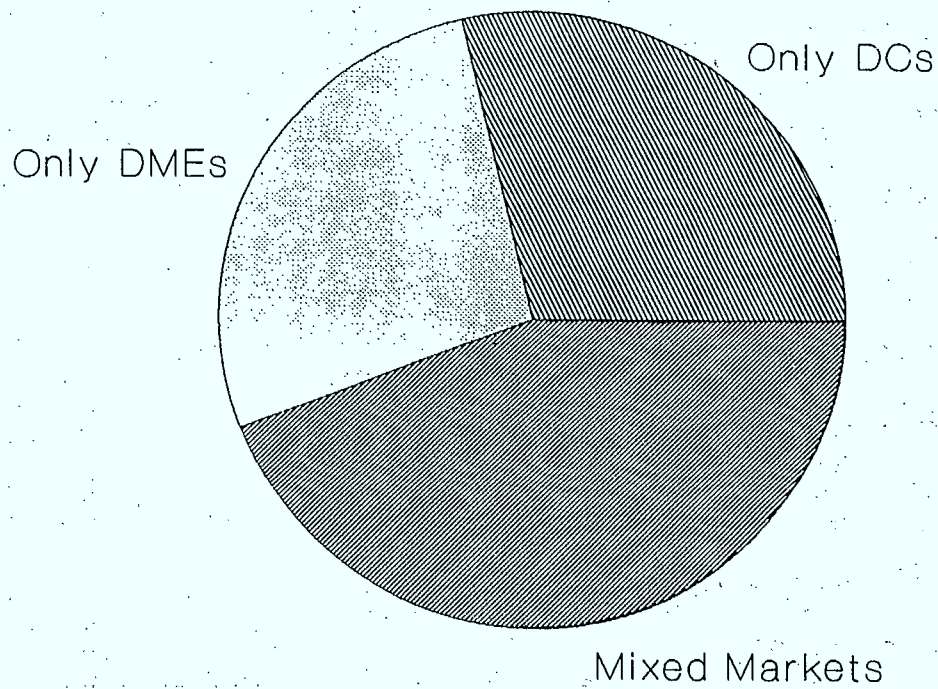
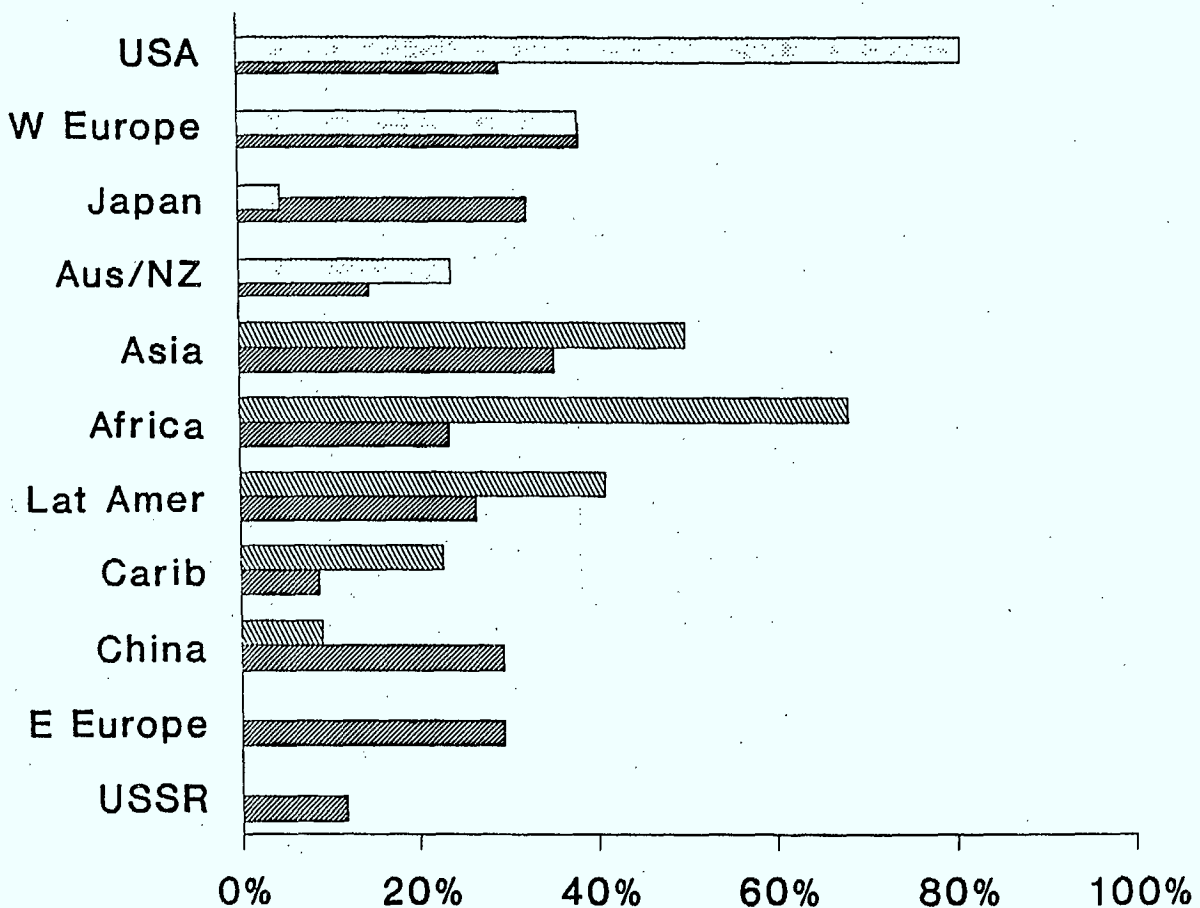


CHART 16

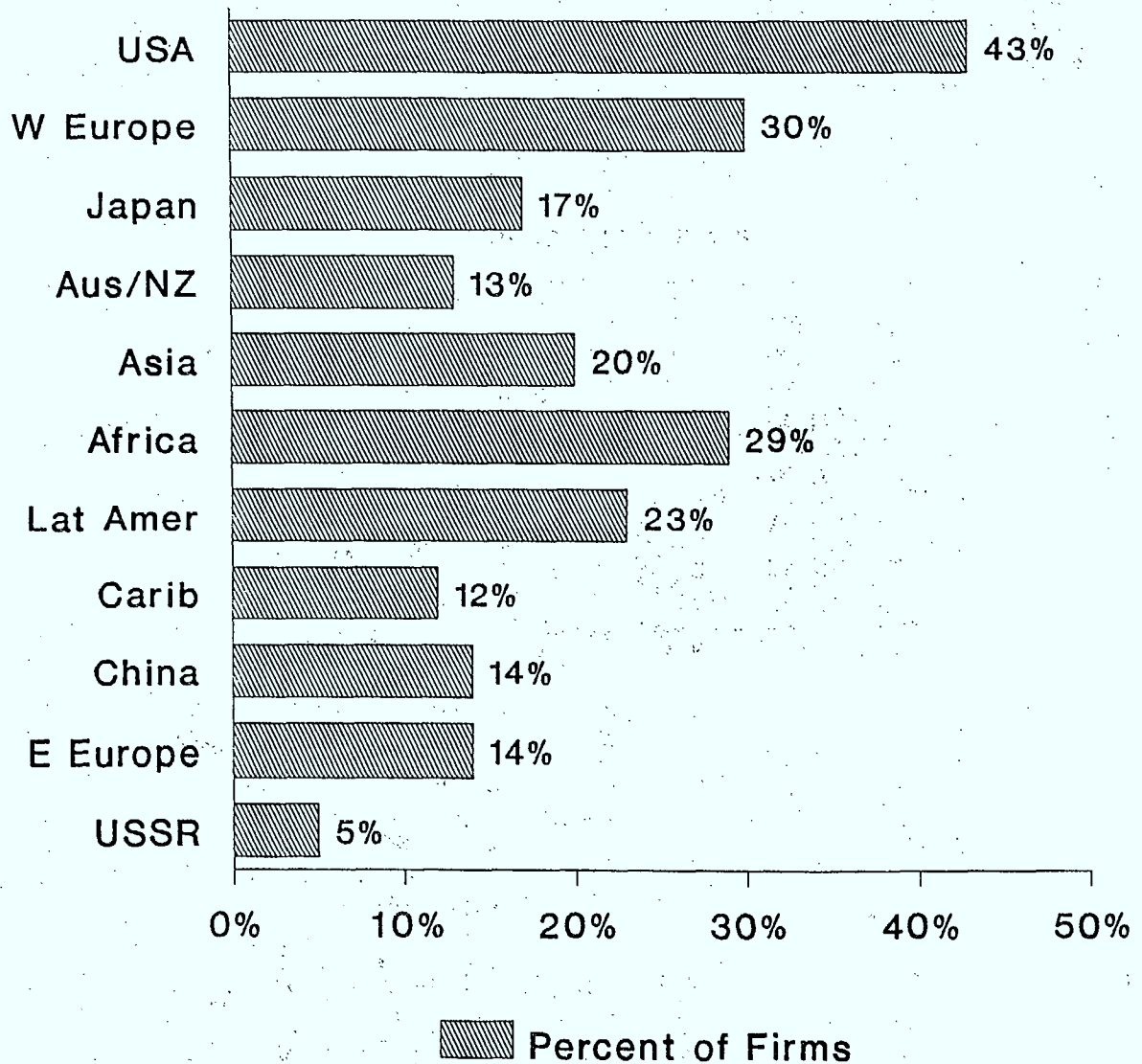
Service Export Markets by Market Focus

Markets



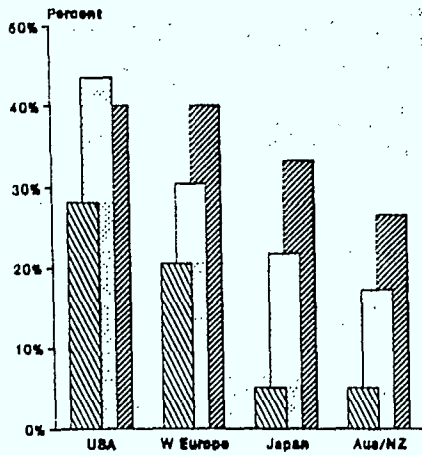
Service Export Markets by Percent of Firms

Markets

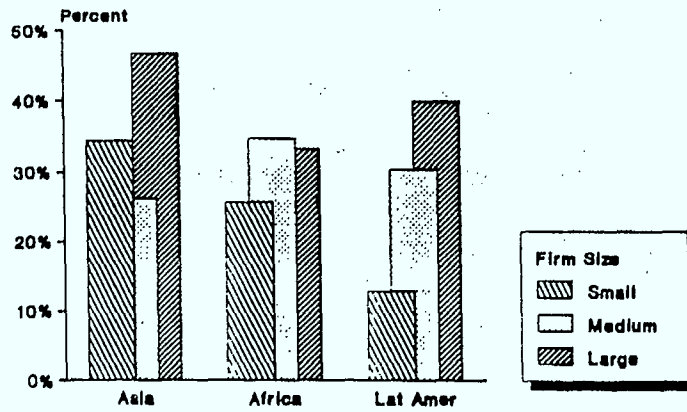


Percent of Firms by Market

Developed Markets



Developing Countries



Centrally Planned Economies

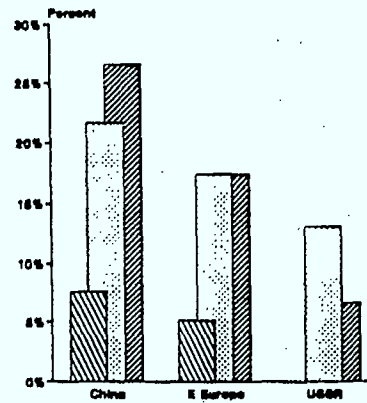


CHART 19

Export Experience Developed Markets

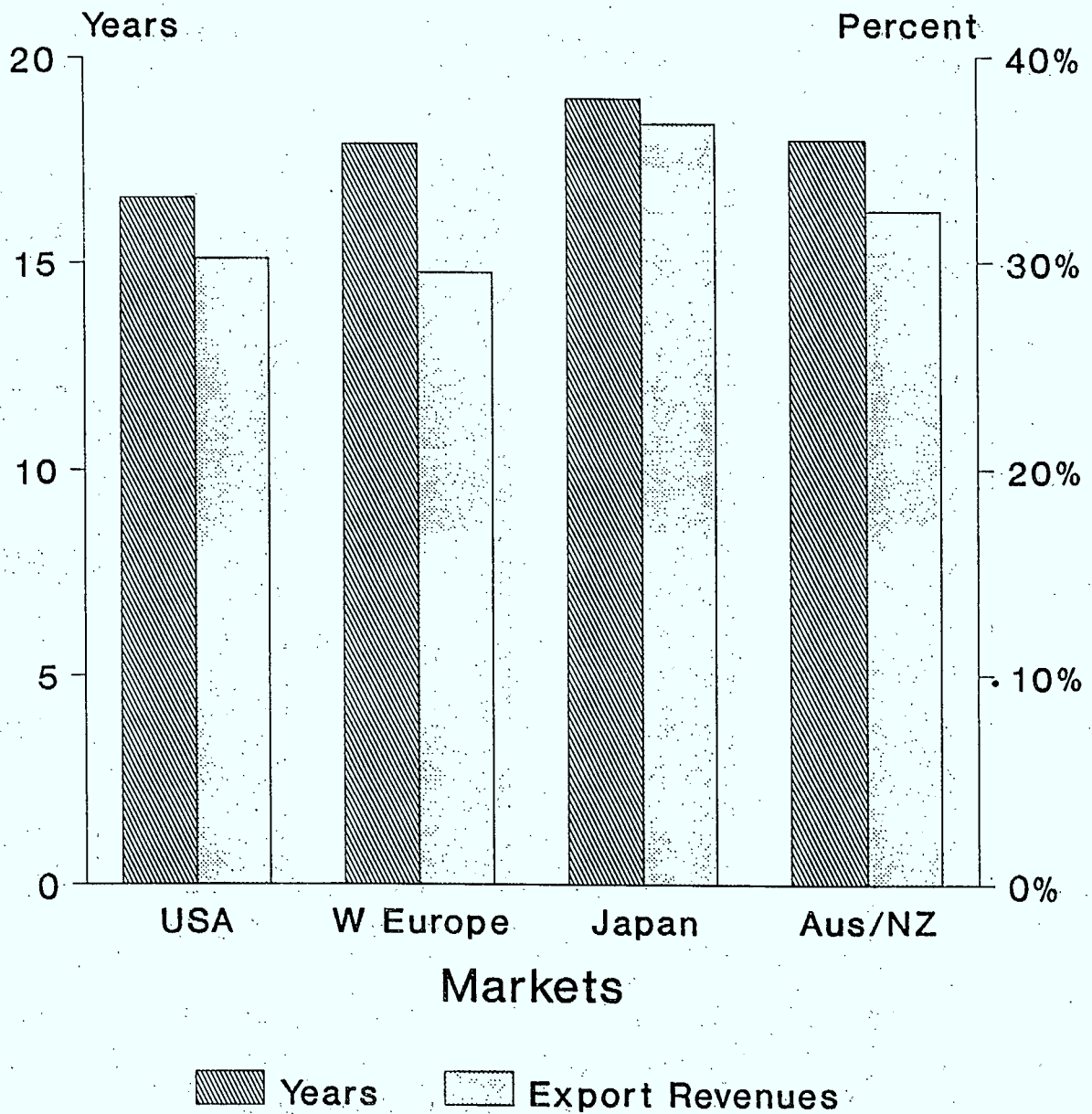
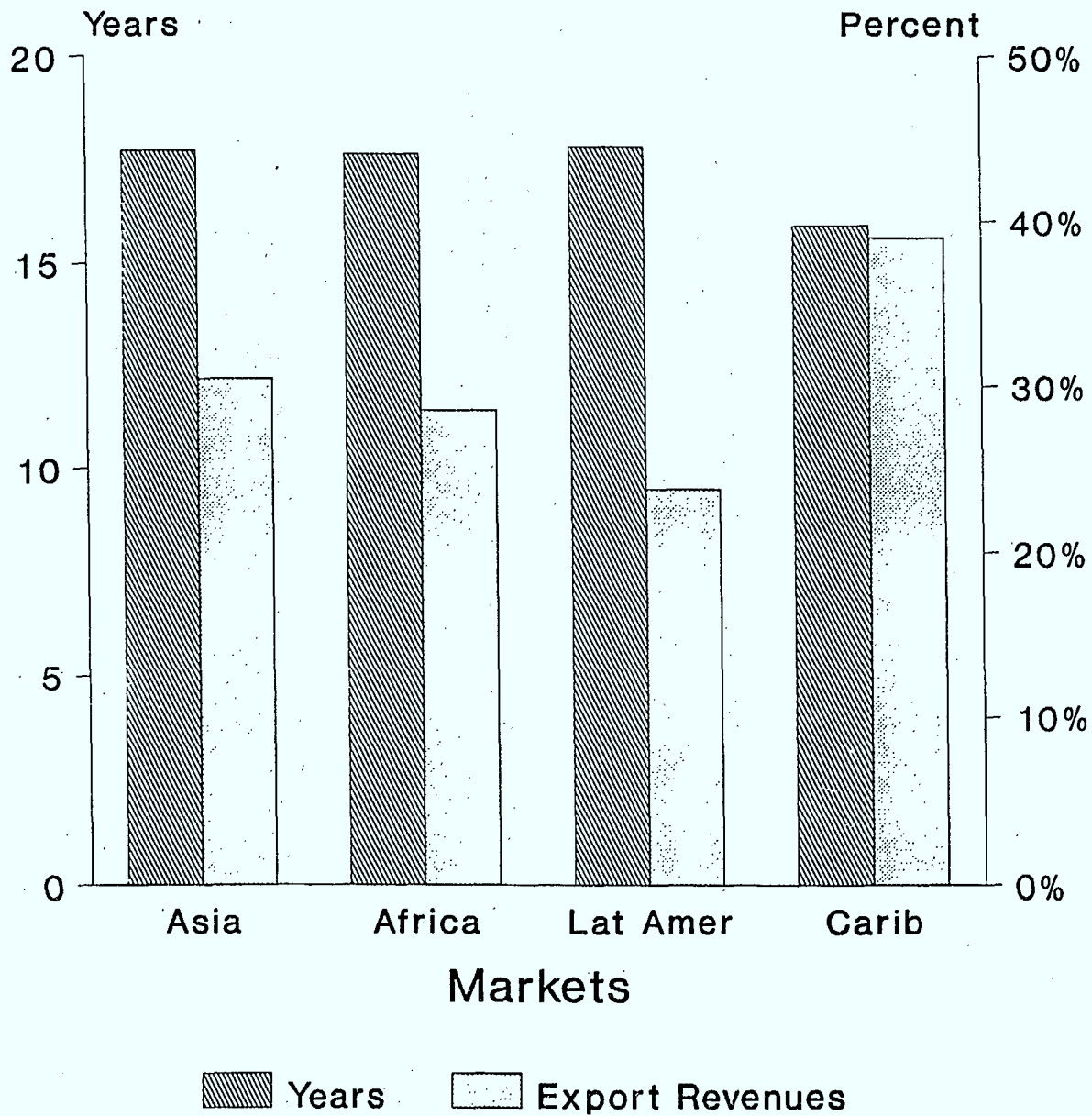


