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## **Exporting Services to the U.S.**

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### **A Guide**

# SERVICE INDUSTRIES

Canada 

# Exporting Services to the U.S.

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## A Guide

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Ministry of International Business  
& Immigration  
Province of British Columbia  
Canada



Industry, Science and  
Technology Canada

Industrie, Sciences et  
Technologie Canada

Canada



# Exporting Services to the U.S.

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• A Guide •

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April 1990

Prepared for



Ministry of International Business  
& Immigration  
Province of British Columbia  
Canada



Industry, Science and  
Technology Canada

Industrie, Sciences et  
Technologie Canada

by

**Ernst & Young**

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# CHAPTER 1

## Why read this guide.

### *Should you take advantage of the Free Trade Agreement to export your services to the U.S.?*

#### What is in this Guide?

The purpose of this guide is to provide *service businesses* with practical strategies for successful penetration of the U.S. market under Free Trade, as well as important information on the U.S. marketplace and ways of doing business.

#### Why read this Guide?

Since the 1950's, world merchandise trade has undergone explosive growth. Now the world's trading nations are talking about trade in services.

Will the 1990's be the start of unprecedented growth in services trade? Will new advances in information and communications technology combine to explode trade in services?

The Free Trade Agreement between Canada and the United States provides a head start for North American businesses interested in being in the forefront of world trade in services. The Canada - U.S. Free Trade Agreement is the *first* major trade agreement that liberalizes trade in services.

Have you ever asked yourself—Can I sell my services in the U.S.? Will the Free Trade Agreement help me? Where should I start? If so, read on.

#### Determining your reasons for expanding into the U.S. market

Whether your firm is a large organization or a "one man band", the same feelings probably affect your thoughts on the U.S. market—why should you bother as long as there is enough business close to home? If that is the way you feel, you are in good company.

Fewer than 30% of Canadian manufacturing companies export goods. In much of the services sector,

exports are a rarity except for tourism, some business services (such as engineering consulting and insurance) and shipping. So why should *you* bother?

Market expansion into the U.S. can bring you a number of **benefits**:

- Market diversification, reducing dependence on a single marketplace.
- Access to a greater base of customers.
- Exposure to new technologies, new financing concepts and evolving trends.
- Knowledge of the strategies of potential future competition.
- Access to more ideas, better people and wider skills.

Also, by entering the U.S. market, you are likely to enhance your image as a dynamic organization. As Free Trade encourages U.S. companies to enter the Canadian market in the 1990's, many Canadian customers will want to know that the services they buy in Canada are as good as those available from American firms. This will be easier to prove if your firm is seen to be competing with "the best" in the U.S., right on their own home turf.

Further advantages of market expansion into the U.S. include potential for:

- Increased revenues.
- Higher profits.
- Extended life for service concepts.
- Better utilization of company personnel.
- Better utilization of equipment and overheads.

There are, in fact, many reasons why it can pay to enter a new market, whether you sell goods, services, or a combination of both.

## Why Service Firms "Export" Outside their Local Market\*

Here are the main reasons (in order of most frequent mention) given by a sample of Vancouver firms for "exporting" their services, based on a survey conducted in 1987.

1. Desire to expand the business;
2. Unsolicited requests for a proposal;
3. Collapse of existing domestic markets; and
4. Exposure to new markets provided by Canadian sponsored projects outside Canada.

Over 60% of respondents said they "exported" because of "*a desire to expand the business*"; that is, they responded to the "pull" provided by outside markets, rather than wait to be "pushed" into new markets.

Another interesting finding of this survey, and of a similar survey in Seattle, is that *small service firms are just as active as larger service firms* in entering new markets. In fact, most service firms who "export" to customers located outside their local area tend to be relatively young and home-grown.

\*Coffey, W.J. and McRae, J.J., 1989. Service Industries in Regional Development. Victoria, B.C. : The Institute for Research on Public Policy.

However, there are various **obstacles** associated with exporting services such as the following:

- Presence of already established competitors in the U.S. market.
- Insufficient size of the company (e.g. insufficient managerial and market capacity).
- Distance and/or communication costs that inhibit personal contact.
- High costs of getting information about the U.S. market.
- Nature of the service (e.g. does not travel well).

Are these barriers likely to stop your firm from exporting successfully? They will, if you fail to recognize what barriers exist and do not act to overcome them. They need not, if you understand your own organization and the U.S. market well enough. Exporting, like any new business endeavour, involves careful and thorough planning.

This guide will help you make the careful plans necessary for successful U.S. market entry.

## Finding your way through this guide

The guide is structured as follows.

### Introduction

#### *Defining trade in services. Just what are service exports?*

An overview of what is meant by service trade.

#### *Understanding the FTA. What should you know about the Free Trade Agreement?*

An overview of what the Free Trade Agreement means for service businesses.

### Preparation

#### *How to succeed under Free Trade. Knowing yourself, your market and your competition.*

A brief introduction to some of the key factors involved in planning for market entry into the United States.



***Why research? The importance of market research for U.S. market entry.***

An overview of the importance of market research prior to market entry into the United States and of the key questions to be asked.

***How to research. Research techniques and sources of information on the U.S. market for services.***

Guidelines for service exporters on how to conduct market research in the U.S.

***Deciding to proceed. What is involved in making the U.S. market entry decision?***

Pointers on major factors to consider when deciding whether to export to the U.S.

**Strategy Development**

***Developing strategies for market expansion. What works for service businesses?***

A review of selected market strategies for new market penetration, with emphasis on factors to consider in marketing across the border.

***Writing the export business plan. Developing a business plan for your U.S. market expansion.***

Pointers on major factors and strategies to consider when writing a business plan for exporting services to the U.S.

***Forming alliances. What are the key factors in successfully joint venturing for service exports?***

Factors to consider when forming an alliance with U.S. firms providing access to the U.S. market.

***Epilogue. The evolving continental market for services in the 1990's.***

Looking ahead to what the 1990's will hold for Canadian service exporters.

**Annexes**

Overviews on the following specific topics: the American market for services, in general, and, in particular, for construction, computer, environmental, engineering and architectural, and education and training services. Also includes general sources of market information.

**Quick Overview of this Guide**

<b>INTRODUCTION</b>	<b>1. Why read this guide?</b> Should you take advantage of the Free Trade Agreement to export services to the U.S.? Pg. 1	<b>2. Defining trade in services.</b> Just what are service exports? Pg. 5	<b>3. Understanding the FTA.</b> What should you know about the Free Trade Agreement? Pg. 9
<b>PREPARATION</b>	<b>4. How to succeed under Free Trade.</b> Knowing yourself, your market and your competition. Pg. 15	<b>5. Why research?</b> The importance of market research for U.S. market entry. Pg. 19	<b>6. How to research</b> Research techniques and sources of information on the U.S. market for services. Pg. 23
	<b>7. Deciding to proceed.</b> What is involved in making the U.S. market entry decision? Pg. 29		
<b>STRATEGY DEVELOPMENT</b>	<b>8. Developing strategies for market expansion.</b> What works for service businesses? Pg. 37	<b>9. Writing the export business plan.</b> Developing a business plan for your U.S. market expansion. Pg. 45	<b>10. Forming alliances.</b> What are the key factors in successfully joint venturing for service exports? Pg. 51
	<b>11. Epilogue.</b> The evolving continental market for services in the 1990's. Pg. 55		





## CHAPTER 2

### Defining trade in services. *Just what are service exports?*

#### What are services?

Services are quite difficult to define—as they are intangible in nature. In buying your service, customers are most likely buying a promise that you will deliver what you say you will deliver.

Most services involve personal contact between consumers and suppliers. However, “live” or “personal” services such as teaching, live artistic performances or medical care are only one category of service. At the other end of the spectrum are totally “impersonal” services, such as telecommunications,

or services embodied in goods.

In the case of telecommunications, performance of the service depends on cable or satellite technologies and there is no physical contact between users and company employees. In between are such services as radio broadcasting. This service combines personal skills, such as radio show production, with broadcast technology.

Following is a list of business and personal services, as defined by the U.S. Office of Technology Assessment.

#### Services purchased primarily by business and industry

Financial services	Banking (including investment banking and brokerage), insurance, leasing.
Shipping and distribution	Ocean, rail, trucking, air freight. Warehousing, distribution, wholesale trade.
Professional and technical	Architecture, engineering and construction (engineering design, architectural design, construction management and contracting). Management, legal and accounting services. Technical licensing and sales.
Other business service	Information technology services (including software, telecommunications, data processing and information services). Franchising, advertising, and other services (commercial real estate, business travel, security, postal and courier services).

#### Services purchased largely by private citizens

Retail trade	Including restaurants.
Health care	Private and public services.
Travel, recreation, entertainment	Examples include travel agencies, sports clubs, movie houses.
Education	Private and public services.
Other	Other social services (including government). Other personal services.

## Why is the service sector important?

Almost three-quarters of Canadian jobs - over 7 million - are in the service sector. Construction adds a further 1/2 million employees.

Close to half these jobs are in the category of business services, while one-quarter are in the trade sector. The three remaining broad segments of public administration; transportation, communication and other utilities; and finance, insurance and real estate each account for between 8% and 11% of total services employment in Canada. In the business services category, each of personnel search, computer services, engineering, legal, management consulting, accounting, and security segments employ over 40,000 people in Canada.

## What are service exports?

How do you know when a service is being exported? This may sound like a simple question, but defining service exports can get complicated.

**For an export to occur, there must be payment from the residents of one country to residents of another country in return for some form of benefit.**

In the case of export of goods, merchandise is generally physically shipped from one country to another. This makes export measurement fairly straightforward. In the case of services, trade occurs in a variety of ways. Many of these are difficult to measure.

Service exports, like services themselves, are most commonly associated with the physical movement and contact of people who provide the service. Examples include Canadian management consultants or architects who work in the U.S.

However, there are many other distinct forms of international services trade, as outlined in the table on page 7. Some involve little movement of people (for example, licensing). Many of these are intangible in nature and hence make accurate measurement of services trade difficult.

Noteworthy, from the list on the following page, are service exports connected with export of goods. With the expected increase in goods exported under Free Trade, greater opportunities will exist for

Canadian service firms to package their services (such as engineering consulting associated with sale of equipment or training associated with sale of high technology products) together with goods sold into the U.S. market.

## Understanding the complexities of service exports

The following may help you understand some of the further fine "nuances" of trade in services.

Most obvious as trade in services are the *cross border movements* of individual consumers (e.g. tourists) or individual producers (e.g. consultants) going to work, play or shop for services in a foreign country.

But consider also the movement of transport carriers or transmission of communication signals across the border. The *movement of goods, passengers or message units* in itself constitutes a service and hence an export. Likewise, legal arrangements to transfer ideas or know-how across borders also constitute an international transaction.