CHART 20

Export Experience Developing Countries



Export Experience

Centrally Planned Economies

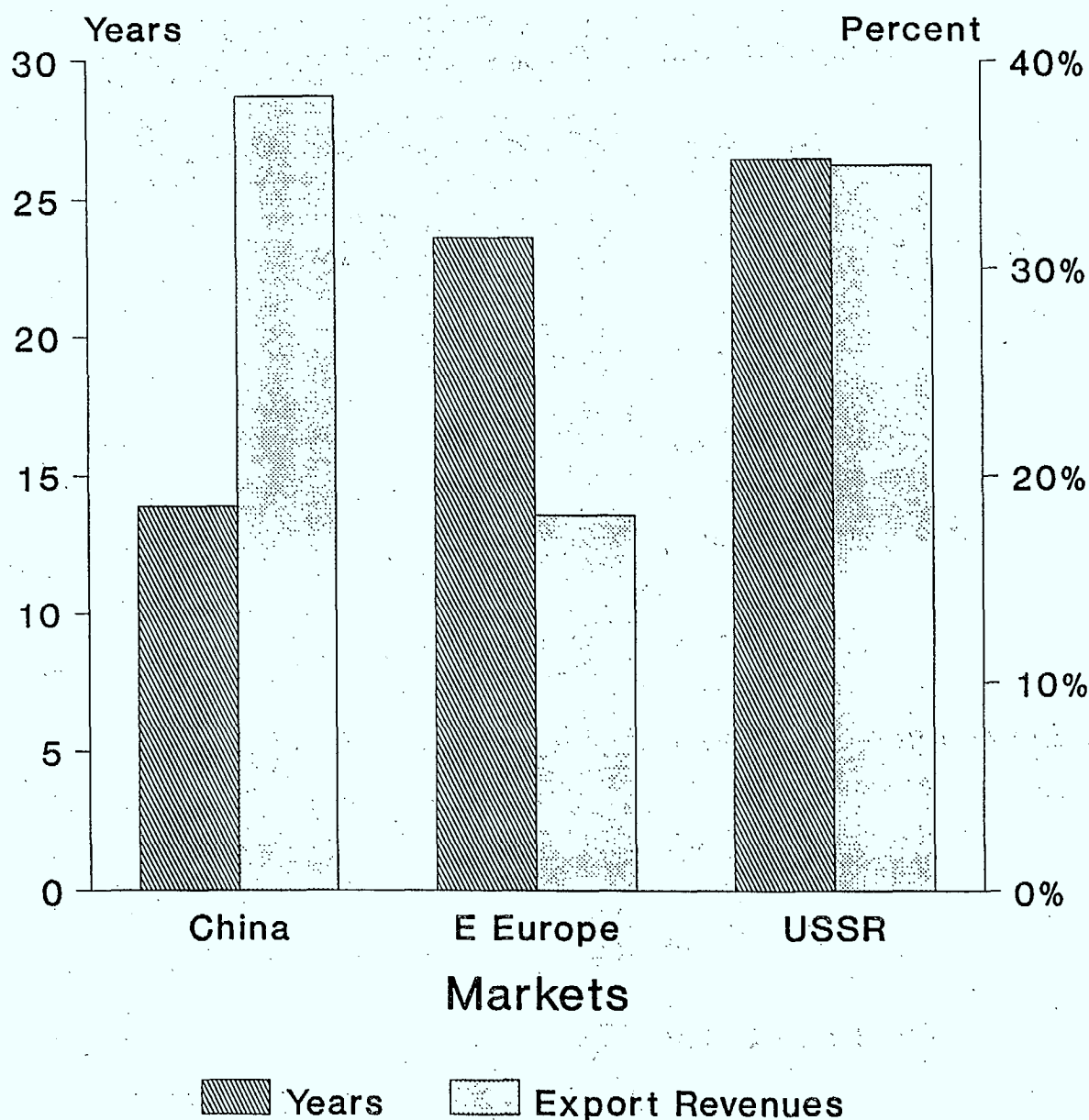


CHART 22

Services Exported

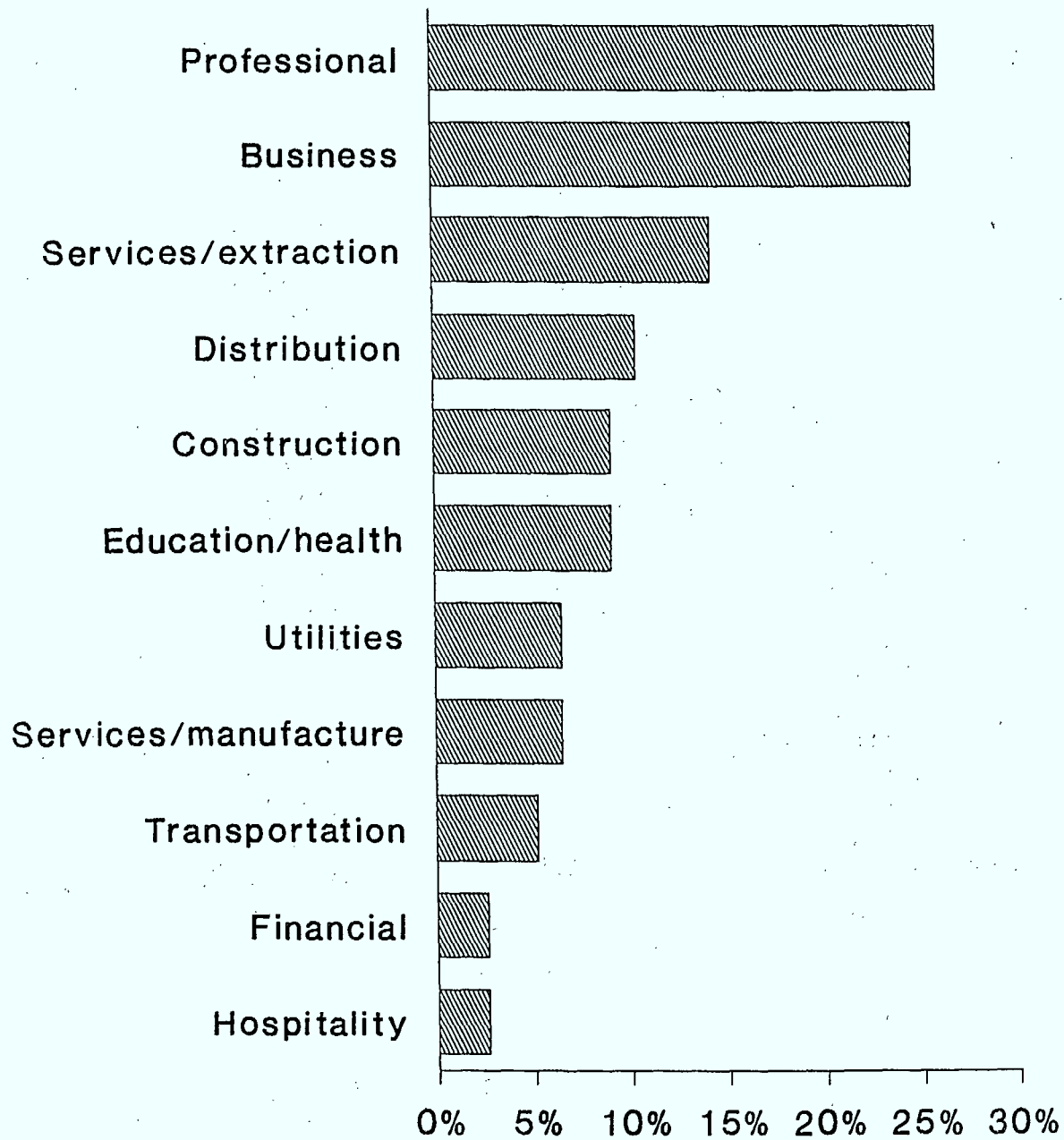


CHART 23

Firms Exporting Business/Professional Services

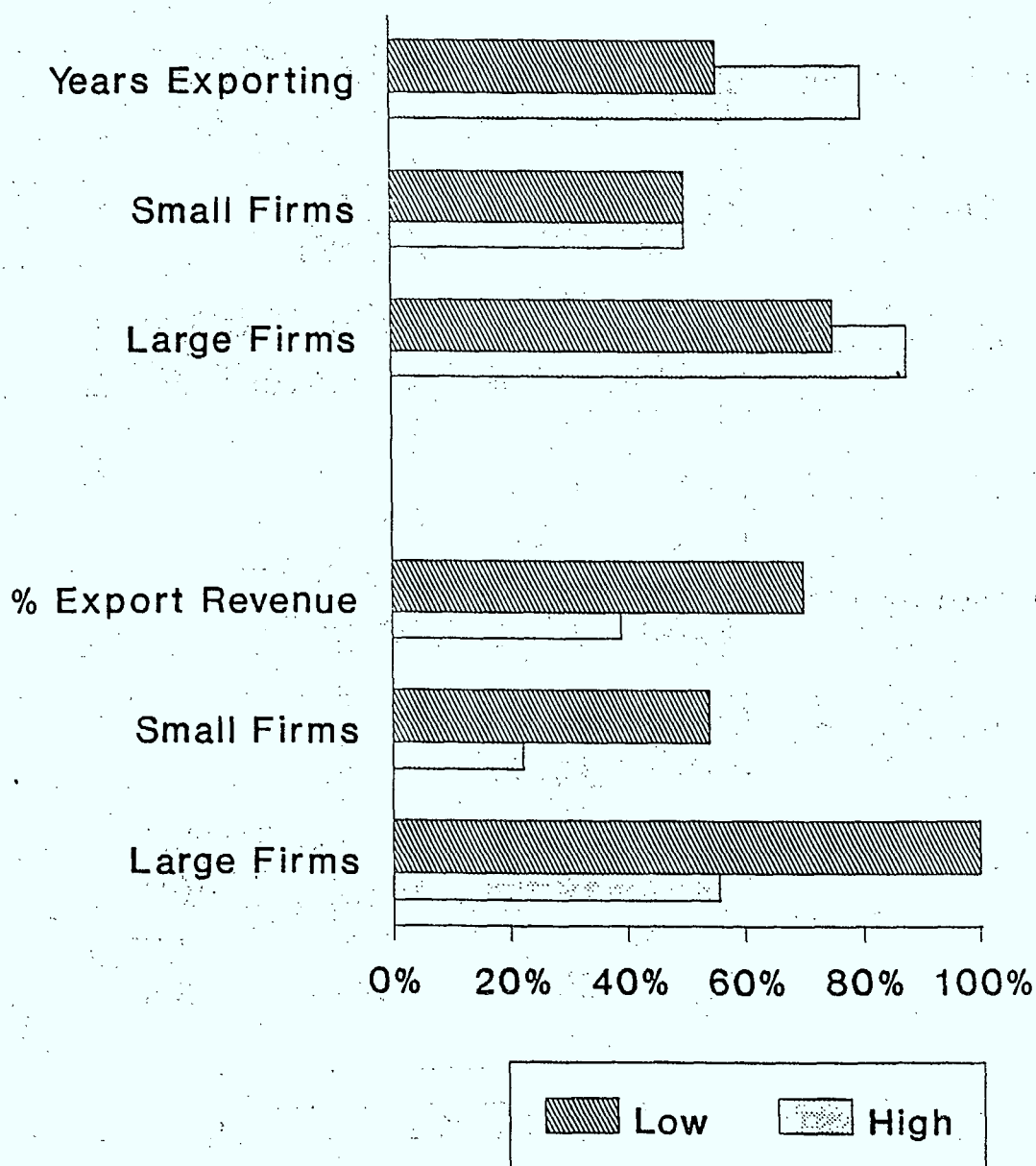


CHART 24

Firms Exporting Business/Professional Services

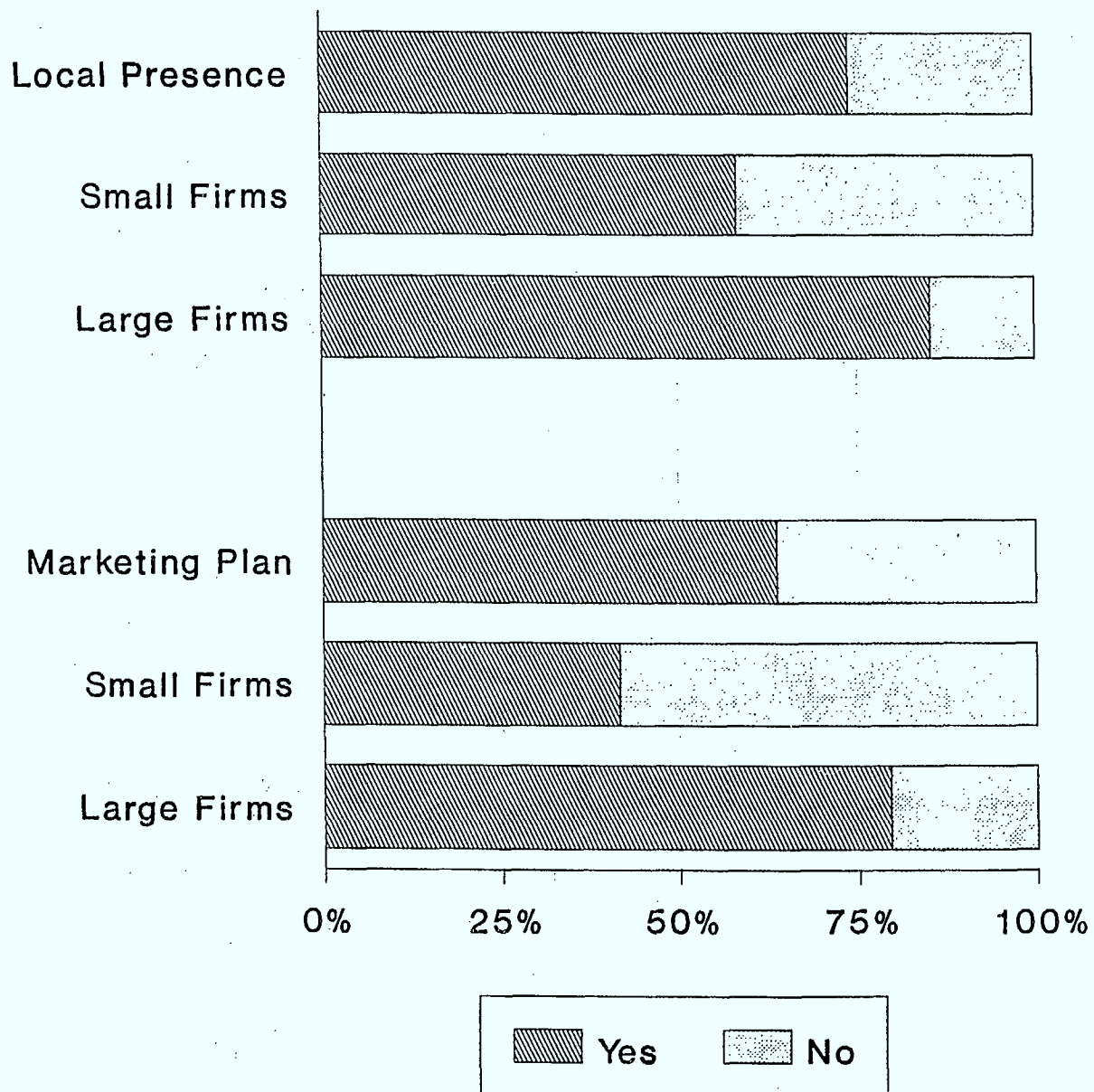
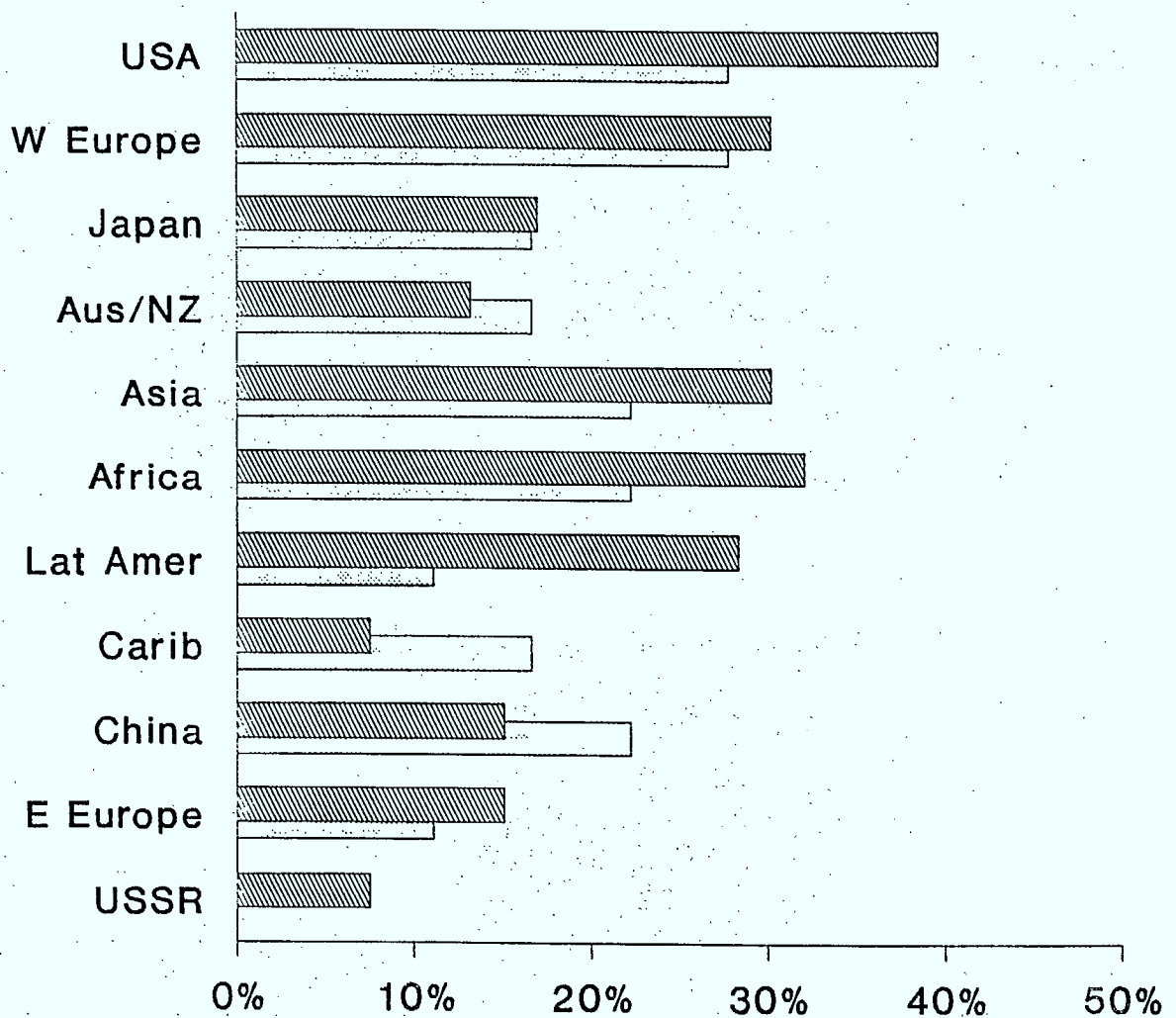