The most difficult trade to measure is the *sale of services through foreign branches or affiliates*. Here the final service provided to customers, say, in the state of Washington, may include content from both the B.C. home office and the U.S. branch office. But for the Canadian company, it is only the B.C. content of the overall service that represents the export portion of services performed. The portion of the service provided by the company's U.S. branch office does not count as an official export.

## Differentiating between trade and investment in services

The problem of measuring export trade through branch offices shows that it is important to distinguish between trade in services and *investment in services*, where the service is to be performed through investment in an operation in the United States. For example, data processing services provided by a B.C. firm to customers in California through long-distance communication links are clearly trade. Data processing services provided by a B.C.-owned computer processing facility located in California are an investment activity.



## **International Services Trade Can Occur....**

**By travel (for a temporary period) of a U.S. national into Canada to purchase a service.**

**Inside traded goods (embodied in goods) or sold together with goods.**

**Through services provided in Canada to a branch, subsidiary, or affiliate operation.**

**Through contractual arrangements transmitting rights to use intellectual property, technology or other services.**

**Electronically, by radio or through telecommunications networks.**

**In the country of origin (Canada) to a product or good of U.S. origin.**

**By transportation across borders.**

**By the movement of a Canadian service provider across the border to work in the United States.**

## **Examples of Services**

Accommodation, retail sales, transportation, education, health services.

Information on computer tapes or disks included in sale of computers (the value of the computer disks lies in the intellectual content, not the physical medium). Set up, training and after sales service for computer installations. Insurance, financing and other services essential to the sale of goods.

Insurance, banking, advertising, accounting services. Only the content performed by the Canadian home office (e.g. management services, business support, risk borne in insurance policies by the home office) qualifies as the export component of the final service transaction. For example, an advertising company with a U.S. branch exports to that branch computer processing services and management services (e.g. marketing manager supervision) performed in Canada.

Patents, trademarks, franchises, book, film, broadcast and recording rights.

Transmission of voice, video, data or other information.

Laboratory tests, repair services (e.g. U.S. ships repaired in Canadian harbours).

Transportation of goods and passengers from one country to another is an export service. Included are services of truck and bus drivers and airline personnel.

Professional services such as business or computer consulting, engineering, legal etc. performed by a Canadian in the U.S.

Yet, trade in services is often accompanied by investment outside the country. In the case of professionals, it is usually important to have frequent close personal contacts with clients. To provide such service, it may be necessary to set up and staff an office in the U.S., rather than export services by moving people between Canada and the U.S.

To succeed in the U.S., you may need to both invest

in the U.S. and deliver services from Canada. However, for statistical purposes, an investment in a U.S. office is not included in trade figures as an export of services. As a result, when looking at data describing services trade, keep in mind that capital transfers and return on investment are typically excluded from service trade numbers—although the distinction is often blurred.

## Does Canada export services?

Canada traditionally imports more services than it exports. Currently Canada runs an estimated \$6 billion deficit in services trade internationally, with the majority of this (over 70%) accounted through trade with the United States.

The main areas in which Canada currently exports services are business services (35 percent), travel (30 percent of the total) and freight and shipping (25 percent). Beyond increasing tourism revenues and increasing our shipping presence south of the border, it is likely that the most exportable services, and the

area with the greatest export potential for Canada, is in the broad domain of *business services*. Canada's position in business service trade with the U.S. is shown below.

Currently, most of our business services deficit with the United States and abroad stems from the significant levels of American direct investment in business service provision in Canada. This investment results in service transactions, such as imported research and development services, and service payments outside the country, such as royalties and management fees.

### Canada's Position in Business Services Trade with the U.S. , 1988

Deficit		Surplus	
Patents & Royalties	\$800 million	Communications	\$80 million
Management Services	\$700 million	Consulting	\$50 million
Research & Development	\$230 million	Processing Services	\$50 million
Equipment Rentals	\$200 million		

Total Deficit in Business Services with the U.S.= \$3.1 billion in 1988

## Free Trade and services

Now that you know how service exports are defined, read on to find out how the Free Trade Agreement affects trade in services.



## CHAPTER 3

### Understanding the FTA.

#### *What should you know about the Free Trade Agreement?*

#### **How will the Free Trade Agreement affect service exports?**

Restrictions on trade in services are different from restrictions on trade in goods. With goods, the principal barriers to trade are usually tariffs and non-tariff measures such as quotas. International trade in services is affected by a somewhat different set of government policies—such as regulations on temporary business access or discriminatory licensing and certification requirements, which impede the sale of services into foreign countries.

Some further examples of the obstacles to free movement of services include:

- regulations concerning residence;
- legal requirements to obtain operating authority;
- absence of accreditation of professional standards;
- preferential purchasing practices and/or requirements for a minimum percentage of local people to be employed;
- restricted access to telecommunications networks;
- investment restrictions;
- local business regulations; and
- trade barriers limiting trade in goods that include services.

The new rules that liberalize trade in services are in three chapters of the Free Trade Agreement: Chapter 14—Services; Chapter 15—Temporary Entry for Business Persons; and Chapter 16—Investment. These chapters are interdependent because, to successfully access an export market, service providers have to be able, in many cases, to cross the border easily and, in some cases, they may wish to invest in the new market.

The benefits of the FTA chapter on services can be denied if the service is being indirectly provided by a person of a third country.

Prior to the Free Trade Agreement, trade in a broad range of commercial services was not covered by any bilateral or multilateral trade agreements. The Free Trade agreement is the *first* major trade agreement that liberalizes trade in services.

The FTA liberalizes trade in services through the key provisions regarding:

- **National treatment.**
- **Temporary entry for business persons.**
- **Investment.**

#### **The principle of national treatment—what does it mean?**

##### **What is national treatment?**

National treatment means that both Canada and the U.S. must treat the sale of services by a person of the other country no less favourably than they treat their own citizens providing the same service.

However, this is *not* an obligation to establish identical regulation on the sale of services in the two countries. Each country remains free to choose whether or not to regulate and how to regulate within its own jurisdiction. The FTA requires that when regulation occurs, equal treatment must be afforded to nationals of both countries.

The obligation to provide national treatment applies to federal, provincial and state governments.

##### **What services are covered under the national treatment principle?**

The FTA liberalizes trade in most but not all services. It covers a broad range of commercial and professional services which are listed in Annex G. The FTA's covered services account for the vast majority of tradeable services and include forestry,

engineering and computer services to name a few.

The non-discrimination obligations of the FTA apply not only to the direct commercial provision of the covered service but also to the ancillary activities associated with the provision of the covered service. These ancillary activities might be access to distribution systems; establishment of a "commercial presence" other than an investment for purpose of marketing a covered service; and investments associated with the provision of a covered service. The term "commercial presence" is not defined, but appears to mean activities necessary to generate sales of services through advertising and creating goodwill in the marketplace.

However, it is important to note that the FTA forbids either country from requiring the establishment of a commercial presence or investment as a condition of allowing individuals to provide services from the other country.

#### **What services are not covered under the national treatment principle?**

The main services not covered are: transportation; basic telecommunications (such as telephone service); certain professional services such as medicine, dentistry and law; and government-provided health, education and social services.

Provincial or state regulation of security dealers and provincially constituted financial institutions (e.g. credit unions) are not covered by the FTA.

If a service is not covered, it may continue to be regulated in a way that discriminates against imported services from the other country.

#### **Are there exceptions to national treatment?**

There are a few exceptions and qualifications to the national treatment obligation, as follows.

**"Grandfathering".** The FTA recognized that some barriers to trade in services already existed and could not be eliminated immediately, so the principle of "grandfathering" was applied. "Grandfathering" means that pre-FTA practices which are inconsistent with the national treatment obligations of the FTA may remain in force.

Given the grandfathering provision, the FTA obligations end up being prospective. Any *new* regulations for covered services will have to conform fully to the national treatment obligation. Also, any *changes* to existing regulations must not be made any more discriminatory than they are already.

**Acceptable differences in treatment.** The FTA recognizes that, in some circumstances, there are acceptable reasons to treat Canadian and U.S. providers of a service differently. The FTA allows for different treatment provided that the difference in treatment is "no greater than that necessary for prudential, fiduciary, health and safety, or consumer protection reasons". It also requires the difference in treatment to be "equivalent in effect" to treatment accorded by the particular country to its own nationals.

An example of the latter type of acceptable discrimination might be a government requirement that a service provider post a bond for consumer protection reasons. In these cases, prior notice of the proposed measure has to be given to the other country.

**Government procurement and subsidies.** The services chapter does not impose any obligations or confer rights in the areas of government procurement or subsidies. In other words, governments in both countries can give preferential access to service providers from within their jurisdiction when they are purchasing services. Government may also subsidize a particular service without having to allow nationals of the other country equal opportunity to qualify for the subsidy.

#### **What does the FTA say about licensing and certification?**

The FTA provides that each country can continue to license and regulate covered services in matters of competence and ability. However, any new licensing provisions must be established on the basis of national treatment. Each country is to ensure that such measures do not have the purpose or effect of discriminating against nationals of the other country. As well, both countries have agreed to work together to encourage the mutual recognition of licensing and certification requirements for the provision of covered services.



Licensing and certification provisions that were inconsistent with the principle of national treatment before the FTA came into effect are grandfathered. For example, a licensing fee differential that existed before the FTA can continue.

Three sectoral annexes to the FTA specifically address licensing and certification issues in the following sectors: Architects; Tourism; and Computer Services and Telecommunications-Network-Based Enhanced Services. The intent of these sectoral annexes is to liberalize trade in these sectors. For example, the sectoral annex on architects encourages development of mutually acceptable professional standards and criteria. In addition, architectural, tourism and enhanced telecommunications services are not covered by grandfathering. As a result, the FTA specifically requires changes to existing laws and practices.

Specific changes are also required to federal financial services (other than insurance services) which are dealt with in Chapter 17 of the FTA.

Both countries have agreed to extend the obligations of the services chapter by negotiating to modify or eliminate existing inconsistent (i.e. "grandfathered") provisions and to establish future sectoral annexes.

## **Temporary entry for business persons—who benefits?**

### **Who benefits under the FTA entry provisions?**

The objective of Chapter 15 of the FTA, dealing with temporary entry for business persons, is to establish easily understandable criteria and procedures for temporary entry for business purposes. The FTA provisions are reciprocal and build upon existing non-immigrant visa rules in both countries. As this guide is aimed at Canadian business people interested in accessing the U.S. market, the following will focus on U.S. rules.

The FTA adopts the following definitions:

- **a business person** means a citizen of Canada or the U.S. who is engaged in the trade of goods or services or in investment activities; and
- **temporary entry** means entry without the intent to establish permanent residence.