CHART 25

Markets by Type of Service

Markets



Service:



Bus/Profess



Goods-Related

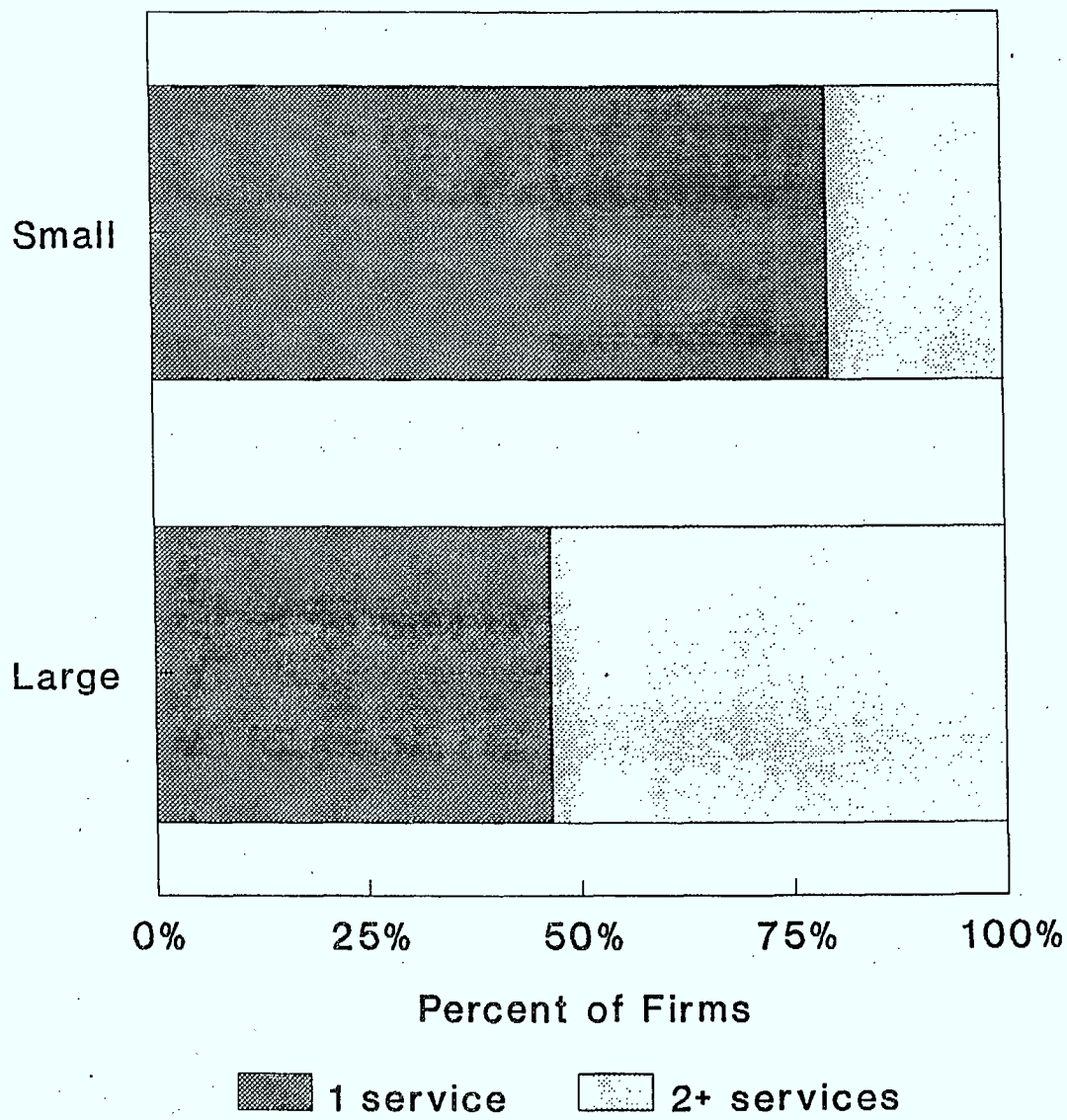
incl small exporters

CHART 26

are specialized

Export Specialization by Size of Service Firm

Firm Size



Links between Service and Goods Exports

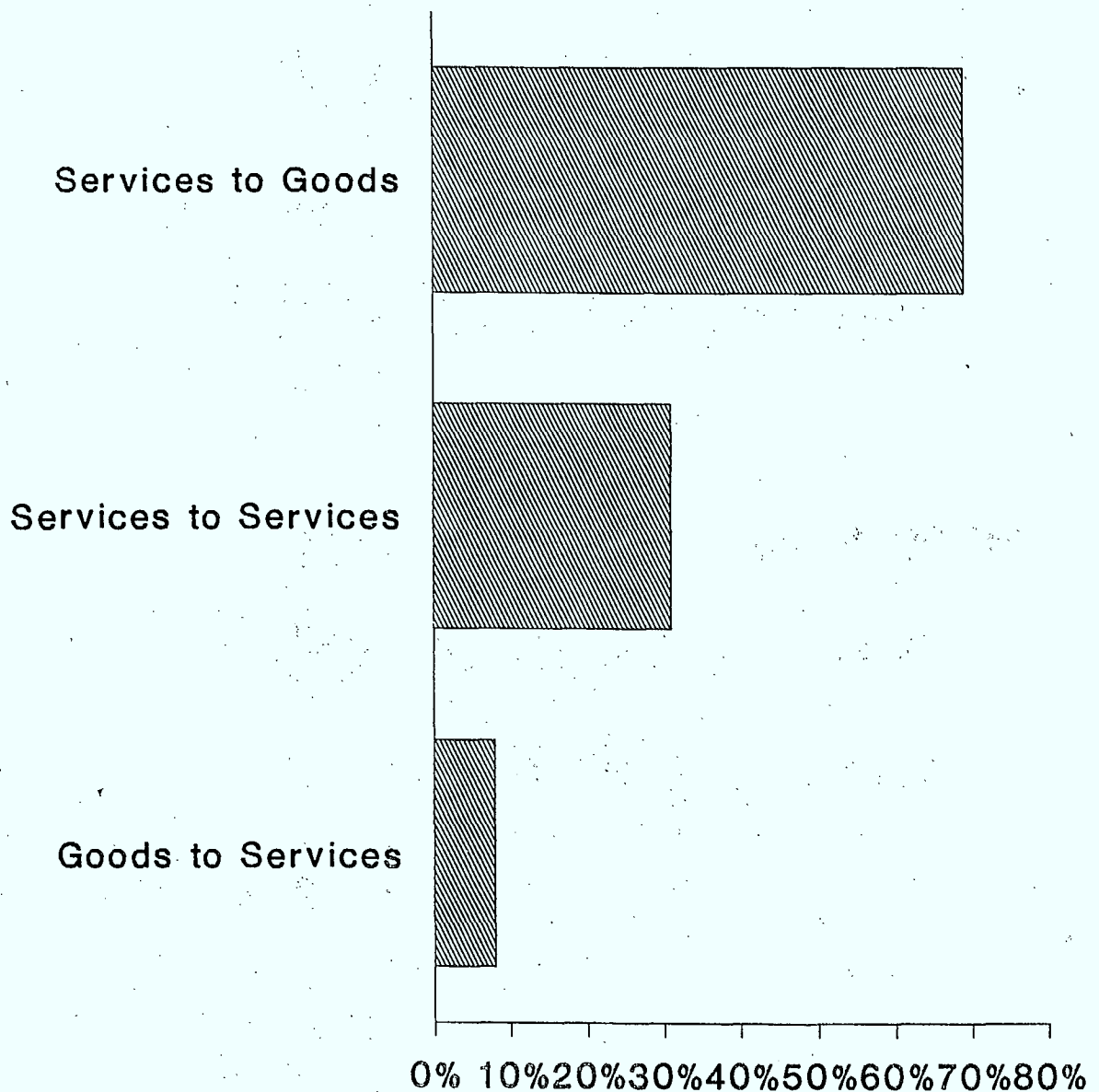
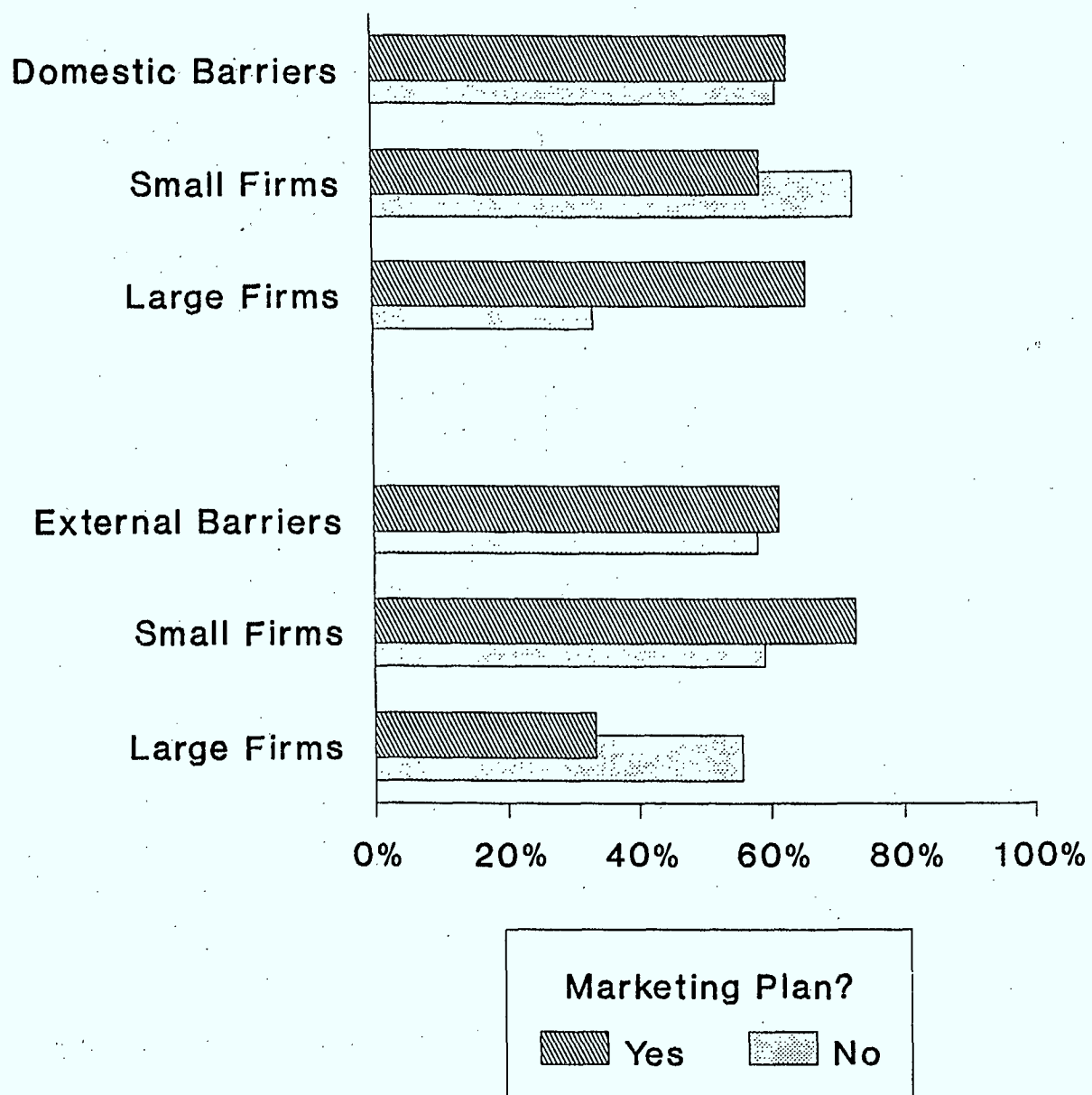
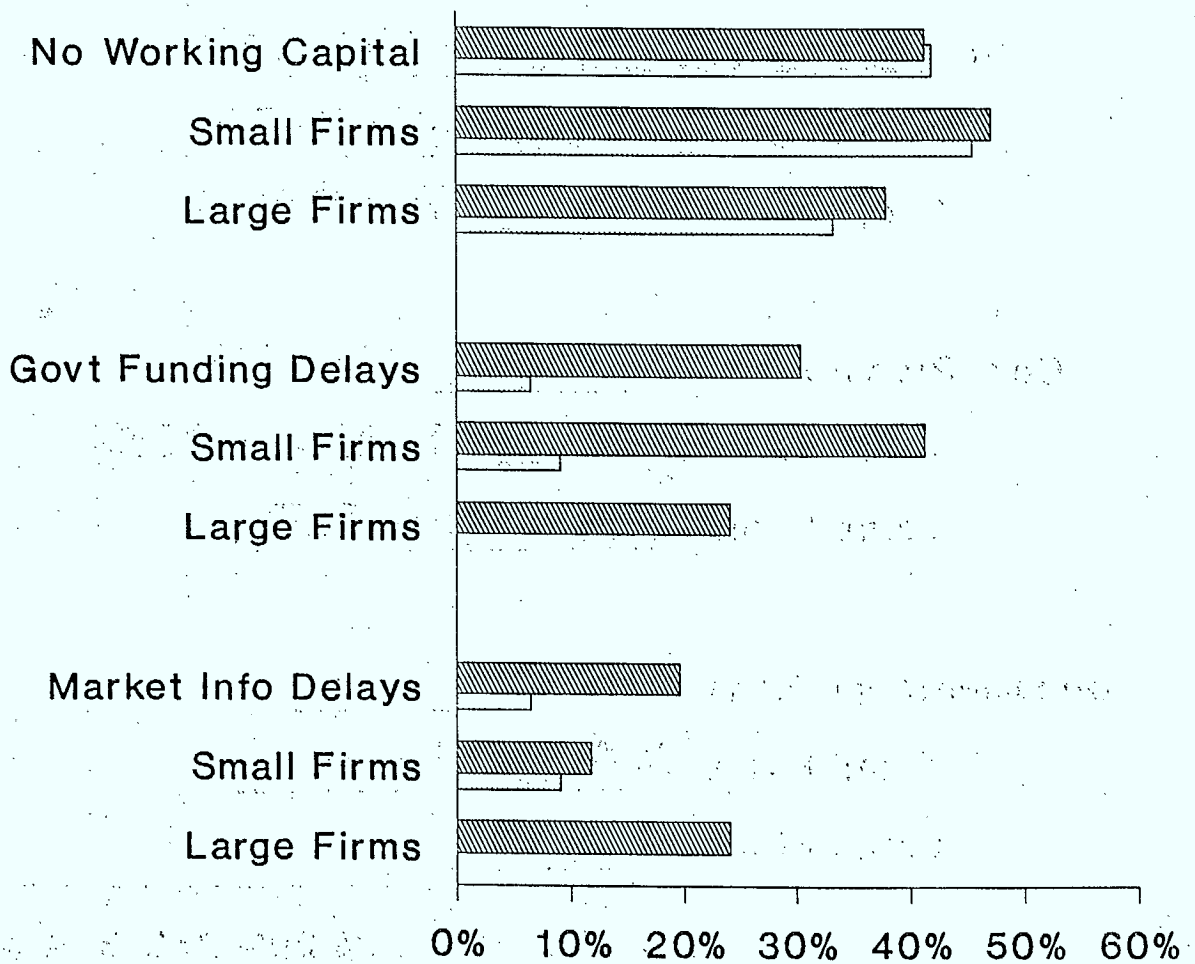


CHART 28

Awareness of Barriers by Firm Size



Major Domestic Barriers by Firm Size



Marketing Plan?

Yes

No

CHART 30

Major External Barriers by Firm Size

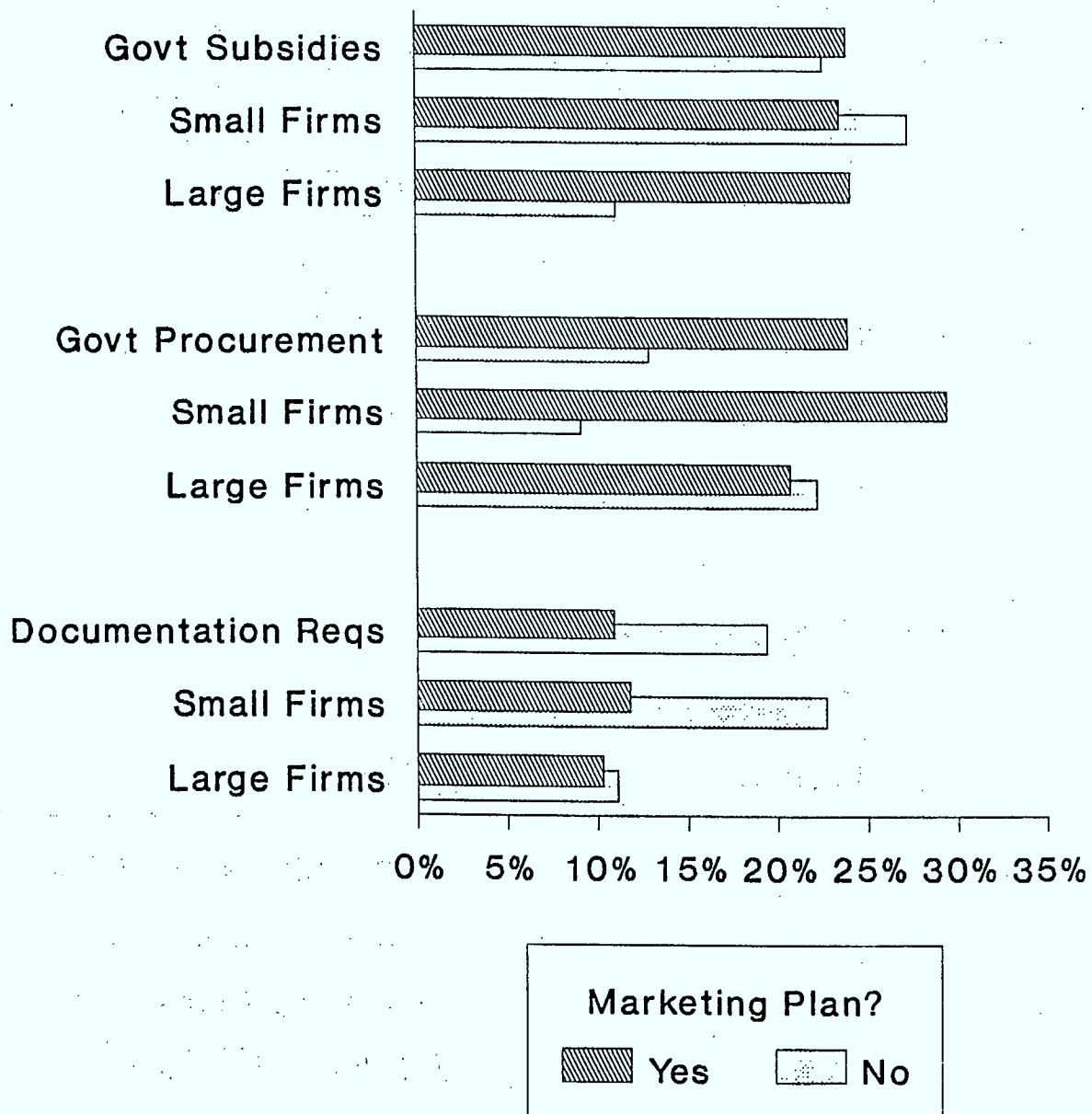


CHART 31

Exporters with Marketing Plans

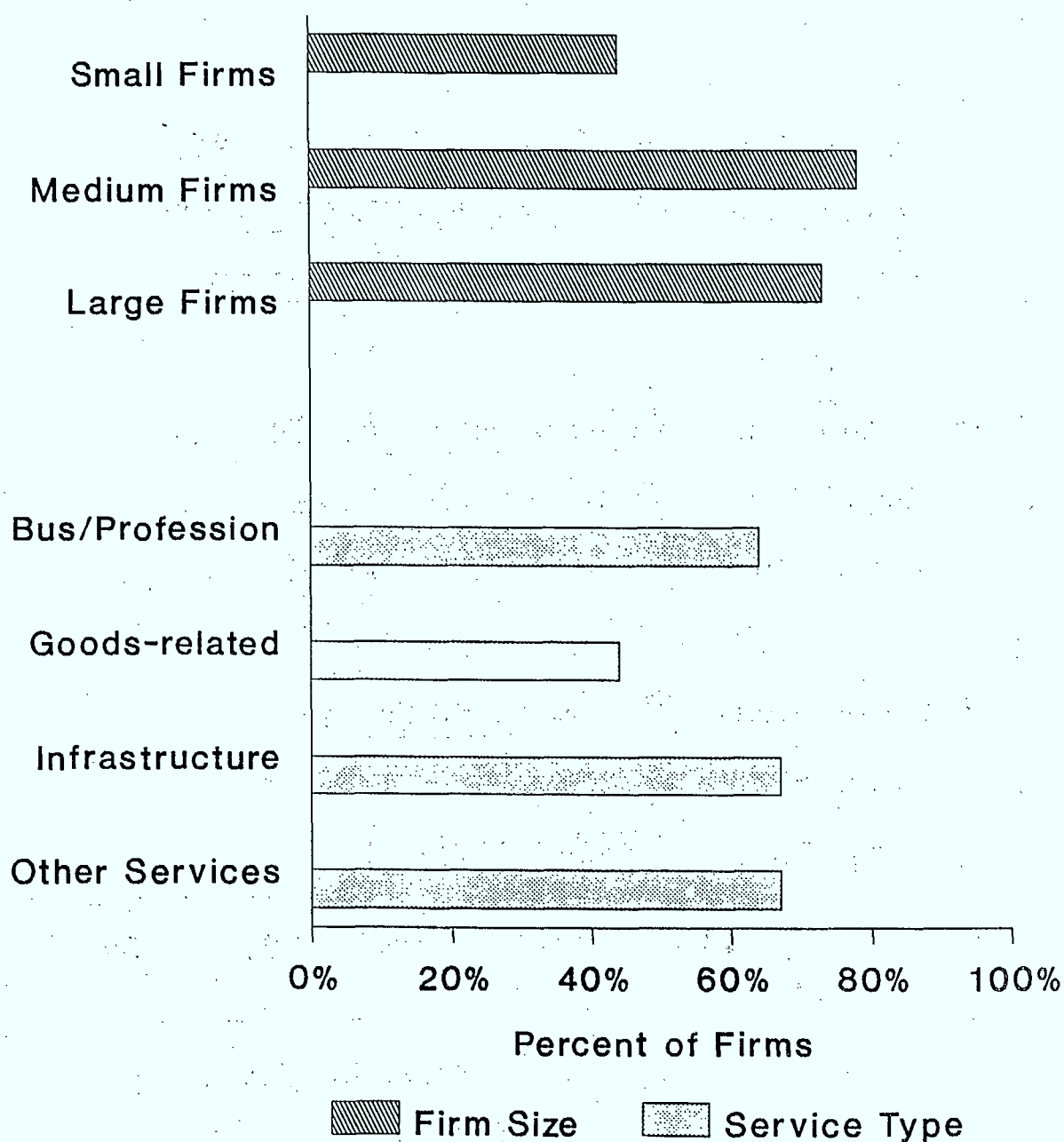


CHART 32

Main Marketing Activities by Firm Size

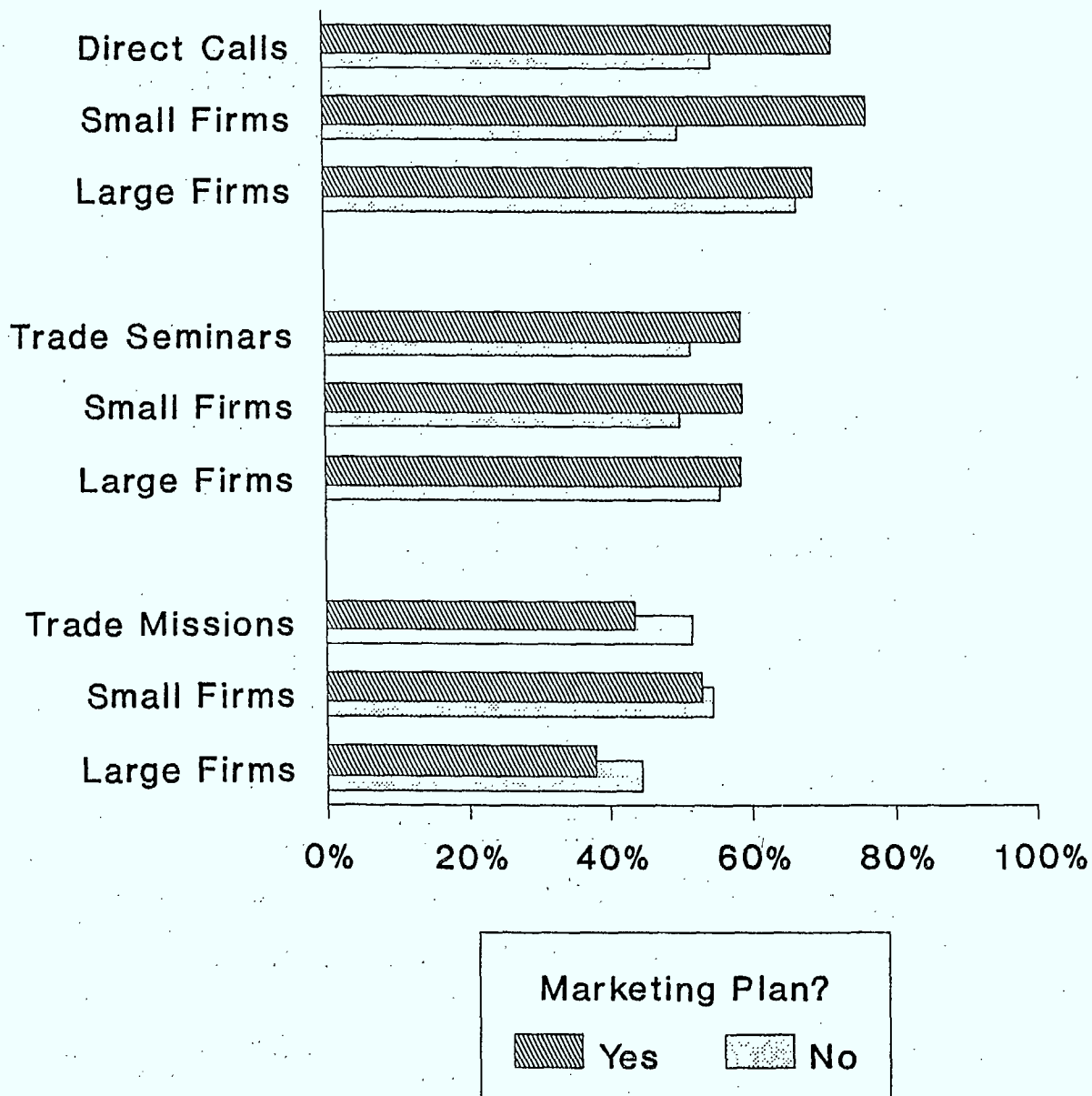
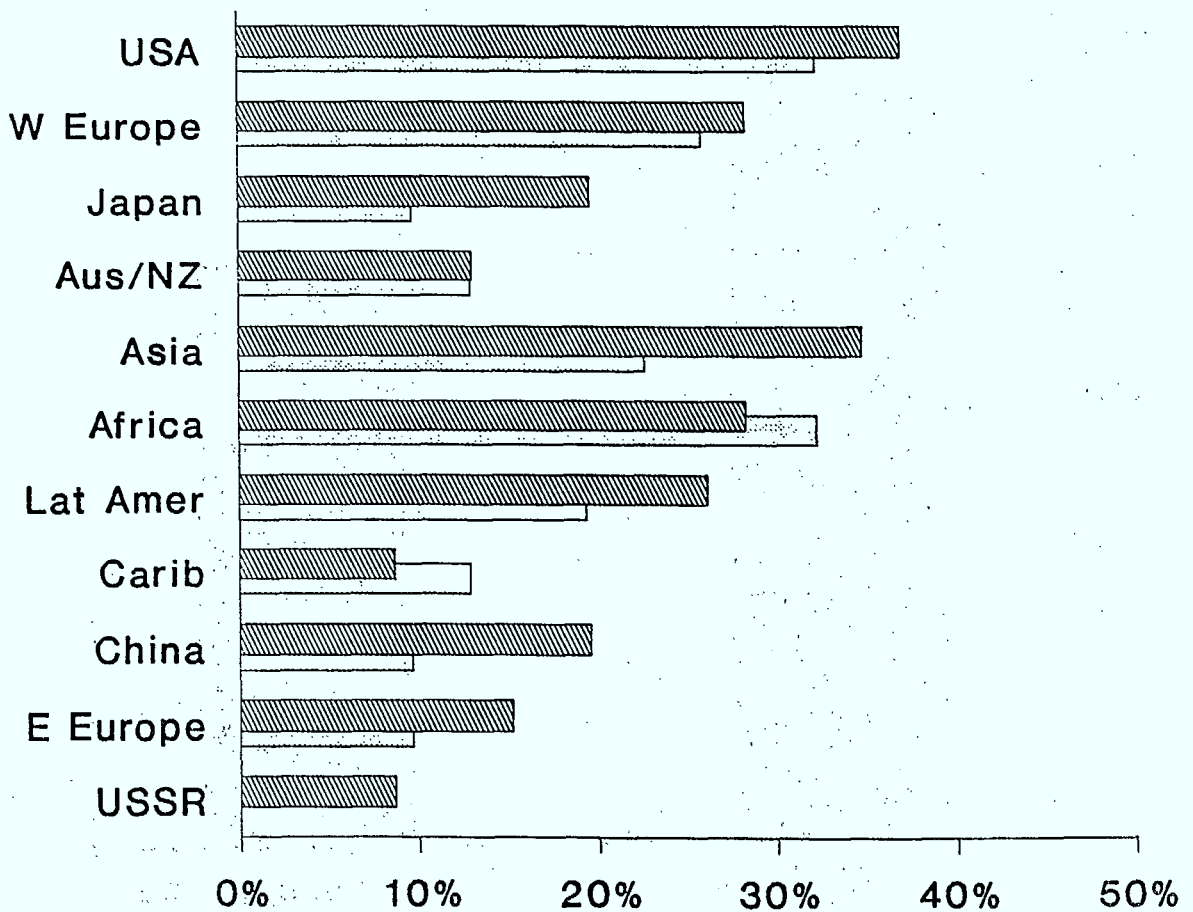


CHART 33

Service Export Markets by Marketing Plan

Markets



Marketing Plan?



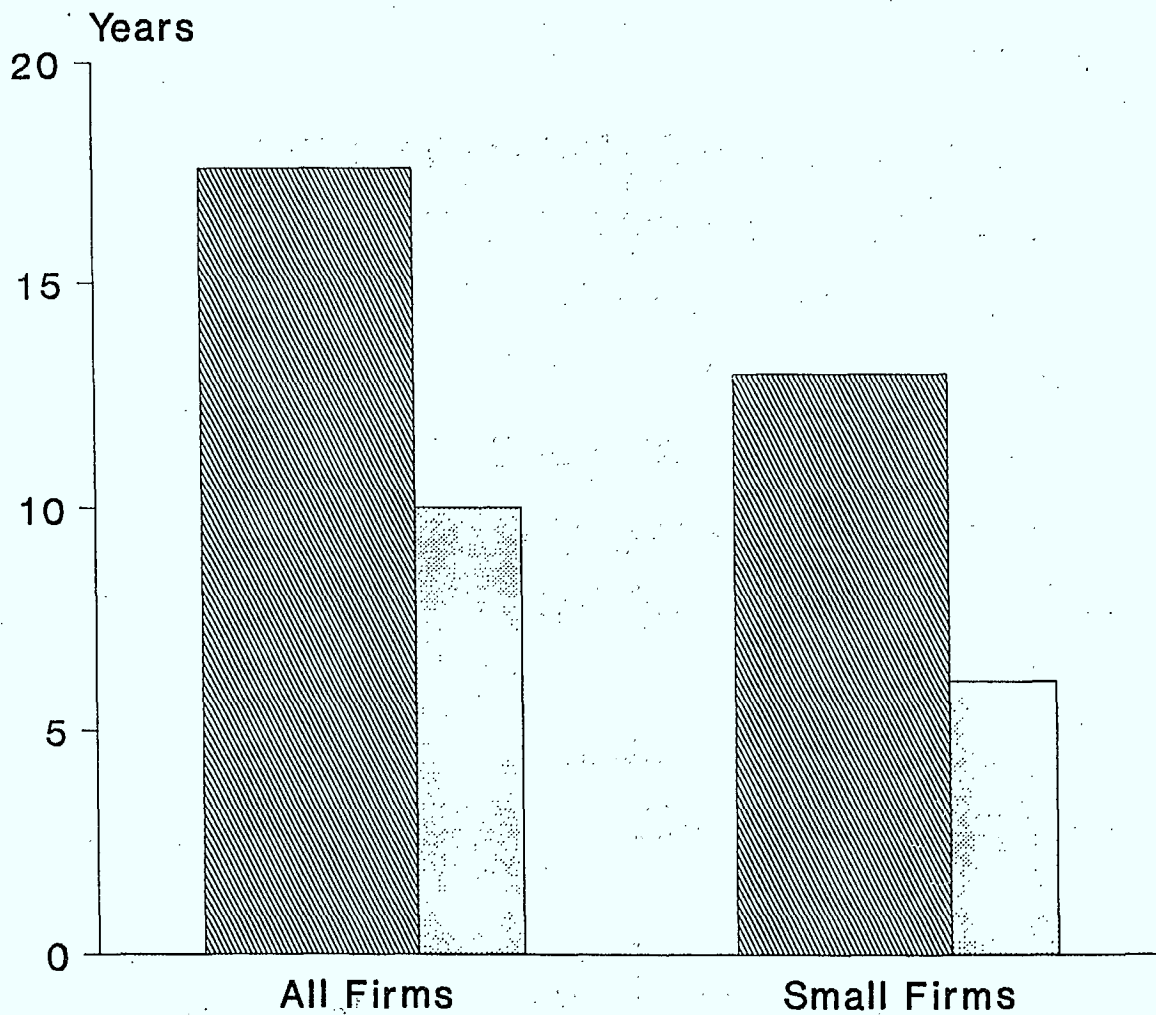
Yes



No

CHART 34

Export Experience of Firms with Marketing Plans



Marketing Plan?