Under the provisions of the FTA, four categories of business persons will now find it easier to cross U.S. border points:

- **Business visitors.**
- **Traders and investors.**
- **Intra-company transferees.**
- **Professionals employed in certain fields.**

All applicants falling into the above categories must meet usual immigration admissibility requirements (health, security, etc.) and be Canadian citizens. Canadian citizenship may be proven by a valid Canadian passport, a birth certificate or a Canadian citizenship card. However, as birth certificates and Canadian citizenship cards do not have a photograph of the holder, U.S. Immigration usually requires that another form of government-issued picture identification, such as a driver's licence, be produced as well.

An important aspect of the FTA is that labour certification tests are eliminated for the new categories of business access. This means that the cumbersome procedures, where a U.S. employer had to ensure to the satisfaction of U.S. Immigration that a U.S. citizen was not available to fill the position, are no longer required.

### **Business visitors (B-1 status)**

Canadian citizens who visit the U.S. to carry on business activities listed in the FTA for their Canadian company and receive remuneration from their Canadian employer may qualify to enter the U.S. under this category. Acceptable business activities include those shown on the following page.

Business visitors can apply for admission to the U.S. at any point of entry. No fee is payable for an application in this category, but business visitors may be requested to provide proof of the type of business activity in which they are involved. Entry is for a period necessary to conduct the planned business, up to a maximum of one year.

To avoid any problems, the following precautionary (but not necessarily essential) steps might be taken:

- The individual travelling carries a return ticket to Canada with the Canadian parent's local office city being the city of origin (this may not be possible for extended U.S. stays).

**Acceptable business activities for business visitors**  
(consult Schedule 1 of Annex 1502.1 of the FTA for full definitions)

Research and design	Technical, scientific and statistical researchers conducting independent research.
Growth, manufacture and production	Purchasing and production management personnel conducting commercial transactions for an enterprise located in Canada.
Marketing	Market researchers and analysts conducting independent research or analysis.
Sales	Sales representatives and agents taking orders or negotiating contracts for goods or services; buyers purchasing for an enterprise located in Canada.
Distribution	Transportation operators delivering to Canada or loading and transporting back to the United States.
After-sales service	Installers, repair and maintenance personnel and supervisors, possessing specialized knowledge essential to the seller's contractual obligation, performing services or training workers to perform such services, pursuant to a warranty or other service contract incidental to the sale of commercial or industrial equipment or machines.
General service	Professionals, as well as management, financial services, public relations, advertising and tourism personnel fall in this category.

- In addition to proof of citizenship and identification, the individual keeps in possession documents which indicate he or she is an employee of a Canadian firm. This could include an employee identification card or a business card. Something which indicates the type of firm the individual works for and, if possible, the position of the individual and any professional designation might at times help.
- If relevant, the individual carries a letter from the client on their stationery indicating that the individual's firm has been engaged to perform services in the U.S. and that the services of the individual (by name) are required to perform the work under the contract. Again, this letter is not necessary but might make things easier if frequent trips are made.
- With respect to the seven categories of acceptable business activities under the B-1 visa, the business visitor may wish to bring documentation showing that the purpose of the visit falls within one of the categories.

B-1 entry does not provide a document to the applicant; therefore, proof of fulfillment of the B-1 entry requirements must be made at every entry to the United States.



### Traders and investors ("E" visas)

Both "traders" and "investors" are included in this category. Traders are Canadian citizens who work in a Canadian-owned or controlled firm located in the U.S. that carries on substantial trade (50% or more) in goods or services between Canada and the United States. Investors are Canadian citizens who have invested in or are in the process of investing a substantial amount of capital in an enterprise in the U.S.

A trader must hold a supervisory or executive position or possess skills essential to the operation of a Canadian-owned firm to qualify. An investor must develop and direct the operation of the enterprise to qualify.

With respect to investors, the enterprise must be an operating commercial concern producing some good or service and the investor must be in a position to develop and direct the enterprise. There is no minimum amount of investment required, but the investor must demonstrate control (usually at least 50% of the funds invested) and the investment must be at risk in the commercial sense. This means that an investment that is designed to only provide a living for the investor and his family would not qualify.

Both traders and investors are required to apply for a U.S. visa at a U.S. Consulate before leaving Canada. A processing fee is payable. Also a passport is recommended for this category.

### Intra-company transferees (L-1 status)

A person who has been employed continuously for at least one year by a Canadian firm as an executive, manager or specialist may qualify under this category. Services must be provided by the transferee to the same firm (or its subsidiary or affiliate) in the U.S. and the services must be as an executive, manager, or in a position requiring specialized knowledge.

The employer must complete a petition, available from the U.S. Immigration and Naturalization Service, on the transferee's behalf. The transferee then presents the completed petition, proof of citizenship and experience at a U.S. point of entry; although submission of the application in advance to a U.S. Consulate may be advisable in some cases. A fee is payable upon application.

### Professionals (TC status)

Persons who hold a baccalaureate degree (unless otherwise specified) and whose occupation or

Categories of professionals who do not require labour certification (Consult Schedule 2 of Annex 1502.1 of the FTA for full definitions)				
accountant	animal breeder	architect	computer systems analyst	dietitian
disaster relief insurance claims adjuster	economist	engineer	forester	horticulturist
hotel manager (B.A. and 3 yrs experience)	journalist (B.A. and 3 yrs. experience)	lawyer	librarian (MLS)	management consultant (B.A. or equiv. experience)
mathematician	medical/allied	nutritionist	plant breeder	psychologist
range manager (conservationist)	research assistant (in a post-secondary institution)	scientific technician or technologist	scientist	social worker
silviculturist (forestry specialist)	technical publications writer	vocational counselor		

profession (in which they are qualified) is among those listed below may be included in this category. Applicants must be Canadian citizens.

The applicant must provide a letter offering employment from a U.S. employer. Supporting documents must show the nature and length of activity in which the professional will be engaged. Also, the applicant must show that remuneration will be from a U.S. employer. Furthermore, it is necessary to exhibit educational or other appropriate credentials and (if applicable) proof that all relevant licensing requirements have been met. It is important to note that a signed contract for short-term professional services may also qualify under this category. A processing fee is payable upon application at a U.S. point of entry.

### **Contacts for visas and information**

A U.S. Consulate General office is located in Vancouver, B.C. at telephone number (604) 685-4311. The U.S. Immigration and Naturalization Service can be contacted in Blaine, Washington at telephone numbers (206) 332-8511 or 332-8512. The U.S. Customs Service at the Vancouver International Airport can be reached at (604) 278-3360.

### **What FTA investment provisions are relevant to trade in services?**

Noteworthy to service exporters are the following FTA provisions related to investment:

- As noted above, the FTA forbids Canada or the U.S. from requiring the establishment of a commercial presence or investment as a condi-

tion for allowing service providers to carry on business in each other's country. However, a commercial presence may be necessary or advisable as a result of market conditions. For example, a Canadian travel agency may need to invest in an office in the U.S. to advance its business in the U.S.

- Chapter 16 of the FTA also establishes a framework under which both countries agree to provide national treatment to investors from the other country.
- With the new FTA provisions on services and temporary business access, the new laws on investment ensure that neither government can introduce laws or regulations that discriminate against providers of services from the other country.
- However, all existing pre-FTA laws and regulations not in conformity with the national treatment obligation are grandfathered.

### **So the Free Trade Agreement makes it easier to do business in the U.S.—so what?**

Knowing the provisions of the Free Trade Agreement is the first, necessary step in deciding whether to expand your business into the United States. But, of course, there is more to this decision than that. The following chapter will get you started in a step-by-step process of coming to a well thought out and informed decision about U.S. market entry.



## CHAPTER 4

### How to succeed under Free Trade. *Knowing yourself, your market and your competition.*

#### Will you succeed under Free Trade?

Now that you understand how the FTA will affect trade in services, it is time to look more closely at how it will affect your business. The objective of doing this is to thoroughly understand how well equipped you are to cope with Free Trade, its opportunities and its threats.

There are three key steps involved in this process:

**Knowing Yourself  
Knowing Your Market  
Knowing Your Competition**

#### Can you strengthen your current market position?

Understandably, the first thing you will want to know is: how will the Free Trade Agreement affect your operations in Canada? That is, your initial concern may well centre on strengthening your Canadian market position—to protect your firm against future U.S. competition.

Knowing yourself, knowing your market and knowing your competition should therefore start at home—by asking and answering a number of questions, such as the following:

- Will the FTA affect how you operate in Canada? For example, will it affect your input costs, your supplier relationships, your financing opportunities? Does your firm have the competitive strengths to protect it in Canada against U.S. competition?
- Will the FTA affect how your Canadian market operates? For example, will it affect your customers, or their customers, or standards in your market?

- Will the FTA affect how your Canadian competition operates? For example, will it affect their input costs, their willingness to export, their ability to withstand U.S. competition?

Finally, you should be examining the strategies your firm is undertaking to protect its Canadian market position. Some of the strategies your firm should be concentrating on, in improving its domestic performance, include those on the following page.

#### How can you tell if you are ready to expand into the U.S. market?

Your next concern is likely to be: are you ready to enter the U.S. market and can you do so successfully?

Market expansion through exporting is an option available to service businesses of all sizes and in all sectors. But it takes hard work as in any business endeavour.

Successful exporting, like successful local market sales, also requires that you have a good understanding of yourself, your market and your competition.

**Companies that know their strengths and weaknesses and are already strong competitors in their local market, tend to do better in foreign markets.**

On the following two pages are some questions you should be asking about your existing strengths and weaknesses, before plunging into the U.S. market. Be honest in answering these questions and take the time to carefully consider the implications of your answers.

<b>Strategies to Strengthen Your Current Market Position</b>	<b>How much effort are you devoting to these strategies today? (None, Some, Considerable)</b>	<b>How much effort will you need to devote in five years time? (None, Some, Considerable)</b>
Focusing on higher value added services.		
Accelerating development of new services.		
Improving quality of services or people.		
Increasing efficiency and effectiveness.		
Establishing closer customer relationships.		
Implementing new technology.		
Improving management.		
Funding a "war chest" to fight competition.		
Improving reporting systems.		
Increasing training and development.		

<b>Know Yourself: Questions to Ask</b>	<b>Your Answers and Their Implications</b>
◦ Do you have a solid Canadian sales and financial base?	
◦ Has your service been well tested in Canada for market acceptance?	
◦ Can you easily expand your business if you find additional markets?	
◦ Are your services competitively priced?	
◦ How profitable is your firm at various price levels?	
◦ In what areas does your service excel over the competition?	
◦ Do you have a distinctive image?	
◦ Can you serve both domestic and U.S. customers, particularly if your Canadian business grows?	
◦ Do you or others in your firm have the time to invest in new market entry?	
◦ Will exporting be a long-term commitment or are you looking for opportunistic sales?	



<b>Know Your Market: Questions to Ask</b>	<b>Your Answers and Their Implications</b>
◦ Have you reached your market potential in Canada?	
◦ Who already uses your services? Are they widely used or used by special groups?	
◦ Who typically makes the purchase decision?	
◦ What influences the use of your service? Geography, demographics, complementary products or services, economic conditions, knowledge base?	
◦ Are there any restrictions that limit, or could limit, your market presence? Technical, regulatory, licensing?	
◦ Are you prepared to make modifications to your services to appeal to changing buyer needs?	
◦ Can you readily extend your marketing promotion or training approaches to a larger market?	
◦ What middlemen or promotion opportunities (conferences, trade fairs, etc.) work best to help you market?	

<b>Know Your Competition: Questions to Ask</b>	<b>Your Answers and Their Implications</b>
◦ What kind of competition do you already face? Direct, indirect, future? Domestic, international? Is your competition complacent or aggressive?	
◦ What price differential exists between your services and theirs? Do you have a meaningful cost advantage?	
◦ If you cannot compete on price, can you compete effectively on service superiority, ability to deliver, or some other factor?	
◦ What are the normal marketing, advertising and promotion strategies of your competitors?	
◦ Does your company threaten the competition in areas of strategic importance (image, quality) as well as threaten their financial results?	
◦ Do you need the help of non-competitive firms to support your service? How important is this to the success of your business?	

## Assessing your strengths and weaknesses

After answering the above questions, take the time to summarize your firm's key strengths and weaknesses under the following headings:

**Unique Strengths**  
**Surmountable Weaknesses**  
**Persistent Weaknesses**

Then ask yourself: can you use your unique strengths and overcome your firm's weaknesses to enter new markets? Do your strengths and weaknesses suggest specific strategies for you to focus on in entering the American market? Do they suggest market segments that you should avoid? Generally, do your strengths offset your weaknesses, making it possible for you to expand your business into new markets?

## The next step: knowing the U.S. market

Once you feel you are ready to enter new markets in the United States, your next obvious question will be: is the U.S. market ready for you? And will the Free Trade Agreement help you enter?

This is where some solid market research becomes invaluable. Knowing your new market in the United States and knowing your new competition is essential for *planning* your market entry. Otherwise, you will enter the U.S. "blindly", hoping to stumble into a "pot of gold"—before anyone else does!

The next two chapters will help you conduct successful market research, by identifying questions you should be asking and providing practical pointers on research techniques and sources of information.



## CHAPTER 5

### Why research?

#### *The importance of market research for U.S. market entry.*

#### Why conduct market research?

The purpose of market research and analysis is to provide an understanding of the U.S. market in which you will operate. This knowledge will increase your likelihood of taking full advantage of the Free Trade Agreement and entering the U.S. market successfully. Your market research must have adequate depth and coverage to answer most of the questions you are likely to have, prior to committing significant funds to export market development.

Nevertheless, service businesses often avoid market research because they think:

- It costs "big bucks".
- It is only relevant for big decisions by big companies investing a lot of capital.
- It needs to be done on a big scale.
- There is little apparent data on U.S. service market subsegments.
- A "quick and dirty" study may well be worse than none at all.
- It won't matter anyway (your mind is made up).

However, these are perceptions that do not necessarily hold true in many cases and in many niche markets. If you accept these excuses and do not do your homework, you can face significant risks in expanding to new markets in the U.S. Consider the following mistakes you could make in entering the American market:

- Assuming Canadian and U.S. customers' or clients' needs are all the same.
- Assuming your American customers will be of the same size as your Canadian customers.
- Making unrealistic assumptions about potential U.S. market share.
- Not carefully defining appropriate market segments in the U.S.
- Not clearly defining the services most likely to

be sold in American markets.

- Making unrealistic estimates of the cost to reach target segments throughout the U.S.

Good market research on the other hand will reduce your risk of making these mistakes.

If you are still not convinced that market research pays, consider the consequences of entering the U.S. market unprepared:

**Unsuccessful U.S. market entry may cost you not only money and time but could have a major impact on your company's reputation and your ability to service existing customers.**

#### What information should you look for?

Knowing the U.S. market and knowing U.S. competition, are the most important objectives for market research prior to exporting services to the U.S. under Free Trade.

The following market research steps will help you develop a comprehensive picture of the market and competition in the United States.

**Define the Market**

**Evaluate Market Potential**

**Examine Market Niches**

**Identify Potential Regional Markets**

**Understand Buyer Behaviour**

**Evaluate Competition (in light of the above)**



Under each step, your market research should be designed to answer a number of questions, such as the following.

### **1. Define the Market**

You should strive to be as precise as possible in defining the market you are targeting in the U.S. Consider your company's services and ask: where are they likely to appeal most? Where can they be sold most successfully? How can their appeal be tested before making substantial commitments of time and money?

### **2. Evaluate Market Potential**

How large are the U.S. market segments of interest to you? What kind of market concentration is there? What is the history of demand for similar services? What is the long-term outlook for growth in demand? What access is there to the market (e.g. percent captive)? What trends are there in the market (technical, pricing, quality)? How do usage or cyclic/seasonal patterns affect market potential?

### **3. Examine Market Niches**

Some aspect of customers' needs that has not already been met, or not well met, provides a potential market niche. Can you identify any market niches? What are the characteristics of market segments which are of particular interest to you (type of service, customer type, location, price range, etc.)? Are there niches in the U.S. similar to ones you serve in Canada? If you sell business services, could the U.S. competitors of your current customers be a target market niche?

### **4. Identify Potential Regional Markets**

If the American market generally looks promising but you do not have the resources to service all of the market, identify one or more regional markets with strongest potential for initial sales.

### **5. Understand Buyer Behaviour**

This is perhaps more important for services than goods. Services typically need to be provided before their benefits are appreciated. Buyer expectations may be as important as the service itself (e.g. travel, consulting). You need to determine what issues affect the purchase of your type of service (personal relation-

ships, preferences, values, sensibilities, legal requirements, pricing). What kind of trade practices are there (pricing structures, ethics, terms of payment, regulations)? What kinds of barriers to entry do buyers impose (local content rules, qualification requirements)? How strong is loyalty to existing service providers?

### **6. Evaluate Competition**

Always examine the competition. What competing services are already available? How entrenched are competitors? Are there international competitors as well as domestic—are they at a disadvantage because of Free Trade between Canada and the U.S.? What stage of market evolution exists (development, growth, shake-out, maturity, saturation)? Are there many new entrants? Is the competition concentrated or fragmented? What is the competition like (stature and credibility, business strategic direction and competitive thrust, technology use and innovation, financial and management capability, sales and marketing capability)? What are competitive market shares? What key issues affect the effectiveness or cost position of competitors?

## **Assessing your existing knowledge**

Once you know what questions to ask about the U.S. market and what answers you need, the next question is to ask yourself how much you already know. The exercise on the following page will help you in this regard.

If your answers to the questions on the following page indicate that you have little existing knowledge about the U.S. market, ask yourself the following:

- What information will help you make better decisions and improve your chances of success in a new market?
- If you can get only part of the information you would like to have, what part would be most useful?
- If you had to choose a point somewhere between "casual observation or feel" and "systematic observation and careful analysis", at which point would you still

## Are you ready to enter the U.S. market?

Use the following evaluation process to determine how prepared you are to answer essential marketing questions.  
Remember, your risk of failure in the U.S. market increases if you are less than honest about your responses.

**Essential Questions to be Answered Before Market Entry.**

How much confidence do you have in your *existing ability* to answer these questions?

(Mark an "X" in the appropriate column)

	No Confidence			High Confidence	
	1	2	3	4	5
<b><i>Does your service concept have the following features?</i></b>					
1. Originality or uniqueness in the U.S.?					
2. Proprietary/exclusive features in the U.S.?					
3. Appeal in the U.S. marketplace?					
4. Delivery feasibility in the U.S.?					
<b><i>What are your prospects in the U.S. market?</i></b>					
1. Size of the U.S. market for your services?					
2. Your likely market share in the U.S.?					
3. U.S. market growth potential?					
4. Best locations for your service?					
5. Obstacles blocking your market entry?					
<b><i>How familiar are you with what the U.S. competition is doing?</i></b>					
1. Their ability to replicate your services?					
2. Extent of their geographic penetration?					
3. Their reputation and success rate?					
4. Their financial resources?					
5. Their ability to compete on price?					

feel confident about your market entry decision?

and get it. Chapter six will help you with suggested techniques and sources of information for successful market research in the U.S. services sector. A few general facts on the U.S. market follow.

## Getting the information you need

Now that you have some idea of what market information to look for, you need to know how to go out

### Overview of the U.S. Market

#### Regional Markets

- The U.S. should not be considered to be one single market - It can be broken up into nine regional markets, each with different consumer and business demographics, and different attitudes and buying habits.

#### Population

- Total U.S. population is about 250 million or about ten times that of Canada.
- Five of the nine major U.S. regions have populations exceeding that of Canada as a whole, while the remaining four regions each exceed one-half of Canada's total population.
- Some thirty percent of the American population (80 million people) resides in the states which border Canada.
- U.S. population growth, averaging about 1% annually in recent years, has been highest in the western and southern regions.

#### Economy

- The U.S. economy, measured by gross national product, is approximately 10.6 times larger than that of Canada.
- The U.S. economy has shown strong growth, averaging 4.0% over the past 5 years but slowing down to 3% growth on average in 1989. As a result, unemployment has decreased from almost 10% of the American labour force in 1982 to around 6% in 1988.
- The majority of American jobs have come from firms with less than 100 employees; in fact, some 95% of new jobs created during the past six years have been from small start-up businesses.

#### Service Sector

- Currently, approximately 70% of all American jobs are in the service sector.
- Service sector jobs are expected to expand by 16 million to a total of 76 million by the end of the century.
- Service industries that support commercial and institutional activity are expected to be among the fastest growing industries.

#### Future Trends

- The American economy will see increasing amounts of rationalization and dislocation in coming years. Rapid technological changes, labour shortages and an aging population will force significant re-training requirements upon the workforce. Life expectancy is expected to rise from 75 years in 1985 to around 78 years in 2020.



## CHAPTER 6

### How to research.

#### *Research techniques and sources of information on the U.S. services market.*

##### **Finding the right techniques for researching service markets**

This chapter sets out practical pointers on market research techniques and sources of information applicable to the U.S. services marketplace.

The information you will need on the U.S. services market may or may not already exist. Existing data that someone else has already collected and published are called *secondary data*. Data that you must gather for the first time are called *primary data*.

There are no firm rules as to where to start in market research. Most research starts at the “general” end of the spectrum—“market size and industry structure” research—based on existing data, and moves to the “specific” end—such as original “customer” research to gather primary data.

##### **Existing information**

Start your market research by trying to find the information you need in existing sources.