Yes

No

CHART 35

Exporters with Local Presence

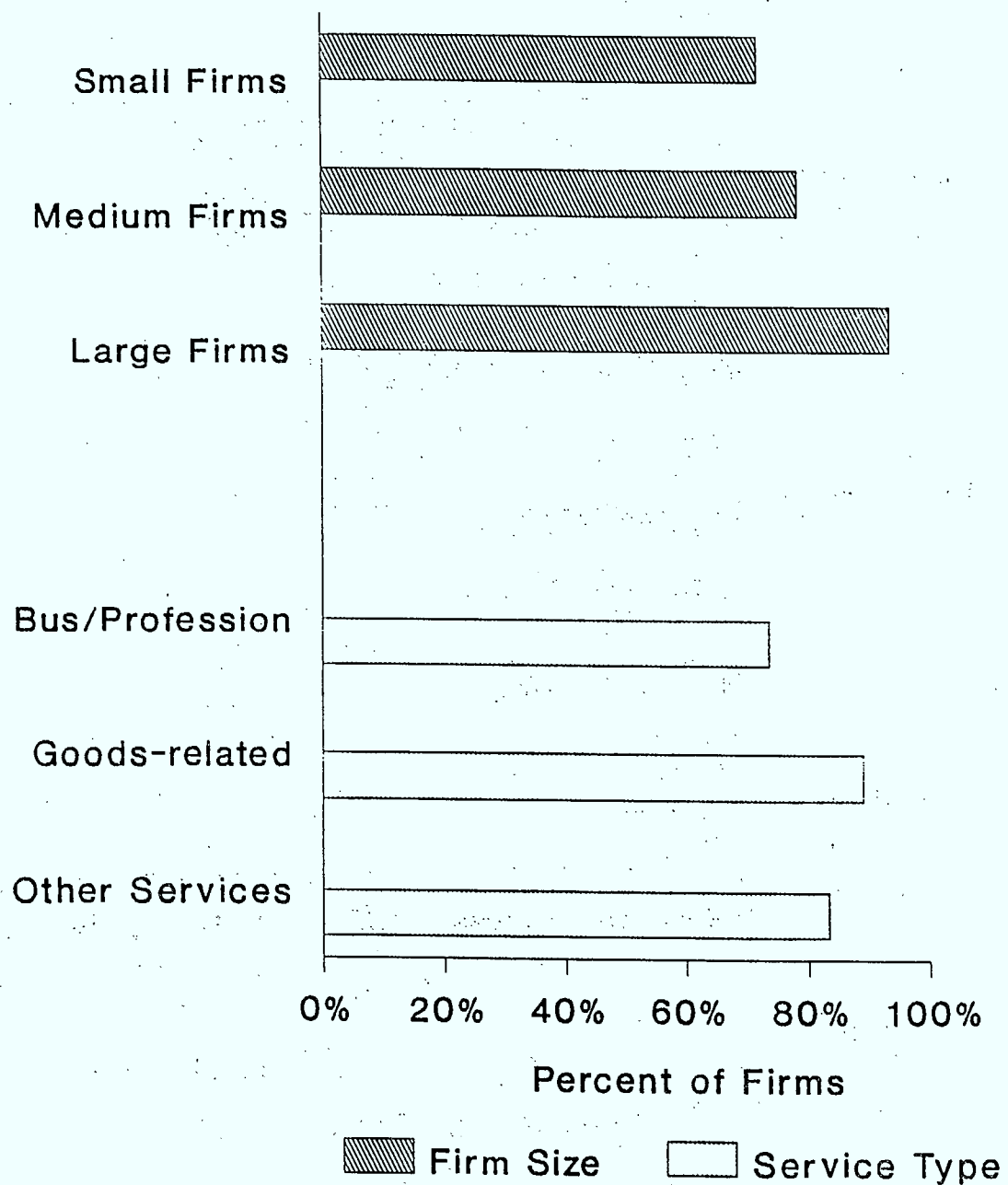
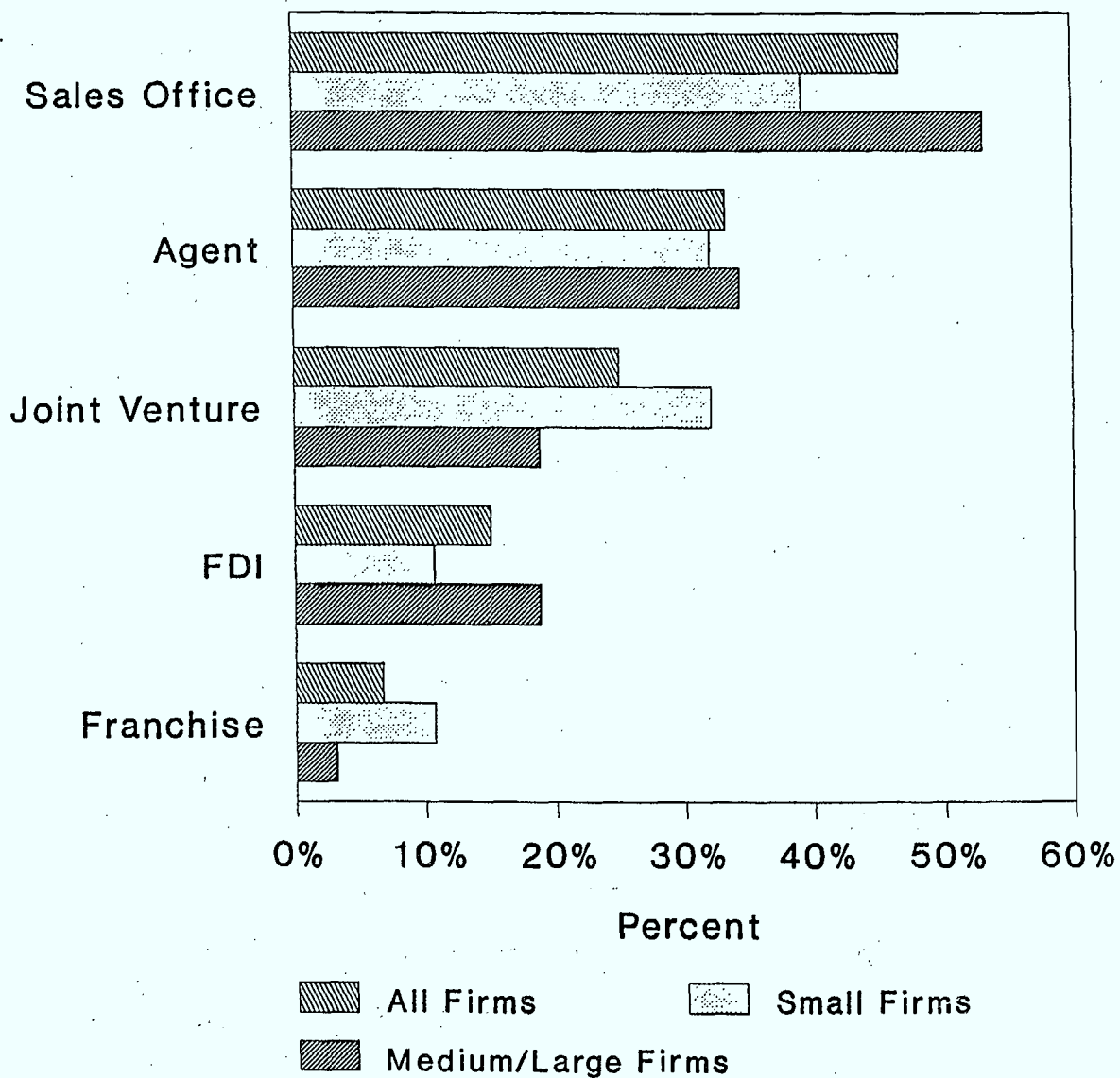


CHART 36

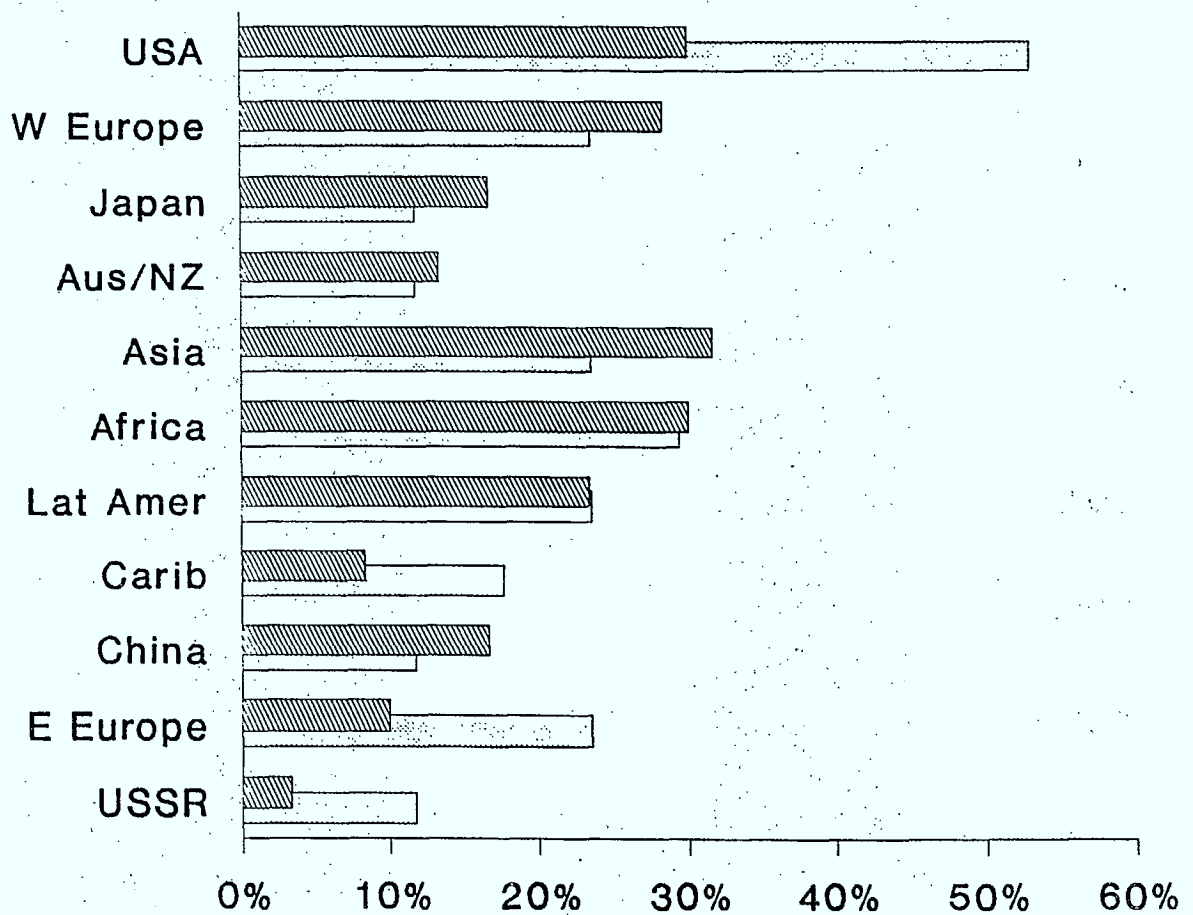
Type of Local Presence by Size of Firm



Of firms with local presence.

Service Export Markets by Local Presence

Markets



Local Presence?



Yes



No

CHART 38

Barriers Perceived by Firms with Local Presence

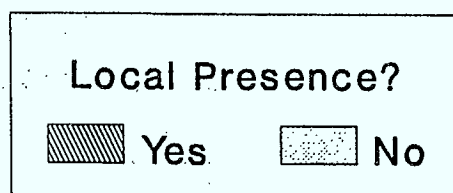
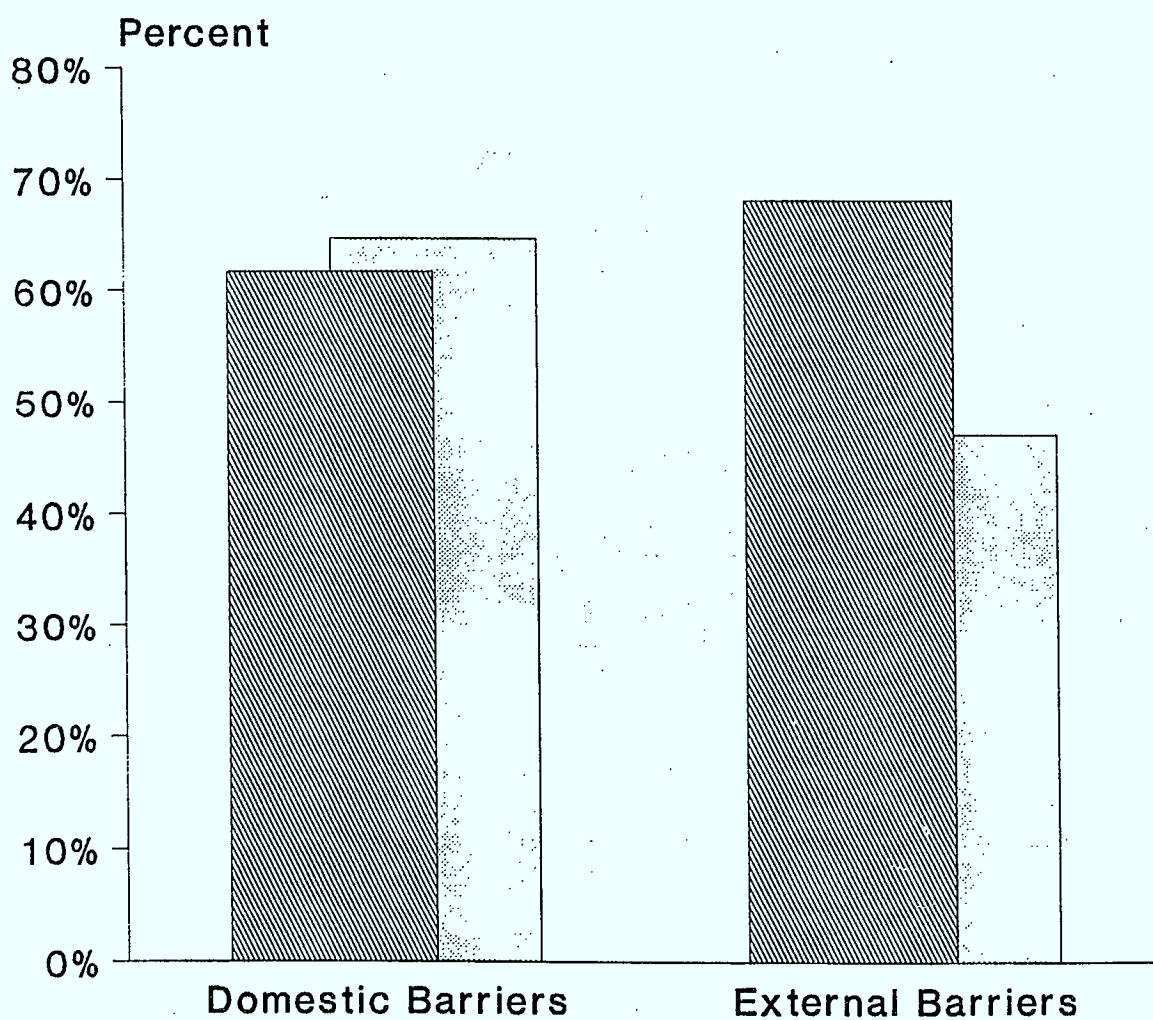
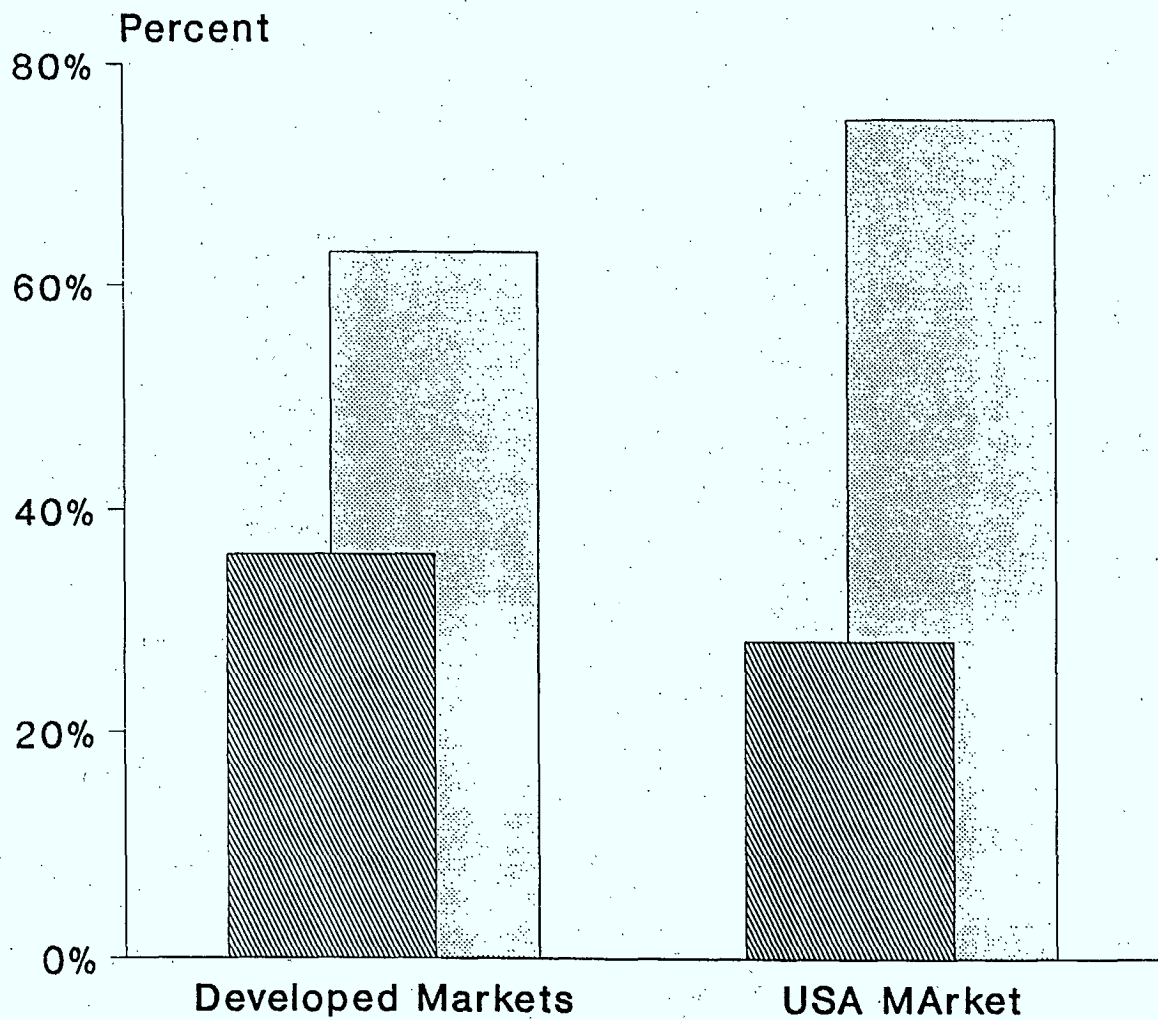