Existing data may be particularly useful in giving you an idea of the general structure of the services market. In Annex A are some general facts you may want to know about the overall size and scope of the U.S. market for services—but you will likely need to dig much deeper to understand your specific target markets. Contacts for further information on major U.S. service sectors are provided in the annexes to this guide.

**Examine existing information critically. The source may not be impartial or the information may be dated, inaccurate or unreliable. It is often advisable to cross check existing data. Cross check it against other sources or by doing some primary research.**

In starting your research, you might try the following secondary sources of information on service mar-

kets. More detailed lists of sources corresponding to these categories are provided in Annex H.

##### **Where to look for existing information**

###### **Electronic Databases**

Many electronic databases (*DRI* and *Dialog* are examples) now provide the ability to quickly search a wide range of periodical and other sources for information on a wide variety of topics. Both statistical data and anecdotal information is available. Hundreds of different databases are now available through libraries, private database services and directly from vendors.

###### **Trade Journals, Books and General or Specialty Publications**

A scan of general business books as well as specialized publications will usually uncover some discussion of the services market. Some examples are provided in Annex H. Look for specialized books and periodicals in your industry area. Reports of case studies may show you how similar service businesses have succeeded in expanding elsewhere as well as give you insights about the competition.

###### **Brokerage Industry Reports**

Consider also brokerage industry reports, particularly on major service sectors, such as the retail or tourism and hospitality sectors. Electronic databases often list brokerage reports.

###### **Corporate Literature and Advertising**

Competitor and even customer corporate literature and advertising gives you an idea of market trends to exploit or segments to avoid. Don't forget telephone and other directory listings and corporate annual reports.

###### **Local, Regional or National Press**

Coverage of job ads, promotions, local success stories can tell you about the competition and your client or customer base. Examples of local press



include *California Business* and the *Puget Sound Business Journal*.

### **Public Surveys**

Surveys conducted by local newspapers, governments, chambers of commerce, academics or students may be there for the asking. For consumer information, A.C. Nielsen Co. is a valuable source of survey information that can be purchased.

### **Conference and Convention Proceedings**

Information collected during conferences or seminars, sponsored by local and industry groups, can provide invaluable clues as to technical and professional advances that will help you identify new growth areas or spot niches. The *Trade Show and Convention Guide*, listed in Annex H, will help you identify many relevant events.

### **Academic Studies and Research**

Contact the local university or call special faculties, such as The Fishman/Davidson Centre for Study of the Service Sector, Wharton School of Finance, University of Pennsylvania, to determine what academic research exists on your specific services market.

### **Associations and Directories**

Even if you are not (yet) a member, many industry and professional associations can provide you with market information and advice as well as introductions. The *Encyclopedia of Associations* in the U.S. is available at major public libraries. Both associations and specialty publishers may also provide directories of companies in your field.

### **Government**

Last but not least. Government contacts at all levels — national (e.g. U.S. Department of Commerce), state and local — are there to encourage commerce (services as well as goods). Ask them for copies of studies and reports prepared by or for them as well as for advice. Include Canadian trade consulate staff and provincial representatives in your conversations.

### **Primary research**

Because published or public data may be difficult to find on many service sectors, you may not be able to count on published information sources for even a broad overview of your particular market segments. So you may have to go collect the information yourself.

This usually calls for some form of contact with customers, competitors, middlemen or other primary information sources.

### **There is more than one approach to primary research**

Sure it's academic, but it is easy to forget that there are a number of ways to gather data for the first time. You need to decide which of the following will work best for your particular type of service business.

- **Observation**

The data source (e.g. a retail customer or travel agency competitor) is observed. Observation often provides the best information on business practices, sales techniques and buyer behaviour. However, there is the danger that the observer may either change the behaviour of those being observed or not be objective in reporting the observation. Also this approach does not answer the question—why do people buy?

- **Experimentation**

This method allows introduction of selected changes to a controlled environment to test out responses. This method is best for determining answers to such common marketing questions as which pricing structure or promotion is best in the new market. Experimentation often requires the firm (e.g. a software firm or courier service) to be prepared to participate in some small way in the market.

- **Interviewing**

The most common method of generating new market information is through surveys. Surveys ask questions of people about their opinions, attitudes or behaviours. Common survey methods are telephone interviews, mail questionnaires and personal interviews. Telephone interviews are best for quickly gathering information. The way questions are worded can influence the answers. Sample size can be very important.

- **Expert Estimation**

This is another type of survey approach — but it may be the only feasible way for many service



firms to get the information they need as large sample surveys may not be feasible or relevant. This approach involves soliciting opinions and estimates from experts (e.g. association executives or brokerage analysts) who know something about the market of interest. Besides talking to experts individually, you might consider assembling them and asking them to exchange views. This can now be done through conference calls as well as physically bringing people together. Additional rounds of discussion (Delphi method) can refine the information obtained.

Initially, the best sources of information on many U.S. *business service markets* are likely to be potential customers and industry authorities in the United States and Canada. Thus a combined approach of interviewing a sample of potential customers and experts is likely to be the way to start your market investigation.

If you already have a general sense of the size and scope of the market—and the market segments—in which you will be doing business, you can start your research by contacting potential business customers for your service. Rather than a random sample, you should pick five to ten or more of the potential customers you consider *most likely* to buy your services as soon as the service is available.

However, if you would like a “feel” for the market before you make the first contact with future business prospects—or if your customers are likely to be end-consumers and it is impractical for you to undertake a consumer survey—start with interviews of experts. On the following page are some suggestions as to general sources of experts. Further suggestions for information sources are provided in Annex H.

Keep in mind as you do your market research that:

**A visit to the U.S. market will often be the only way of gathering certain critical information or identifying certain critical contacts.**

Under the Free Trade Agreement, entry into the U.S. for market research as well as selling purposes is greatly facilitated.

## How do you go about interviewing potential clients and experts?

For many service businesses—whether in Canada or the U.S.—there is little published data about the market. Consequently, talking to people—potential clients and industry authorities—is often the only reliable way to develop market information. The information you collect through personal discussions with people who know your potential markets, may influence the success of your market entry more than anything else.

These personal discussions—or interviews—can be conducted in person or by telephone. Personal interviews have many advantages (greater flexibility, ability to establish rapport with the respondent, etc.) but they are more costly in terms of time and travel expenses than are telephone interviews.

## Are you ready to get started?

**Don't leap just yet! Anybody can talk to people. This is *not* the purpose of a market research interview. What you want to obtain is correct, accurate information of direct use to your company. And you want to obtain this with a minimum number of interviews.**

How do you get the information you need? Here are a few pointers.

There are two basic types of interviews. These are *structured and unstructured*. Each can be conducted in person or by telephone.

- In *structured* interviews, respondents are asked fixed questions one after the other. This type of interview yields comparable information from one interview to the next.

Questions in a structured interview can be of the following types:

- open-ended;
- multiple choice;
- yes/no or true/false;
- scaled according to the intensity of the response (e.g. poor to very good).

- *Unstructured* interviews tend to be more in-depth. The key in unstructured interviews is



## Who to Approach for Information

### **Current Customers**

Current customers (e.g. developers, if you are a construction company) who do business in the U.S. may be a gold-mine of information on U.S. markets and competition.

### **Suppliers and Distributors**

Some suppliers (e.g. those who sell software to your type of business) can provide you with introductions as well as influence the sale of your services. They may already know the market well and should be consulted. Also consider talking to U.S. distributors of complementary products (e.g. office supplies, if you are in the business services market) who know your targeted market.

### **Potential Joint Venturers or Subcontractors**

Another excellent source of information are local U.S. service providers, some of whom may be interested in a joint venture or subcontracting arrangement, and complementary service or product providers who may wish to work with you in expanding their market.

### **References or Intermediaries**

U.S. bankers, lawyers, accountants, consultants, brokers and financial analysts who deal with either consumer or business markets may be useful sources of local information—both printed and available through conversation. Ask your Canadian professional advisors who they would recommend talking to in the U.S.

### **Associations and Government**

Again, do not forget to talk to association and government officials.

### **Attendees at Trade Shows, Seminars, Conferences and Basic Functions**

Listening, looking and asking questions are the best ways to do market research at these events. Sometimes you even get the chance to mix pleasure with business.

### **Economic Development Agencies**

Regional and local Economic Development Agencies in the United States, of which there are some 7,500, are using expanded budgets to develop computerized databases, provide financial assistance, conduct studies and even carry out projects. They represent a good regional information source and contact point for Canadian firms interested in particular regional markets.

that the respondents talk about what is important to them. Your role is to start respondents talking in the areas of interest to you and to bring them back to the subject by guiding the conversation.

Unstructured interviews work best when you are first exploring a market and “fishing” for general information. Structured interviews usually work better when you already know a fair bit about the marketplace and you are trying to test “hypotheses” about the nature of the market or the customer.

Also, unstructured interviews work best in “business” market research, where you are talking to other business people, both individually or in groups. “Consumer” market research, unless conducted in focus groups, tends to be better suited to structured interviews.

Ten commandments for successful unstructured market research interviews are set out in the box on the following page and described in more detail in Annex I.

**Set objectives**  
**Revise questions**  
**Ask simple open-ended questions**  
**Do not accept generalizations**  
**Probe**  
**Make it interesting**  
**Keep it short and simple**  
**Start with the least important interviews**  
**Use your existing contacts to get new names**  
**Keep track—take notes**

### **How do you translate the information you collect into a market and sales estimate?**

*The best advice is to use several techniques (some are set out on the following page). If you get similar approximations of expected sales, then your estimate will be more credible. But remember to document the basis for your estimates or forecasts and document any assumptions you make. People other than yourself may need to understand how you arrived at your numbers.*

Other considerations include:

- **Disaggregate your sales estimates**  
Estimate for specific market segments or lines of business. Be careful to make allowance for differences in your service when basing your estimates on comparison to other services provided in the market.
- **Estimate ranges of sales**  
Estimate independently those sales that you think you can count on and those that are more uncertain. Estimate most likely sales, likely and worst case sales. Evaluate what each of these situations will mean to you.

- **Take into consideration the need to repeat the process for future periods**  
Building a computerized forecasting model, for example, may not seem to be so expensive an exercise if you will use it many times over.
- **Involve your colleagues**  
You do not have to estimate on your own. Give several of your colleagues the same information you have on market trends, and ask them independently to estimate what they think will happen to your sales based on the data. Compare results, question differences, come to a consensus.

A few examples of alternative sales estimating or forecasting approaches follow on the next page.

### **What does all this information mean to you?**

By following the market research techniques outlined in this chapter and answering the questions set out in chapter five, what you have accomplished so far is to develop a picture of the U.S. market for your services. By now, you should know whether a market exists in the U.S. for your type of service business. You should also know:



- What the Free Trade Agreement does to facilitate your company's U.S. expansion.
- What positive indicators encourage your entry into the U.S. market.

- What concerns you have about U.S. market entry and what you might do about them.

The next step is to decide if you should take the plunge. Chapter seven will help you make that decision.

## Different Ways to Estimate Sales

### Key Customers

For some firms, a few customers can account for as much business as they can handle in the foreseeable future. For example, contacting a small sample of potential developer customers may provide enough information to help gauge the extent of interest and purchase potential for your architectural services.

### General Market Trends

Demand for your service may follow trends in larger markets that make up total demand potential. For example, construction services' demand follows the demand pattern represented by building starts. Determine potential market share for your service using other techniques, but project your sales growth using published indices or forecasts of changes in total market potential.

### Competitive Activity

In certain markets, what your competitors do determines how well you will do. For example, if the average billing of consultants in your specialty area is \$100/hour and the average ratio of chargeable hours is 65%, then you might expect similar results, perhaps adjusted for some lower utilization levels in the earlier stages of your market entry.

### Promotion

Sales of some services depend more directly than others on the firm's marketing, promotion and advertising efforts. Work backwards. Determine what you can afford to do to promote your service (e.g. number of sales calls, number of direct mail pieces, number of local ads) and, based on past experience (preferably others' experience in the new market rather than yours' in your existing market), determine what sales volumes result.

### Related Business

Some services depend on sales of related products or services. For example, sales of computer software may depend on sales of computer hardware or of systems consulting services; sales of pulp mill consulting services may depend on sales of pulp mill equipment. Poll related suppliers to find out what they think of market trends and the need for your services. If the supplier is bigger than you are, it may be more sophisticated in identifying market potential.



## CHAPTER 7

### 7. Deciding to proceed.

#### *What is involved in making the U.S. market entry decision?*

##### Considerations for successful service exports

This guide has so far discussed the need for determining your state of readiness and acquiring information about the U.S. market and opportunities under Free Trade. With this information in hand, you are almost ready to make your final decision on whether to enter the U.S. market. First, however, there are a few further factors to consider. These include:

- Do you have a target market in mind?
- How good is the fit between your service and what the U.S. market wants?
- What windows of opportunity exist for your service in the U.S.?
- What obstacles or risks will you face in the U.S. market?
- What assistance can you get in entering the U.S. services market?

##### Determining target markets

In deciding whether or how to enter the U.S. market, your initial goal should not be to take the entire United States by storm. It should be to *focus* and narrow the field—even before taking the first market plunge.

A must, for all businesses contemplating expansion, is to focus market research and entry efforts on the areas most likely to yield results in the short term and provide the foundation for successful further market expansion. This requires setting priorities.

Focus is perhaps more important for service exporters than for goods exporters, as the delivery mechanism is often personal effort which, if spread too thinly, will result in poor quality service. Possible exceptions are services where the delivery medium for the service is low cost and wide ranging (for example, wide band radio transmission of educa-

tional programs, access to computerized databases).

**What is focus?** Focus is knowing *what you have to offer* (service concept) and *what your customers want* (as precisely as possible).

Focus is *customizing your service* to those customers to whom your service provides a specific value of particular benefit to them.

Focus is also *knowing what your competitors have to offer* and ensuring that you direct your efforts to those areas where you can stay ahead.

Finally, focus is knowing you cannot be “all things to all people” and *choosing target markets* suited to your capabilities and resources.

To avoid the risk of doing too much too soon, you should focus on a particular niche market or region. To do so, you will need information on the market segments of interest to you—information that requires careful market research.

In evaluating target markets some of the questions you should be asking include:

- Is the target market of adequate size to be profitable?
- Which specific competitors must you beat to penetrate the market?
- Do you have the tenacity needed to effectively serve the market?
- Is the target market interested in your service? How do you know?

##### Focusing on the best fit between what you offer and what the U.S. customer wants

Once you have identified what you think will be a good target market for your type of service in the U.S., answering the last question above requires that



you determine as precisely as possible whether your service fits with what U.S. customers want. If what you currently offer is not quite the same as what U.S. customers are looking for, you then need to decide if you are prepared to offer your services in ways most acceptable to American customers. Answering the following questions will help you make this decision.

***How well will your U.S. market initiatives fit with . . .***

**Your firm's current organization?**

**Your current service "products"?**

**Your current market commitments?**

**Your current operations?**

**Your current resources?**

Under *organizational fit*, you might direct your analysis to answering the following questions:

- How will your organization benefit from entry into the U.S. market (e.g. spreading of CAD equipment costs, extension of a specialized service concept)?
- Are the monetary price and payment terms compatible with your existing business (e.g. what are the implications of contingency billing when you have always charged on an hourly basis)?
- Can existing delivery or distribution systems be used (e.g. existing staff) or will it be necessary to add new ones?
- What communications strategies will be required to inform prospective U.S. customers about the service? Will it be possible to use similar approaches (such as current brochures) or will entirely new materials or media be required (e.g. videos, computer disk ads)?

Under *product fit*, look for answers to questions like the following:

- How well does your service match U.S. customer needs, interests, purchase and adoption procedures?

- Does your service offer sufficient advantages over already established competing services that American buyers would be prepared to switch?
- Can U.S. customers afford the possible extra costs associated with your service offering (e.g. your travel expenses)? Is your business dependent on benefiting from exchange rate differences?
- Is there anything about your service or approach that will make U.S. customers hesitate (e.g. no local office in the U.S.; lack of U.S. customer understanding about the benefits of the FTA)?
- In what specific ways are your services suited or ill-suited for the U.S. market? Is modification necessary to make your service suitable and what level of change is required?

Under *market fit*, use your research to answer these questions:

- Is the new market in some way a logical extension (proximity, similar customers, demand for higher-valued services) of your existing market?
- Are there trends in the U.S. market that would increase the demand for your services (e.g. increased use of facsimile machines, telecommunications)?
- Are there deregulation or associated trends that would make the U.S. market more compatible with your current market?
- Will your entry threaten U.S. market equilibrium, so that competitors retaliate and force you into markets you may not be prepared to enter?
- Is new service concept adoption quicker in the U.S. market than in your existing market, making it easier to enter but perhaps more difficult for you to stay in the forefront?

Under *operations fit*, examine your new market to determine:

- Are there differences in the attitudes or work



habits of employees in the U.S. market to prevent you from offering your service in the same way?

- Will it be easy to standardize the quality of your service delivery in a new market environment or will it be necessary to provide stricter “blueprints” for service delivery?
- Will you require differing (or expensive) facilities or equipment to make your service available in the U.S. market?

Finally, under *resources fit*, look at your new market to determine:

- How could your organization be hurt by new market entry (what resources will market entry require; will new market entry “cannibalize” existing scarce resources)?
- If you can only offer your services in certain locations or at certain times (e.g. training programs), will this fit in with customers’ ability to use the service?

By answering these questions, you will go a long way toward determining not only whether it is worthwhile entering the U.S. market but also what strategies are most needed for you to succeed.

## Identifying windows of opportunity

**In deciding whether to enter the U.S. market, watch out for special factors that could provide a window of opportunity for your successful entry into the United States.**

A window of opportunity generally results from one of the following:

- A temporary or recent relaxation of one or more constraints to market entry (such as provided under the FTA!).
- Unusual market growth, with strong unmet demand.
- An evolutionary change in customer needs or market sophistication.
- A sudden technological breakthrough.
- General changes in your or your customers’ industry.

Ask yourself whether any of the following trends in the U.S. provide a “window of opportunity” for your firm.

- Emerging demand for certain new products (e.g. electronic data processing and telecommunications equipment) — which presents opportunities for expansion of related services (e.g. equipment rental/leasing) that help make these goods available to a wider market.
- Growth in new, sophisticated technologies — which creates the need for expert or specialized consulting, repair and maintenance services.
- Deregulation or elimination of accreditation standards — which makes it possible to expand the scope of services or the methods of marketing.
- Increase in the speed of transportation and communication — which makes it increasingly feasible to provide services over longer distances.
- Increased consumer demands for timeliness, convenience and for services that free up leisure time — which enhance the role that services play in the economy.
- Increasing complexity of business and technical problems and the trend toward “leaner” organizations — which contributes to greater use of outside services and consulting resources.
- Changes in trade relationships arising from liberalization of trade under the Free Trade Agreement itself.
- Trends towards increased trade in goods under the Free Trade Agreement that would lead to greater demand for trade in complementary services that you can provide.

What other windows of opportunity might be available to you? The table on the following page outlines areas where you might search for opportunities to sell services to manufacturing firms in the U.S.



## Searching for Windows of Opportunity Among Manufacturing Firms

### *Major Service Sector Purchases by Manufacturers*

Advertising  
Banking services  
Computer services  
Courier services  
Employee benefits  
Engineering and construction contracting  
Equipment and building repairs  
Liability insurance

Personnel search consultants  
Professional services - accounting, legal, consulting  
Telephone services  
Transportation services  
Travel services  
Utilities  
Warranties

To succeed in taking advantage of a window of opportunity, you must act quickly, exploiting the situation as fully as possible.

### Understanding risks and obstacles

There may also be special factors related to your service or the behaviour of your potential customers in the U.S. market that will increase the difficulty of U.S. market entry. Of possible concern might be the following factors that affect expansion of services trade:

- Difficulty in "patenting" services, increases the risk that competitors will adopt your service concept and perhaps make it difficult for you to enter the market in a "small way".
- Customer difficulty in defining and comparing services among competitors, makes it more difficult for a new firm to get customers to switch.
- Differing state rules and regulations governing certain services (e.g. insurance)—as well as accreditation standards for professionals (e.g. engineers)—complicate or prevent doing business in the U.S. for some service providers. Details on some of these rules are provided in Annexes to this guide.
- The importance of direct relationships between clients and service providers, due to the intangible nature of services, creates the need for more intensive marketing that can strain the resources of some service firms. It sometimes also requires the service provider to be close-by to "manage" the client as well as employees (e.g. client-consultant project teams).
- Lack of a clear distinction between the service and the outlet (or loyalty to the outlet) in the case of certain services (e.g. retail stores), causes potential customers to wait until their current service supplier adds the new service rather than buying from a new service provider.
- The need in many cases to sell to two buyers — the client who signs the contract and the customer who actually consumes the service (e.g. computer software) — makes the investment in marketing potentially more expensive when distances are involved.
- Inability to standardize service delivery — each service contact is unique in some fashion — adds to buyer uncertainty about new suppliers, to the service firm's uncertainty in projecting initial market research findings, and to management problems.
- Customer involvement in performing the service (e.g. self-service at automated tellers), coupled with expectations of total reliability of the services, makes it extremely important that confidence in the service is established, potentially through extensive corporate image building.
- Inability to "inventory" services (no service exists prior to delivery; inability to purchase services from another supplier if you are short of resources), creates management and staffing problems.
- Uneven demand and varying expectations



about excellent service, often makes it necessary to have spare capacity, which can be costly to manage over longer distances.