CHART 39

Markets Targeted by Exporters & Non-Exporters



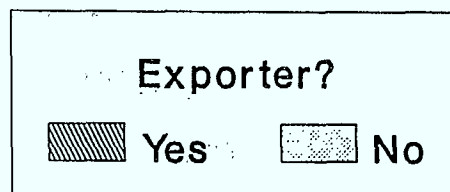
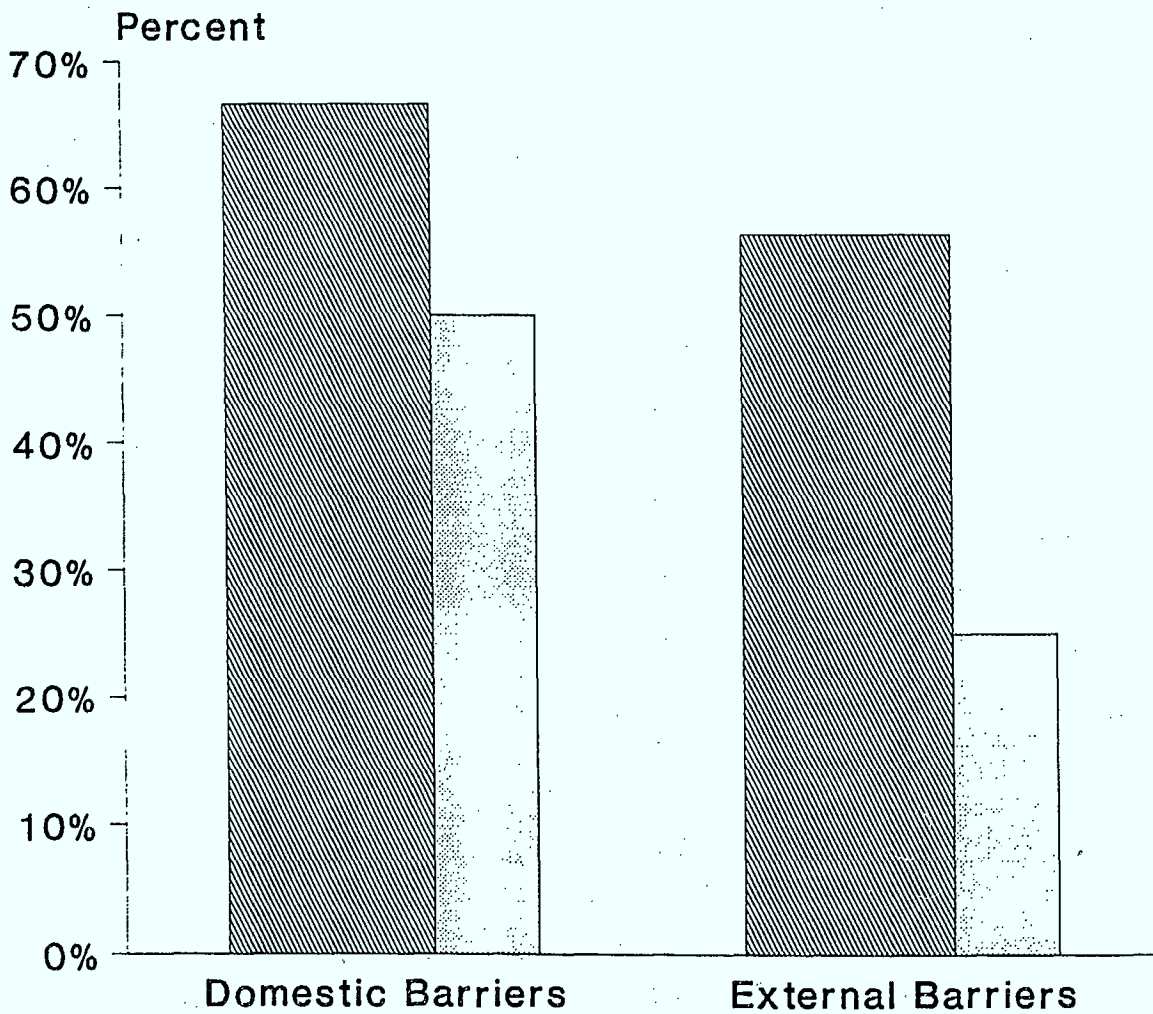
Exporter?

Yes No

All small firms.

CHART 40

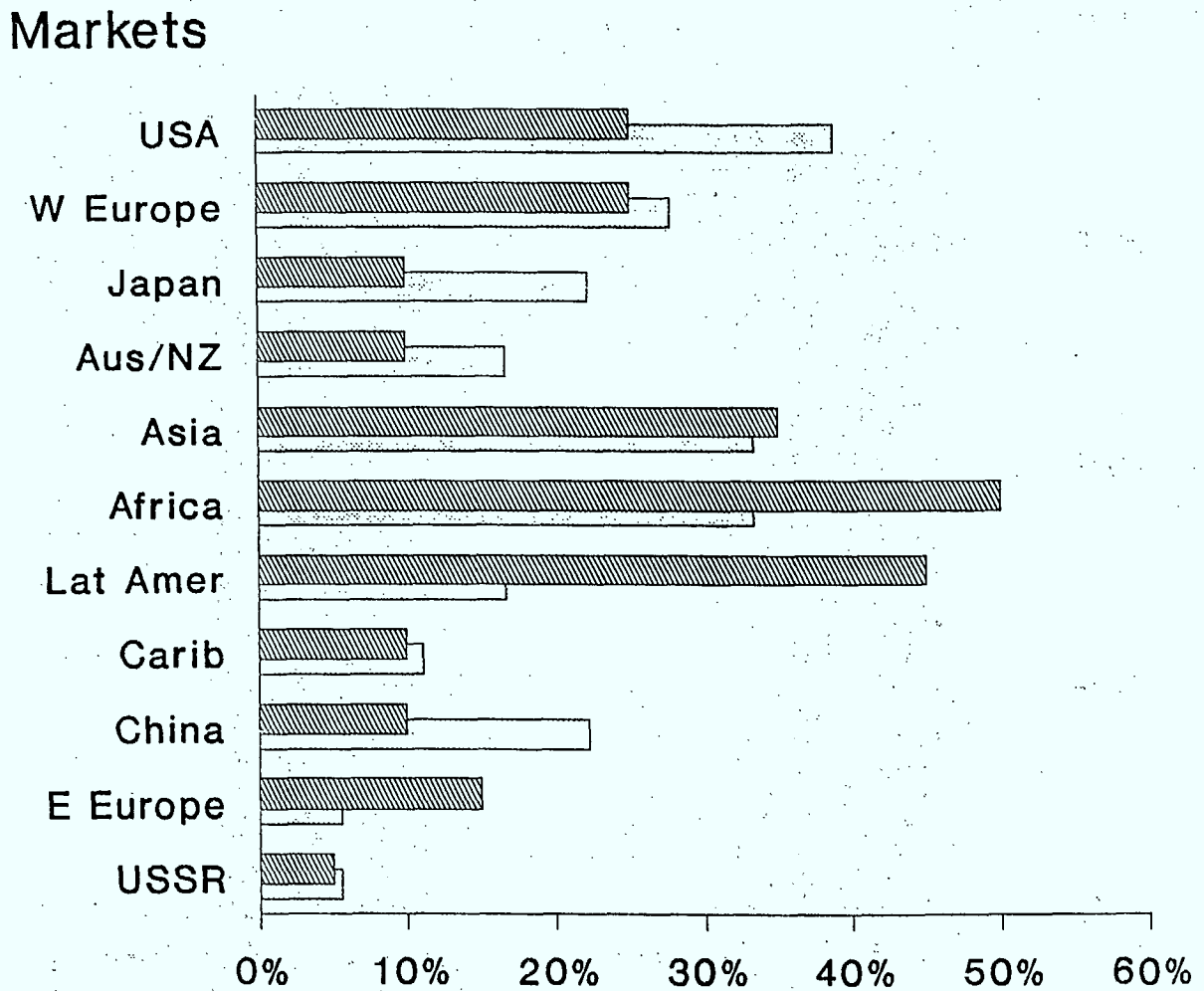
Barriers Perceived by Exporters & Non-Exporters



All small firms.

CHART 41

Service Export Markets by % Export Revenues



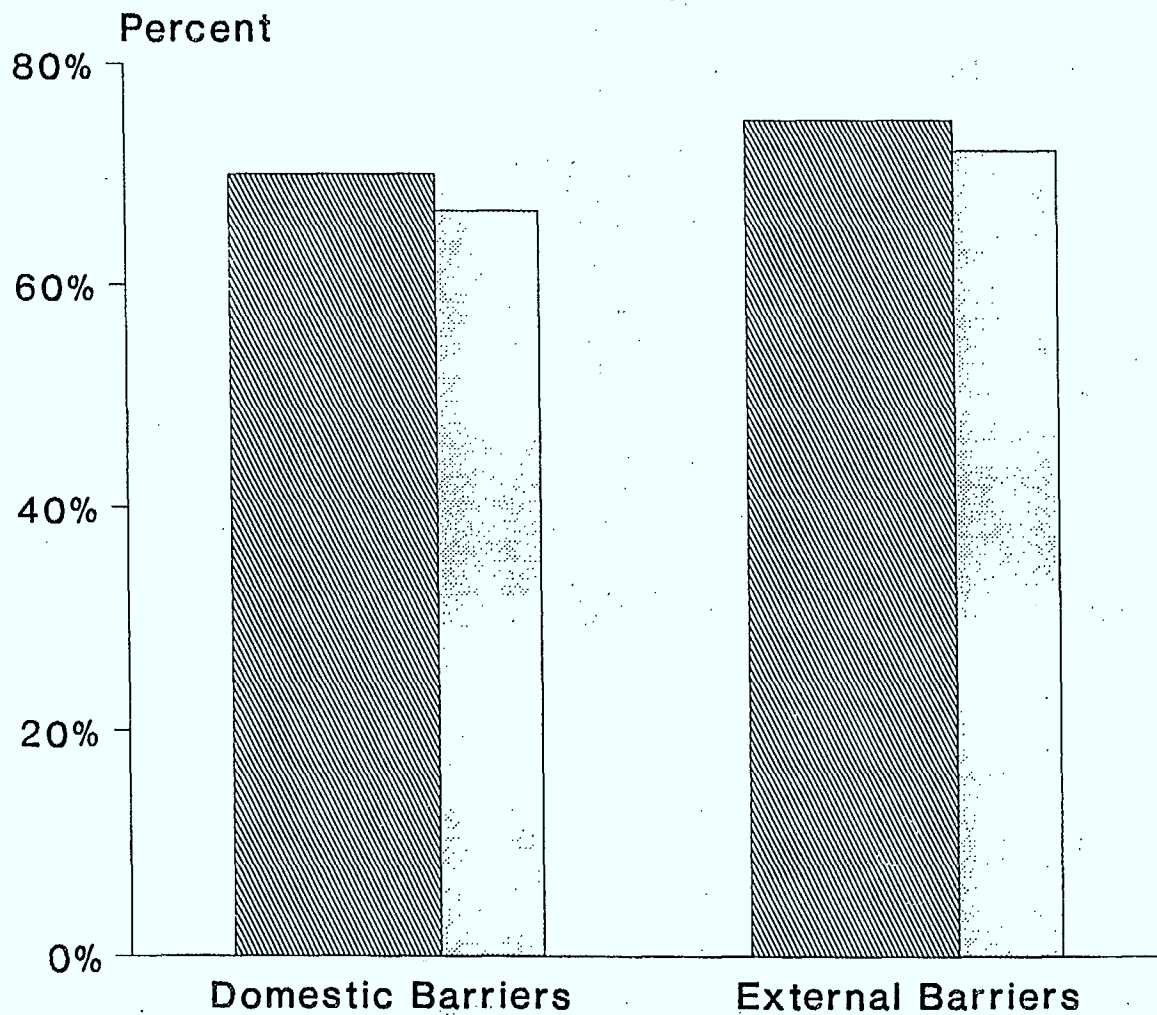
Exports as % Revenue

1 to 4%

50% plus

CHART 42

Barriers Perceived by Low/High Exporters



% Export Revenue



Low

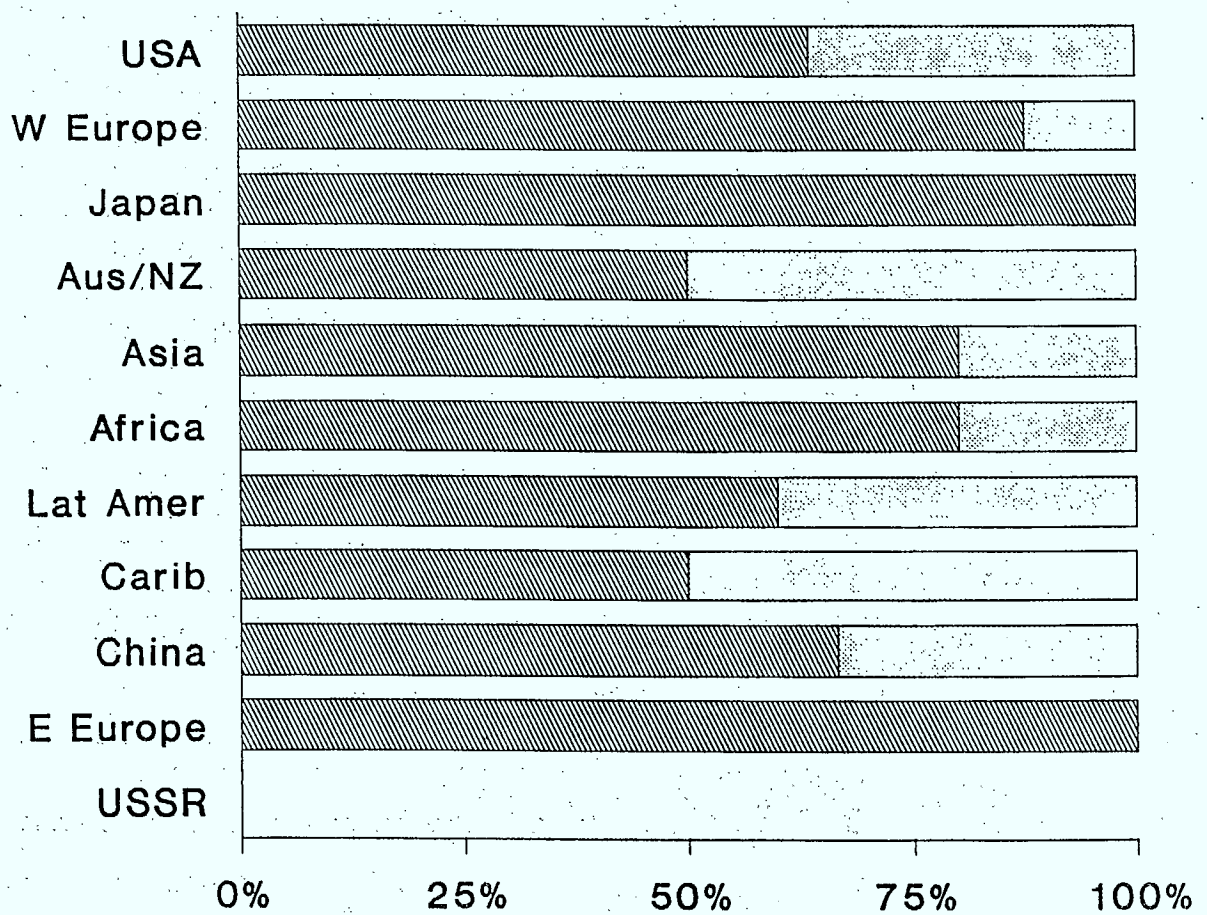


High

CHART 43

Small Service Exporters by Local Presence

Markets



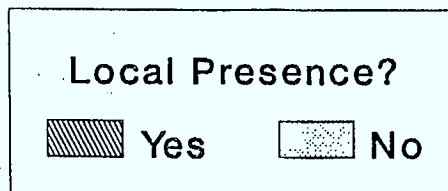
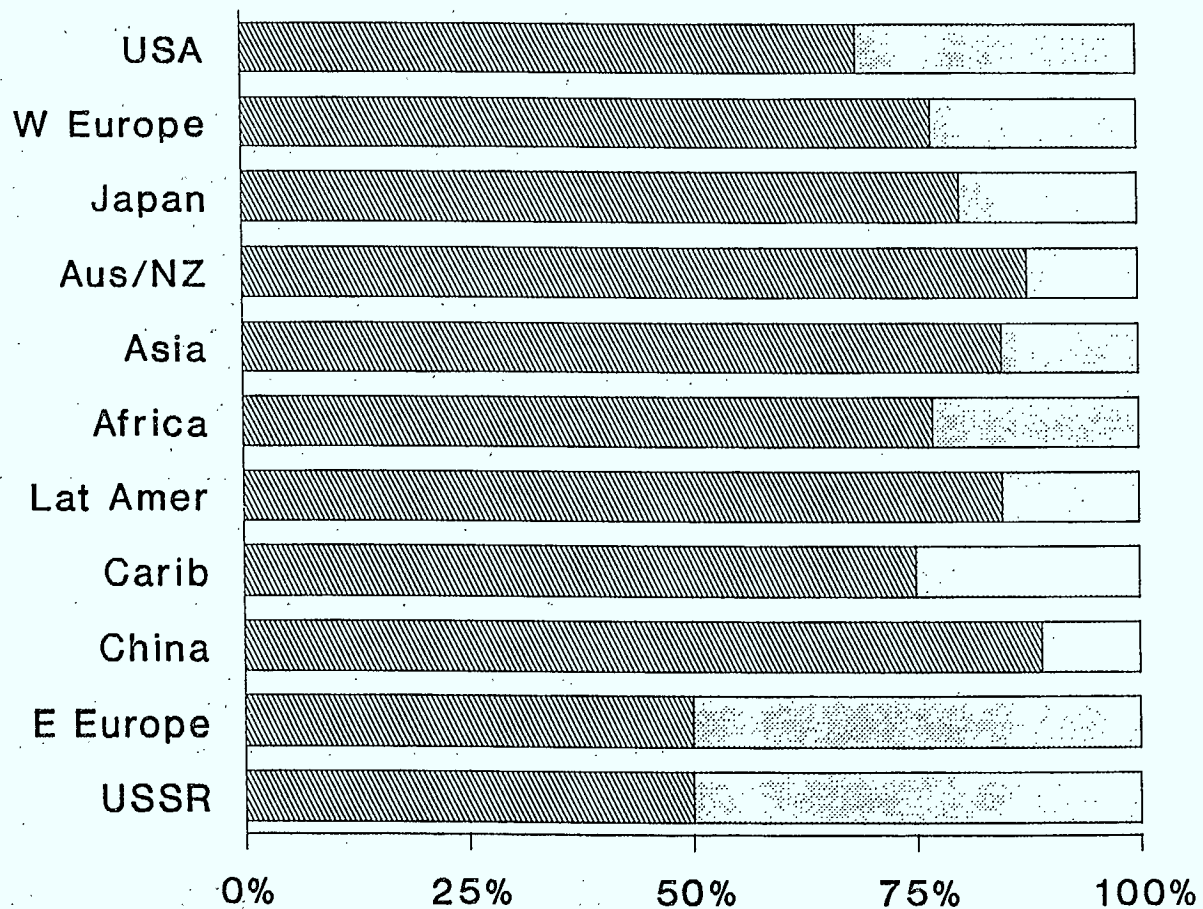
Local Presence?