- Increased entry of and fragmentation of service providers in the U.S., quickly closes new windows of opportunity. For example, the recent "rash" of deregulation and service market segmentation in the U.S. has left certain market segments (e.g. well-to-do "yuppie market") overcrowded with new suppliers (e.g. hotels, retailers, media, financial services).
- The U.S. reputation for being more litigious than Canada, which makes business in the U.S. more risky. Businesses in the U.S. have a significantly higher exposure to legal disputes than in Canada. This tendency towards legal disputes extends to service businesses as well as goods producers. A well-known example is that of medical malpractice suits. Canadian businesses should assess the risk of liability suits when selling services, or associated goods, in the U.S. market. Legal counsel should be consulted and appropriate insurance coverage obtained.

Despite the risks and obstacles facing exporters of services to the U.S., many are able to overcome problems and turn them into opportunities. To help you do the same, ask questions that help you see the possible rather than the impossible, such as:

Don't say:	It won't work.
Ask:	Which part will work? Does the Free Trade Agreement help to make it work?
Don't say:	We don't do it the way they do in the U.S.
Ask:	What change is needed so we can do it the new way?
Don't say:	It costs too much.
Ask:	Can we make a profit in the U.S.? How much will the overall business benefit?

## Canadian assistance for service exporters

In determining whether you should export your services, consider the various government assistance programs available to help you in your U.S. market entry. Federal government programs are administered by External Affairs and Industry, Science and Technology Canada (ISTC). Provincial government programs are delivered through the B.C. Trade Development Corporation and the Ministry of International Business and Immigration. Other organizations also offer export assistance as indicated below.

### Federal programs

The following *federal* programs may be of interest to service exporters. Information on many of these programs is available through the Vancouver office of Industry, Science and Technology Canada. In British Columbia, call (604) 666-1402 or write to P.O. Box 11610, 900-650 West Georgia Street, Vancouver, B.C. V6B 5H8.

**1. Program for Export Market Development (PEMD):** a cost-sharing assistance program designed to help Canadian businesses participate in or undertake various types of export promotion activities. Eligible activities include trade fair participation, market visits, project bidding, establishment of export consortia and establishment of a permanent sales office outside Canada. Eligibility criteria should be checked.

**2. Technology Inflow Program (TIP):** a program that promotes the acquisition of foreign technological know-how needed to develop new or improved services as well as products and processes.

**3. The World Information Network for Exports (WIN Exports):** a computerized directory of Canadian exporters of products and services, designed to help trade development officers to respond more quickly to opportunities identified in their territories.

**4. Business Opportunities Sourcing System (BOSS):** a computerized databank with the names, addresses, capabilities and other vital information on Canadian manufacturing and service companies



within each provincial region. This service is made available to potential domestic and foreign customers. Management consulting, architectural, engineering and computer service companies are listed.

**5. Individual Counselling:** ISTC provides individual export counselling, as well as information and assistance to exporters considering exhibiting at international trade fairs.

**6. Western Economic Diversification:** the Western Economic Diversification Fund assists, among other things, individual companies with trade and marketing activities. It will also assist industry-wide marketing campaigns. All sectors are eligible.

**7. Canadian Commercial Corporation (CCC):** this Crown Corporation acts as a prime contractor when foreign governments and international agencies wish to purchase goods and services from Canadian sources on a government-to-government basis. Among other things, CCC identifies Canadian sources of supply, obtains bid opportunities and certifies the capability of suppliers to perform.

**8. Export Development Corporation (EDC):** this Crown Corporation provides a full range of financing, insurance and guarantee services to Canadian exporters of any size. EDC has export insurance programs to protect you against non-payment by foreign buyers, protect your foreign investment, protect your Canadian suppliers against non-payment and protect members of a Canadian export consortium against a loss caused by the non-performance of a partner.

**9. New Exporters Programs.** New Exporters to Border States (NEBS) and New Exporters to the U.S. South (NEXUS) are two programs designed to introduce small and medium size companies to new markets in the U.S. Groups of companies new to exporting are taken through documentation and customs clearance at the U.S. border and then on to a seminar on exporting at the Canadian trade post in Seattle. These programs are directed primarily at manufacturers but will also be applicable to service firms connected to the manufacturing sector.

## **Programs in British Columbia**

*In British Columbia*, assistance to service exporters is available in the following forms.

### **1. Export Advisory Services Division, B.C. Trade Development Corporation (B.C. Trade)**

(604) 844-1900: this Division of B.C. Trade assists service exporters in three key areas:

- a) Counselling through the Export Counselling Branch (e.g. assistance with business plans, matchmaking between B.C. firms and export oriented organizations inside and outside Canada, customized financial support packages or market development activities and counselling on export risk control).
- b) Financial advisory services and assistance programs for small and medium-sized firms through the Export Financing Branch, including administration of the Export Loan Guarantee program.
- c) Training and information services made available through the B.C. Business Network, an electronic, world-wide business information network, and the B.C. Business Info Centre, a one-stop centre for business information and export training.

**2. Service Industries Branch, Marketing Division, B.C. Trade Development Corporation** (604) 844-1900: this branch undertakes to facilitate the export sale of services in the environment, engineering, education, geomatics, health, financial, business and event management fields. It assists service businesses by providing information on new market opportunities and helps firms to evaluate these opportunities. It also organizes and assists in events for incoming buying delegations to promote B.C. professional services.

**3. New Market Development Program, B.C. Trade Development Corporation** (604) 844-1900: this program is designed to give financial assistance aimed at sharing the risks involved in developing new export markets. Activities which qualify include market development trips outside B.C., incoming buyer visits to B.C. and participation in trade shows outside the province. Service businesses incorporated and operating in B.C. for at least two years qualify, if annual sales are less than \$10 million and no assistance is received from any other agency for the proposed project. Qualified companies must demonstrate that they have conducted basic market research on their new target market and have established contacts with agents, distributors



and/or potential buyers. Financial assistance is on a 50/50 cost-sharing basis. Program funding is repayable if the company succeeds in making sales.

**4. New Exporters' Programme:** jointly sponsored by the Federal Business Development Bank, Vancouver Community College, Vancouver World Trade Centre, External Affairs Canada, Canada Employment and Immigration Commission, and the provincial Ministry of Regional and Economic Development, this program provides learning opportunities to the owner/managers of small businesses with export potential. Over a one year period, 30 businesses participate in workshop sessions followed by an individual on-site practical component.

#### Other assistance

In addition, assistance is available from private sector agencies, such as the **Canadian Exporters' Association (CEA)** and certain other associations. The CEA has about 1,000 members from every industry sector. Its work is done through a network of committees dealing with various export issues and

through newsletters and educational seminars. The CEA is introducing a program, *Assistance for Canadian Exporters (ACE)*, to make available to members and the export community the experience and talents of individuals well versed in export activities.

There are also many published reference guides to Free Trade information sources and trade contacts, such as *The Free Trade Handbook*, sponsored by the Federal Business Development Bank (in Vancouver at (604) 666-7800). Also, **Info Export**, an External Affairs service providing information on the government's export programs and services can be reached at (613) 993-6435 or toll free at 1-(800)-267-8376.

Finally, for other federally sponsored assistance, contact the Canadian Consulate General in Seattle, at (206) 443-1777 or fax no. (206) 443-1782, ext. 107. Offices are located at 412 Plaza 600, Sixth and Stewart, Seattle, Washington, 98101-1286.

### What is Export Commitment?

Successful exporters regard "exporting" as an important aspect of their business. Owners and CEO's of exporting firms will typically spend more than 20% of their time on export-related matters. This commitment reflects in the quality of the marketing effort—and frequently determines the success or failure of Canadian service firms in the U.S.

Why is commitment so important? Personal factors have a lot to do with where service businesses locate. Most service business, with some exceptions (e.g. transportation services), are not attracted to a particular market by the existence of some unique, low cost factor of production or geographic location relative to other market areas.

For most financial and business service firms, personal preference and size of the local economy dominate the location decision. In particular, the personal preference of the founder for the region has a lot to do with why the business is where it is.

For service trade to be successful, the personal preference or commitment to travel and visit new places is often an overriding factor determining the degree of success in opening up new markets. Obviously, this is only one part of commitment, but an important one.

## Making the market entry decision

The final step is to take all the information acquired thus far and reconfirm your goals and objectives for your market expansion into the U.S.

Start by asking again why you are planning to export. Is it because your current market is already crowded with competitors chasing too little demand? Or do you feel the need to "diversify" your market territory to protect yourself against a downturn in your local marketplace, or an influx of competitors under the FTA? Perhaps you feel confident that your service has widespread demand internationally and the U.S. market will serve as a good proving ground? Or you just like to travel and do business in San Francisco, Southern California, or New York?

Whatever the reason, do not enter the U.S. market blindly. Ensure that your services are suitable to export. Understand which markets to target. Develop plans to overcome obstacles that might stand in your way. Finally, make sure you are willing to commit to exporting your services.

Determining whether you are ready to export will largely depend on whether:

1. Your goals and efforts have the *focus* needed to succeed.
2. You have the *confidence* and attitude needed to take on new markets.
3. You are ready to make the personal and corporate *commitment* required.

If you feel uncomfortable about the U.S. market after doing the homework suggested in this guide, then exporting probably holds less potential than you may have thought and perhaps should be postponed as a strategy.

If your comfort level has increased through market research and analysis, continue on.

**But do not forget to identify a second target market or other fallback position, just in case something goes wrong with your first attempt at U.S. market entry.**

Your next step is to work out your marketing strategies for expanding into the American market. Chapter eight will help you in this regard.



## CHAPTER 8

### Developing strategies for market expansion. *What works for service businesses?*

#### Selecting marketing strategies

Once you have made the decision to go into the U.S. market, your next question is likely to be—how? You now need to address what probably is the most difficult of all factors for a service business to consider in expanding to a new market—marketing strategies.

The service you provide is typically invisible to the potential buyer until he or she uses it. But you need your customer to believe in the quality, innovation and flexibility you provide. In other words, your task is to help others value your service. How do you convince buyers that you provide a better service than anyone else?

The key to marketing success is to develop your U.S. marketing strategies around the needs of your American target market. Always respond to customer needs and desires. Do not act solely in your personal interests.

Understanding the purchase decision from an American buyer's point of view is the first step. This is perhaps more important for service marketers than for goods marketers. Research on this topic indicates that the most important factors that influence a services purchase decision include:

1. The perception that the service supplier has prior, applicable experience.
2. Factors that help to differentiate the service or the supplier (more "brains", superior procedures, better offices).
3. General corporate image (successful, good references).
4. Impact of personal sales "pitch".
5. Cost of services.