Yes

No

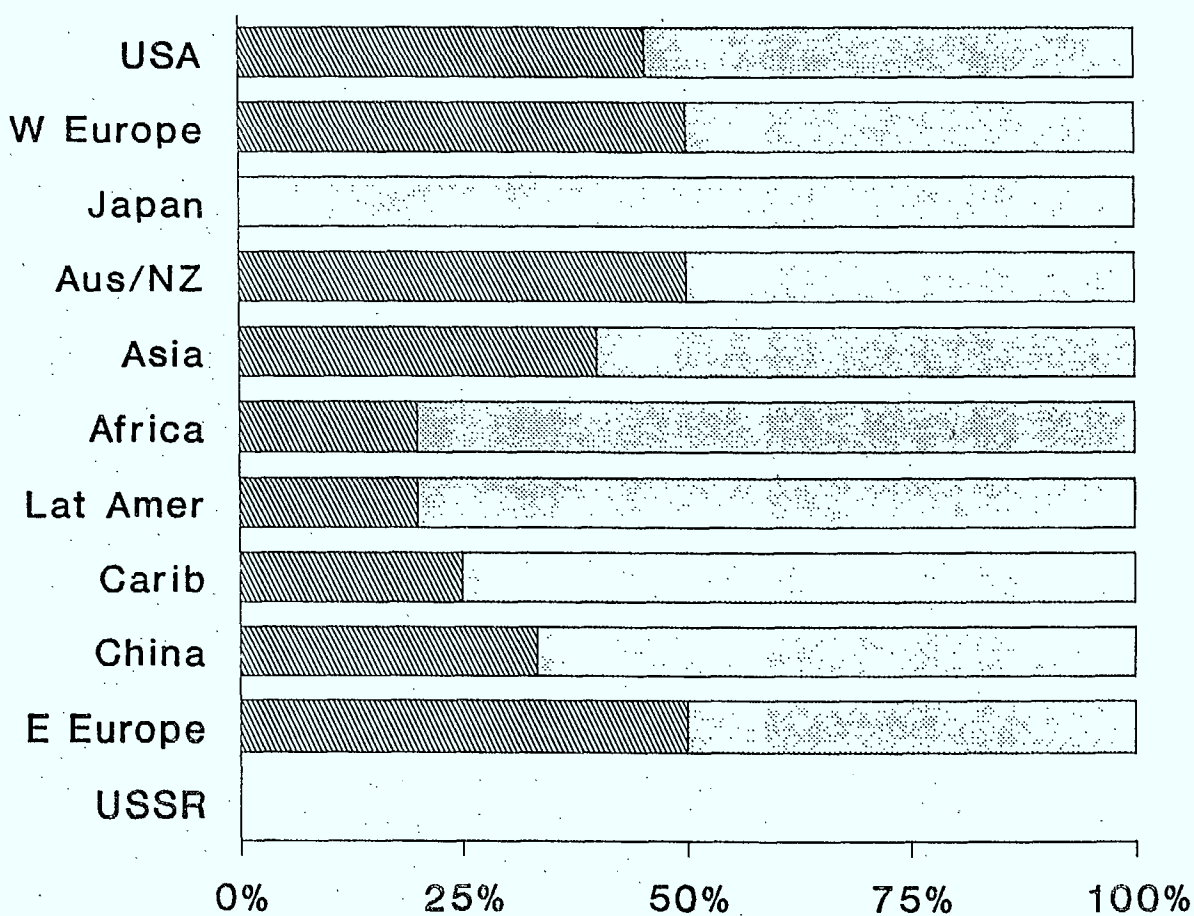
Large Service Exporters by Local Presence

Markets



Small Service Exporters by Market Plan

Markets



Market Plan?



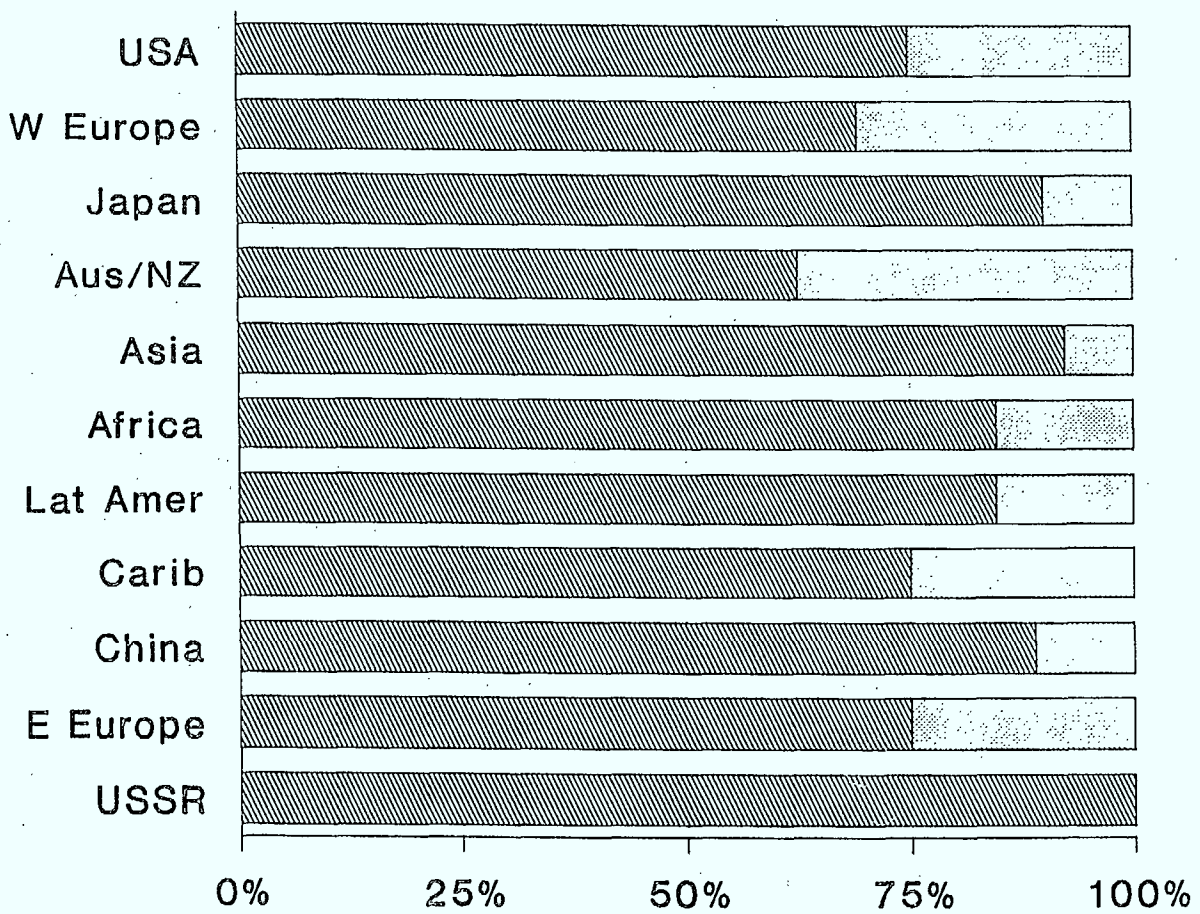
Yes



No

Large Service Exporters by Market Plan

Markets



Market Plan?



Yes



No

Use of Export Services by Firm Size

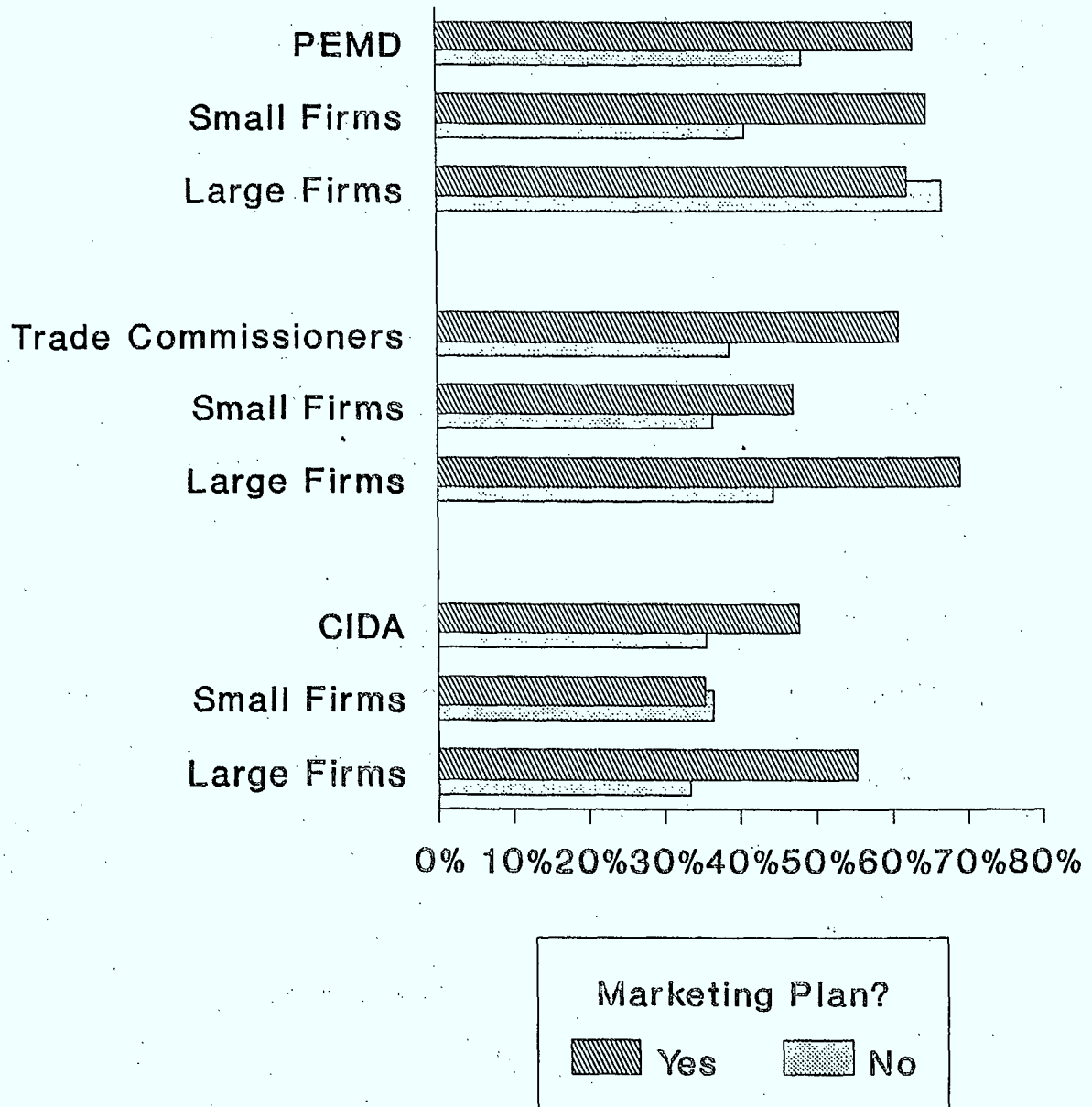


CHART 48

Use of Export Services by Firm Size

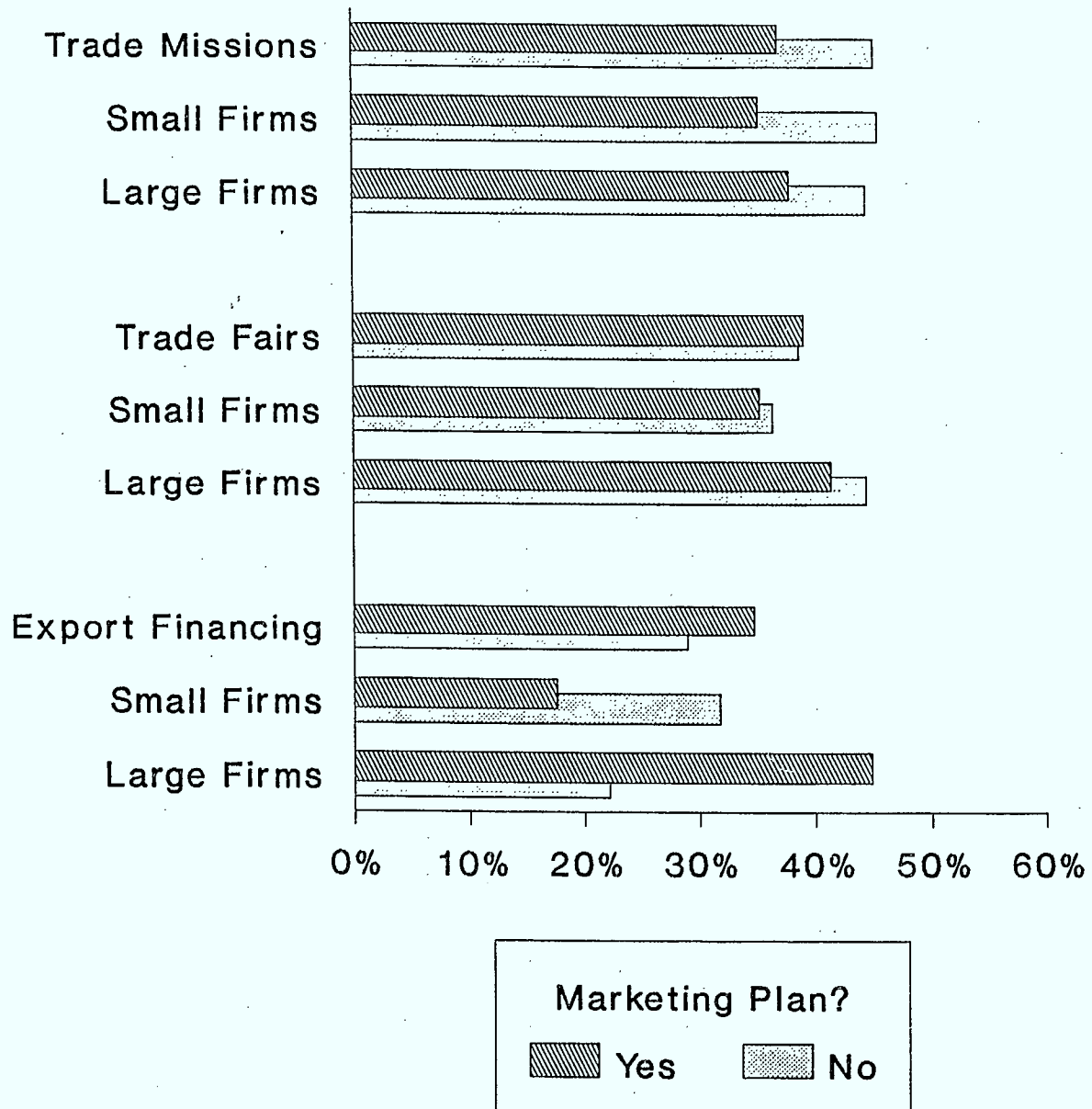
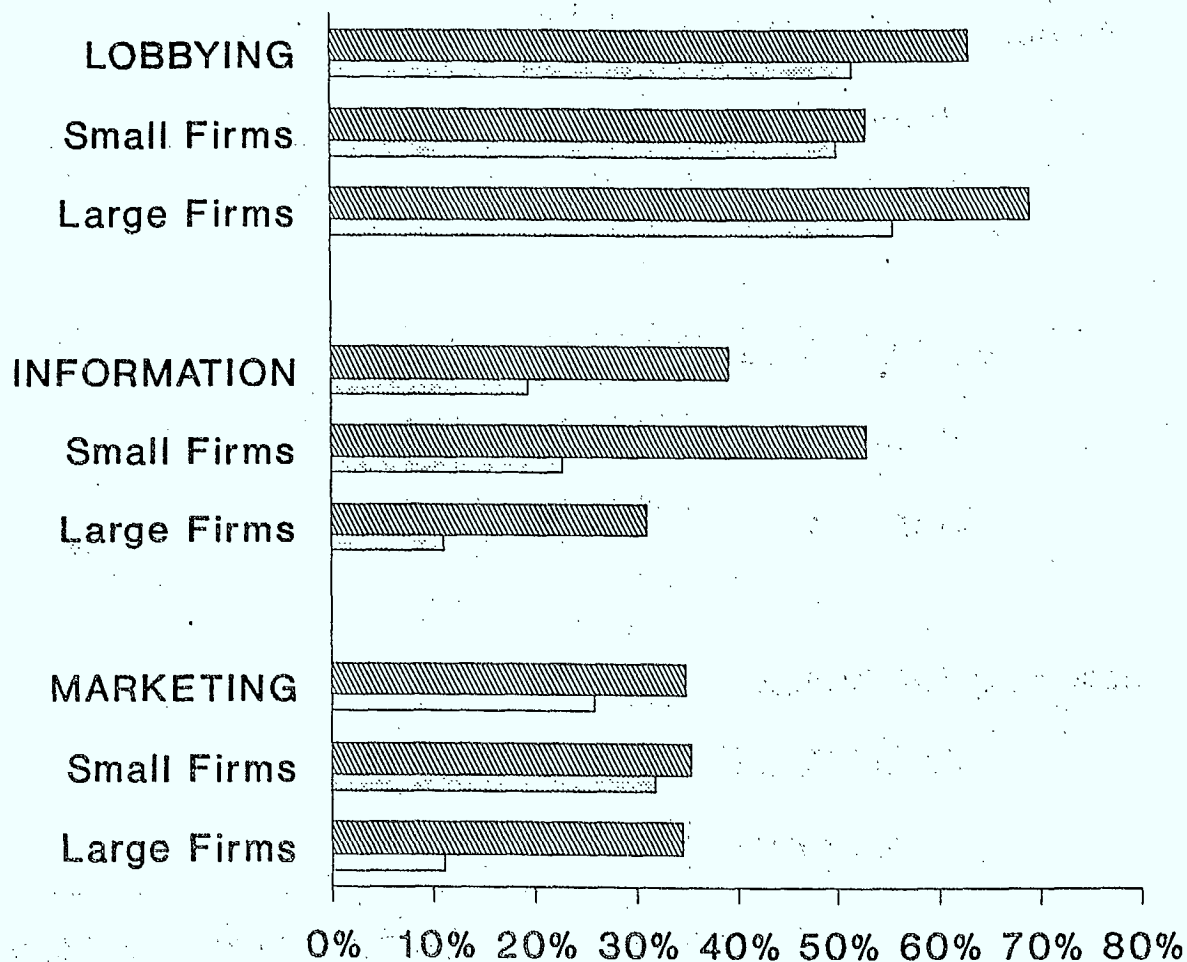


CHART 49

CEA Assistance Desired by Firm Size



Marketing Plan?

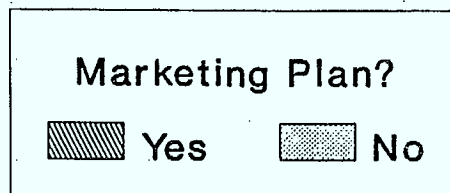
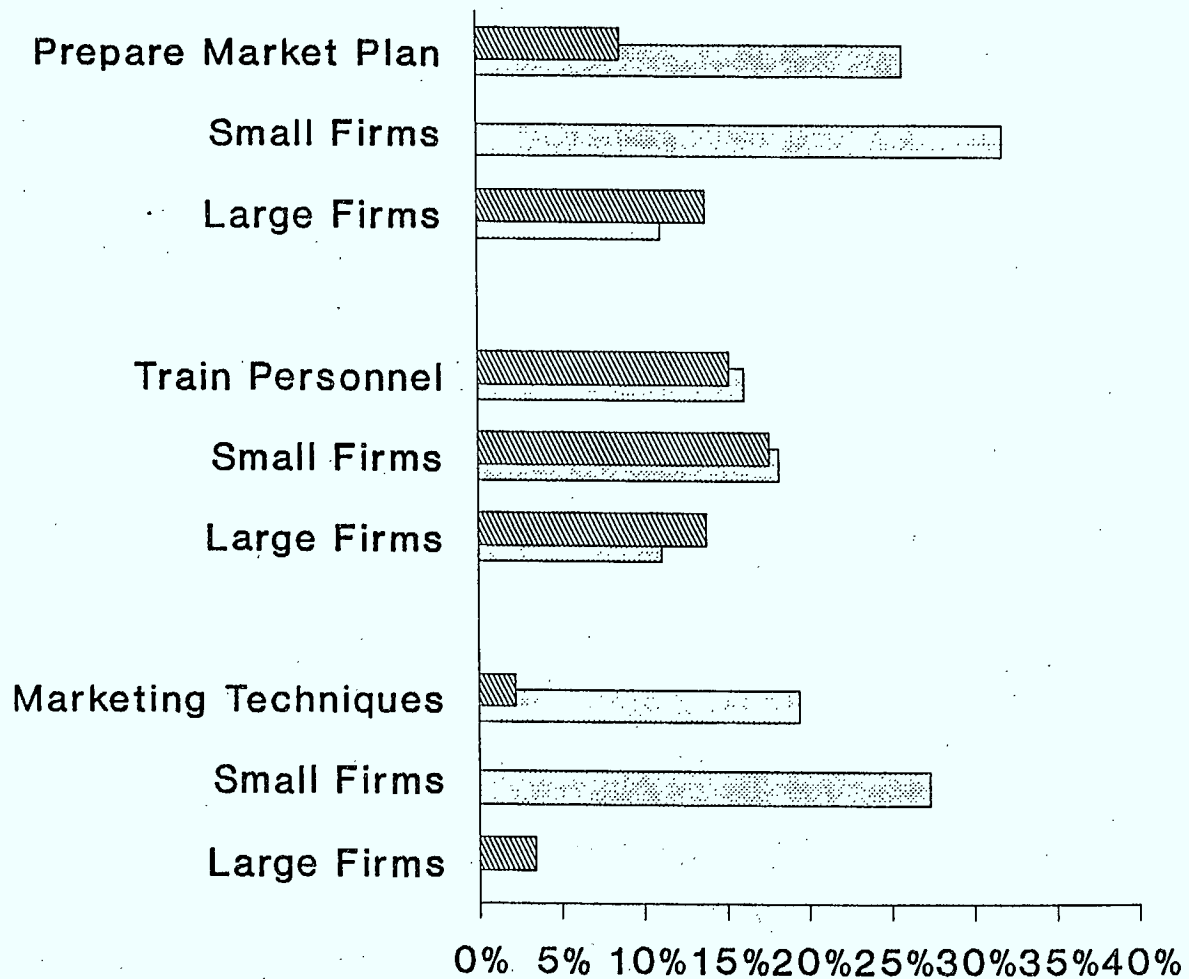


Yes

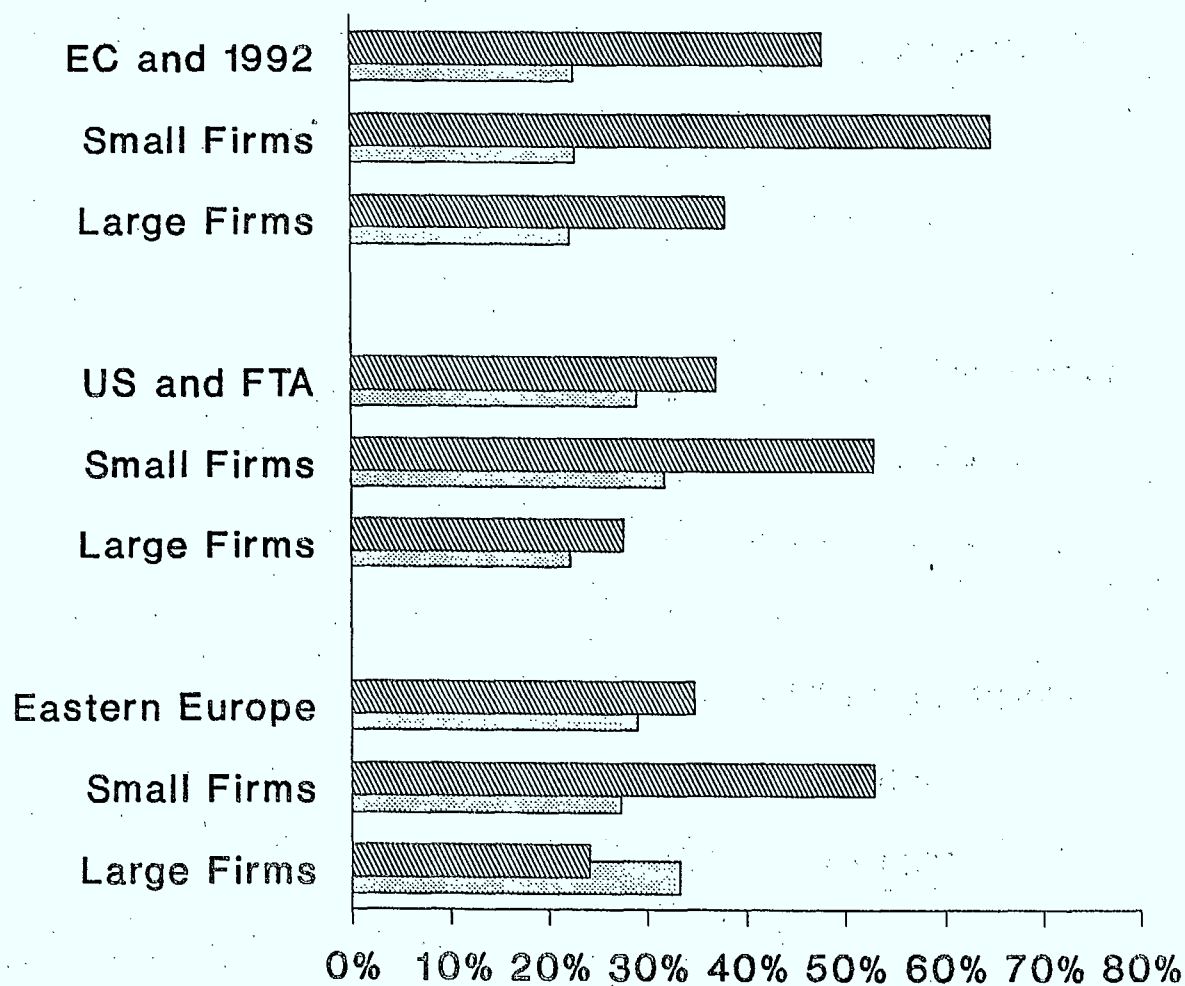


No

Marketing Assistance Desired by Firm Size



Seminars Desired by Firm Size



Marketing Plan?

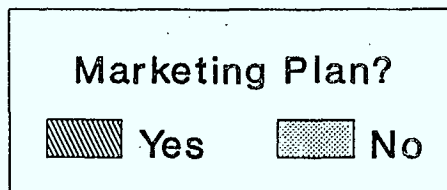
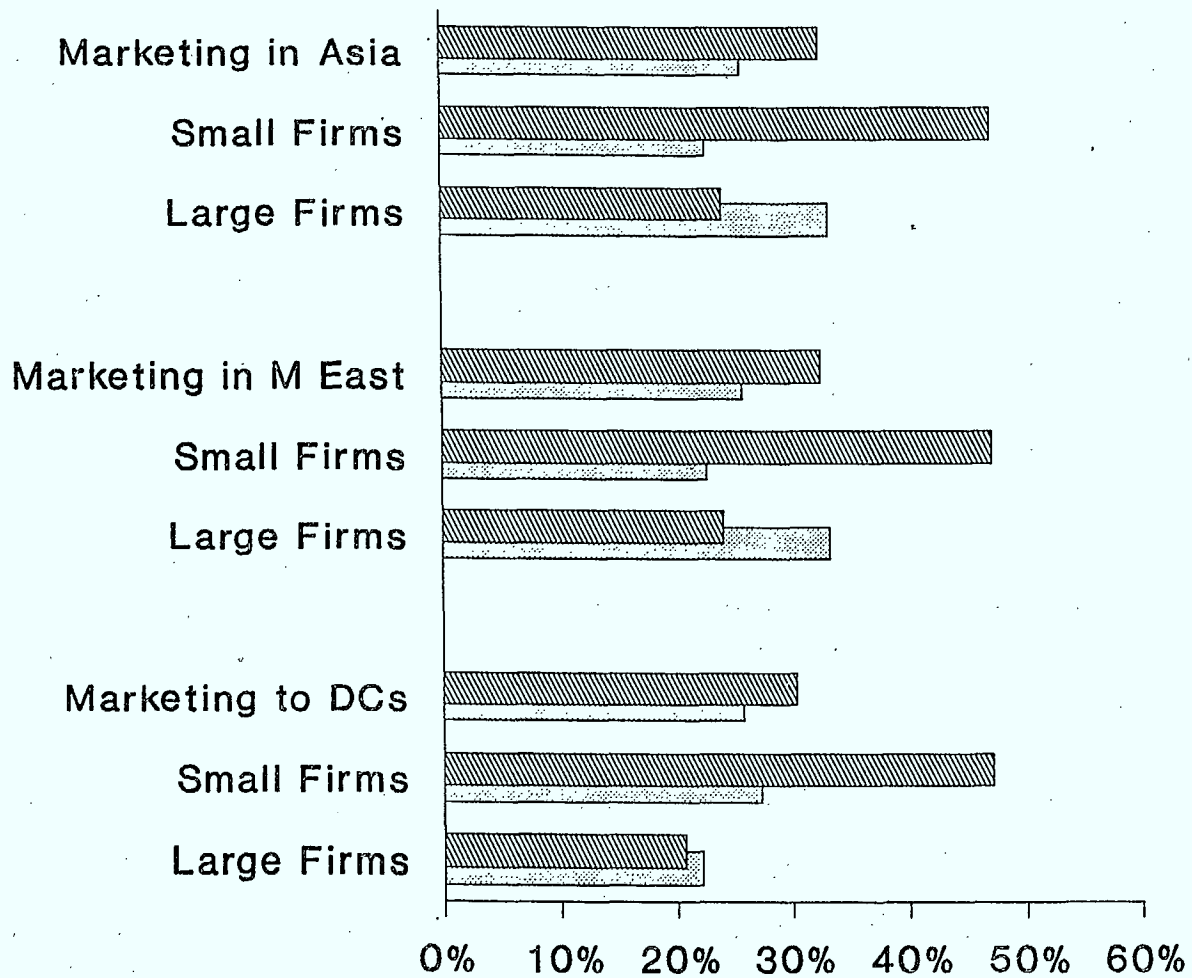


Yes



No

Seminars Desired by Firm Size



APPENDIX A

METHODOLOGICAL NOTES

1. Methodology for Phase 1

In total, 125 service exporting firms were contacted in 15 different service industries to participate in a tele-marketing survey. Care was taken to ensure that firms were selected from Atlantic and Western Canada as well as Ontario and Quebec, and that newer services were represented in addition to more traditional exports. Firms were selected primarily from the membership of the Canadian Exporters Association, supplemented by recommendations from ISTC and others familiar with service exporting firms.

Of those contacted, 90 firms agreed to participate, of which 85 firms supplied sufficient demographic information (at least number of employees or annual revenues) to be included in the sample. Seven of the 85 firms had been service exporters but were no longer exporting; therefore, they were analyzed separately for comparison. The final sample, then, was composed of 77 firms.

The questionnaire used and summary results are attached as Appendix B.

2. Methodology for Phase 2

A cross-section of 18 firms from Phase I were selected for more detailed, in-person interviews in Phase 2 regarding more detail about the factors affecting their success as exporters.

APPENDIX B
QUESTIONNAIRE FOR PHASE 1

**EXPORT OF SERVICES
TELEMARKETING SURVEY
QUESTIONNAIRE**

A. COMPANY PROFILE

1. Name: _____
2. Address: _____
3. Telephone: _____
4. Fax: _____
5. Interview (position): _____

6. Services exported:

- | | | |
|----|-----------|---|
| a) | <u>25</u> | Business - Communication |
| b) | <u>8</u> | Distributive Trade (wholesale and retail) |
| c) | <u>2</u> | Financial (insurance & real estate) |
| d) | <u>2</u> | Hospitality (tourism, recreation and culture) |
| e) | <u>33</u> | Professional (lawyers, engineers, architects) |
| f) | <u>7</u> | Construction |
| g) | <u>4</u> | Transportation |
| h) | <u>5</u> | Utilities (gas and electric) |
| i) | <u>7</u> | Education, training and health |
| j) | <u>11</u> | Services linked to extractive industries |
| k) | <u>5</u> | Services linked to manufacturing industries |

7. Company size: a) 39 small b) 22 med c) 15 large
d) no. of employees 416.8 e) total revenues 33,712.8 ('000)

8. Are you currently exporting? a) 77 Yes b) 8 No

9. Export/Revenues: 27.6 %

10. Exporting experience: 14.6 years

11. Export markets

- | | | |
|----|-----------|------------------------------------|
| a) | <u>27</u> | United States |
| b) | <u>18</u> | Latin America |
| c) | <u>21</u> | Western Europe |
| d) | <u>10</u> | Eastern Europe |
| e) | <u>23</u> | Africa |
| f) | <u>4</u> | Soviet Union |
| g) | <u>23</u> | ASEAN countries / <i>Asian NCS</i> |
| h) | <u>12</u> | Japan |
| i) | <u>10</u> | Australia/New Zealand |
| j) | <u>42</u> | China |
| k) | <u>8</u> | Caribbean |
| | <u>14</u> | <i>Global</i> |

12. Have you established local presence?

- a) 60 Yes b) 17 No

13. Local presence:

- | | | |
|----|-----------|-------------------|
| a) | <u>9</u> | direct investment |
| b) | <u>15</u> | joint venture |
| c) | <u>28</u> | sales office |
| d) | <u>4</u> | franchise |
| e) | <u>20</u> | agent |

B. MARKETING

14. Do you currently have an international marketing plan with allocated financial and human resources devote to the exporting of your services?

a) 46 Yes b) 29 No

15. i) What marketing activities have facilitated your entry into new markets?
ii) Have any activities been unsuccessful or unproductive?

S NS

- a) 50 Direct call on potential clients
- b) 43 Participation in Trade Conferences/Seminars
- c) 36 Participation in official govt. mission
- d) 18 Participation in professional international conferences
- e) 21 Referral from Canadian company
- f) 23 Referral from foreign clients abroad
- g) 2 Chance social encounters
- h) 4 Unsolicited request
- i) 4 Participation in visits for foreign firms to Canada
- j) 27 Other

C. BARRIERS - IMPEDIMENTS

16. Has your company encountered any domestic impediments to exporting?

a) 48 Yes b) 29 No

17. What are the domestic impediments?

- a) 3 Difficulties in scheduling flights from Canada
- b) 1 Telecommunications costs/quality in Canada
- c) 32 Lack of access to necessary additional working capital
- d) 16 Delays in receiving govt. funding support
- e) 6 Absence of needed trade/tax treaties
- f) 11 Delays in receiving requested market intelligence from Cdn posts abroad
- g) 23 Other

18. Has your company encountered any external barriers when entering new markets?

a) 49 Yes b) 28 No

19. What are the external barriers?

- a) 5 Professional standards/accreditation differences
- b) 3 Citizenship requirements for accreditation
- c) 9 Work permits/immigration/residency requirements
- d) 15 Government procurement practices
- e) 18 Government subsidies to local firms
- f) 4 Public monopolies/restrictions on competition
- g) 10 Local content/performance requirements
- h) 3 Differential standards for foreign firms
- i) 11 Administration/documentation requirements
- j) 14 Other

D. ASSISTANCE

20. Are you aware of the **export support services** available from the federal and provincial governments? Have you made use of any of them?

- a) 44 PEMD
- b) 6 NEBS OR NEXUS
- c) 6 FBDB
- d) 33 CIDA
- e) 30 Trade Fairs
- f) 31 Trade missions
- g) 25 Export financing - EDC- CCC
- h) 11 ISTC/EAITC sourcing requests
- i) 40 Trade Commissioner services abroad
- j) 17 Provincial programs

21. We would like to know what kind of assistance you are going to need to maintain your **competitive edge** in foreign markets. Would you be interested in attending seminars or information sessions on:

- a) 26 US markets and the FTA
- b) 29 European Community Markets and 1992
- c) 25 Opportunities and recent developments in Eastern Europe
- d) 23 Marketing in the Far East
- e) 23 Marketing in the Middle East
- f) 22 Marketing to the Developing World
- g) 7 GATT/SAGITS
- h) 15 Federal or provincial export programs

22. Do you require information or assistance in dealing with the following?

- | | Yes | No | Don't Know | |
|----|-----------|----|------------|--|
| a) | <u>12</u> | | | Preparation of an Int'l marketing plan |
| b) | <u>7</u> | | | How to market internationally |
| c) | <u>3</u> | | | Preparation of proposals & bid documents |
| d) | <u>5</u> | | | TAXES - personal abroad |
| | | | | - repatriated profits |
| e) | <u>12</u> | | | Training personnel for int'l marketing |
| f) | <u>4</u> | | | Other concerns/issues |

23. What kind of assistance should the CEA be providing to those in the business of exporting services?

- a) 45 Lobby
- b) 24 Information
- c) 24 Marketing

24. There is a second phase planned for this study which will focus on market strategies. Would you be interested in participating?

- a) 15 Yes b) 7 No

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Canadian Exporters' Assoc

Research project on

Canada's service exports

BNXI c. 1 aa ISTC

DATE DUE - DATE DE RETOUR

APR 21 1992

MAR 21 1994

AUG 31 1994

ISTC 1551 (2/90)

INDUSTRY CANADA/INDUSTRIE CANADA



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