Note the ranking that cost of services gets. The notion that most purchasers must "have faith" in the supplier to buy a service appears to matter ahead of price. It is often said that, in buying services, the customer is buying "confidence"; or that services are "credence" goods. This applies especially to the purchase of professional services.

Image therefore becomes important for many service providers. The intangibility and technical complexity of many services leads customers or clients to seek and evaluate "surrogate" indicators of quality—for example, office ambiance, "glossiness" of brochures, dress and demeanor of staff, manner of speaking, orderliness or cleanliness of premises.

As one author puts it: "the reality of a service varies according to the eyes of the beholder". As an exporter of services, your first task is to find out what aspect of image matters in the markets you want to enter. Then you can structure your strategies accordingly.

Given the above considerations, your primary objective as a service exporter is to:

*Turn your firm into a recognizable supplier in the American market.*

To be a recognizable supplier, you need to establish yourself as:

- an acknowledged expert;
- desirable to deal with; and
- offering services effectively.

To do this, you need marketing strategies that focus on:

*Getting exposure and managing client expectations.*

Comments on these strategies follow.



## Strategies for getting exposure

To be recognizable as a credible supplier in the U.S., you will need to get *exposure* in the U.S. marketplace. However, in services marketing, broad mass market exposure may not be effective. A more targeted approach, with more personal contact, is typically better suited to service businesses seeking exposure in new markets.

The following marketing strategies are commonly used by service "exporters" to gain exposure:

1. Personal contact, references and informal networks in the U.S.
2. Direct solicitation by sales representatives, or through direct mail or telemarketing.
3. Attendance at U.S. trade shows, conventions, etc.
4. Response to calls for tenders, from public or other sources.
5. Advertising and articles in American printed or electronic media.

6. Speaking or appearances at U.S. industry and professional functions or special events.
7. Various sales promotions (e.g. lower fees, free initial consultation, reference staff at no extra cost, free seminars or publications).

Typically, in services trade, sales people are likely to be service providers as well as sales getters. Getting the work and doing the work is a constant juggling act for most service business owners and managers.

An obvious question is: can you send your best service providers into the U.S. to look for new business? On the other hand, can you support the services of a salesman, who might cost as much as \$80,000 to \$100,000 a year to maintain? Do you have any alternatives such as identifying and using the services of an agent, who receives a commission on gross sales? What about building a "broker" referral network to sell your services?

Some considerations in using local sales representatives or agents in the U.S. market and some selling strategies are set out in the boxes that follow.

### Selecting and Managing Sales Representatives and Agents

U.S. sales representatives or agents typically have the double advantage for service exporters of more intimate knowledge of the local marketplace and less need for management supervision. However, in many service sectors, local representatives cannot be expected to generate sales without considerable technical or information support from the exporting firm. A disadvantage of working with independent sales people or agents is the difficulty of fully controlling their activities and the quality of their sales effort.

Sources of information on sales representatives or agents in the U.S. include consulate trade commissioners, trade shows and conferences, trade journals, local business and government people and chambers of commerce.

A few tips on selecting and controlling sales representatives and agents include:

- Ask for references and check U.S. market knowledge.
- Ask about other business activities (e.g. other services or products sold) to ensure they do not conflict.
- Ask how much time and number of calls the rep or agent will devote to your firm's services.
- Determine if he or she is willing to assist you in any aspects of the service or post-service delivery.
- Ask for the rep's or agent's assessment of the American market and of prospective sales.
- Ensure commission payment obligations are clearly set out where there are combined efforts in securing business.



## How To's of Selling Strategies

As part of your development of selling strategies, develop a checklist of actions to be taken and assign responsibilities and deadlines for these actions. Consider the following list as a starting point.

	Who?	When?
<ul style="list-style-type: none"> <li>• Identify prospects in the U.S. and rank them by their potential value as customers.</li> <li>• Identify relevant sales leads and decision makers in the U.S.</li> <li>• Decide who to contact and in what order.</li> <li>• Identify promotional strategies (publicity, public speaking, etc.).</li> <li>• Determine your level of selling effort (who, how many people?).</li> <li>• Determine how many calls or mailings will be required to produce an introduction or a sale.</li> <li>• Determine how long each of the above activities will take in man days.</li> <li>• Estimate what your initial sales size will be and what is the likelihood and size of repeat sales.</li> <li>• Determine what selling expenses will be incurred with each sale or over each period.</li> <li>• Determine the characteristics and cost of a U.S. office or other outlet.</li> </ul>		

Whatever sales strategies you adopt, be prepared to persevere. Many service exporters give up too soon. Don't let obstacles frustrate or overwhelm you. Instead, learn from your efforts and keep improving your sales and promotional strategies.

### Strategies for managing client expectations

To be a desirable supplier, you will also need to *fit customers' expectations* in entering the U.S. market. In services marketing, expectations are often at least as important as reality in developing demand for your service. Your choice of strategies for managing U.S. client expectations include:

#### 1. Alter your services or behaviour in accordance with American clients' expectations and experiences.

For example, if U.S. clients expect to meet with you in person to discuss drawings or contracts, rather than deal through lawyers or telecopiers, make sure you can free the people needed to travel to the U.S. The client may doubt your ability to provide the service if you are not available to discuss or negotiate the sale.

Also consider the "image" of your office in the U.S., if you are going to have one. Opening the same type of office you have in Canada may not work in the U.S. A different image may be needed. Likewise, consider the name of your service. Does it imply the same benefits to U.S. customers as to Canadian customers? If not, rename your service.

If you are to successfully alter your services or their delivery, you must first know the U.S. client and his or her buying behaviour. This knowledge can be gained through market research, information provided by local business people or a combination of both.

#### 2. Alter U.S. clients' expectations about your service's features and benefits through educational or promotional communication.

For example, provide well-written information describing your approach towards the client's problem, and clearly stating the features and benefits compared specifically to U.S. competitive approaches more familiar to the client.



The more important and also the more novel the service, the more necessary is client education and the more the customer needs timely and accurate information to show how the service fits his needs. Also, in these cases, the buyer is more likely to look at existing U.S. competitors to better understand what is being offered in the market. Hence the importance of accurate comparisons with U.S. competitors' services.

You may also need to convince your prospective American customer that Free Trade will make it easier for him or her to buy from you. Many American firms are quite uninformed about Free Trade and the benefits it provides—not only in allowing them to expand their markets but also in providing them with opportunity to expand their sources of supply.

### **3. Involve your American client in designing or providing the service. Establish a strong working relationship.**

This could involve forming a project team to work with the client or providing an initial service where the risk for the client is low, and building up the client's confidence in and knowledge of the value of your services. This also helps to establish a long-term advantage as it raises the switching costs of trying a new service provider.

Remember that many service providers who fail in new markets, fail because they do not take the time to see their services as their prospective clients see them.

## **Pricing strategies**

Pricing can be an important instrument of strategy, particularly in entering a new market with either goods or services. In many markets, it is possible to "buy" your way in.

Your business plan should indicate what your pricing strategies will be in the U.S. marketplace. How you price depends on your objectives. These might be short-term recovery of investment, long-term profitability or market penetration on a break-even basis. One of your key decisions in ensuring that you make money in the U.S. is establishing the

nature and extent to which you will use financial considerations in establishing a price for your services and the extent to which you will allow marketing considerations to prevail.

How much money you make will also depend on payment terms, credit and collections procedures, contingency billing practices and prepayment practices. Also consider exchange rates and what impact they will have on sales and profits.

It is essential for you to know what U.S. competitors in the same field charge for similar services. Some of the ways to obtain competitive pricing information include:

- Use the services of a U.S. competitor.
- Call a competitor to ask what the fees would be or ask for brochures.
- Ask local experts (e.g. bankers, suppliers) or prospective customers about pricing.
- Ask an American professional or trade association about fees and payment terms.
- Ask Canadian customers who have used the services of U.S. firms about U.S. pricing.

Clearly, not all these approaches are practical for all service exporters, but do your best to learn about pricing to ensure you do not undervalue or overvalue your U.S. services.

Developing a pricing strategy for service exports is the next step. This is an "art" which consists of:

- Analyzing the competitive situation in the U.S. services sector.
- Setting specific objectives to be accomplished by the price strategy.
- Deciding how to position price within the range of feasible prices.
- Establishing whether price will be used as an active or passive element in marketing.
- Perhaps offering a package price for your services and someone else's goods.



- Developing policies and structure for guiding U.S. pricing decisions.
- Implementing and managing the strategy.

**However, in services marketing, price may play a secondary role in the decision to buy. Reputation, quality (however perceived), or even personal relationships may have a lot more to do with why a service is bought.**

For some services the risk involved in buying the service is so great (e.g. in certain management consulting or engineering services), that the decision to buy is rarely made on the basis of price alone. All other factors must be equal before the subject of price comes up.

Consequently, the services exporter must be careful to assess the role price plays in the particular market or for the particular customer being pursued on the U.S. marketplace.

### Other export strategies

Listed below are some examples of how you might consider typical goods export practices and deter-

mine whether they are applicable to your expansion into the U.S. Consider these when developing your strategies.

One of the strategies touched upon below is that of using referrals. As a service provider, it is difficult for you to give out samples, so try and develop referrals. Satisfied customers and professional colleagues are the best sources of referrals.

A few pointers to keep in mind in developing referrals include:

- Request referrals; don't wait for them.
- Provide brochures or other materials to help along the referral.
- Reward referrals (e.g. by sending a "thank you" note).
- Reciprocate, especially when professional colleagues are the source of referrals.

Include these and similar practices in your marketing plan.

Goods Export Practices	Service Export Practices
<ul style="list-style-type: none"> <li>• Goods customs clearance</li> <li>• Export pricing to include cost of freight, insurance, etc.</li> <li>• Sales samples</li> <li>• Trade show displays</li> </ul>	<ul style="list-style-type: none"> <li>• Immigration clearance</li> <li>• Goods customs clearance of any goods (e.g. disks, brochures, audio-visual equipment, etc.) required for delivery of your service.</li> <li>• Export pricing (where movement of people is required) to include cost of travel, telecommunications, meals and accommodation, temporary office premises.</li> <li>• References, list of previous experience, customer endorsements, advertising.</li> <li>• Distribution of promotional materials, booths, hospitality suites or delivery of papers at conferences and seminars, franchising shows or association meetings.</li> </ul>

## Testing the waters

One final marketing strategy merits special attention. If your answer to the question: "should I export?" is largely "yes"—but, a tentative "yes"—consider "testing the waters" as a marketing strategy before plunging totally into the American market.

In most cases, you have little to lose. For many businesses, whether in goods or services, it is sometimes easier to do business in the United States by "accident", than it is to expand in the Canadian marketplace.

On the other hand, if you enter the U.S. market in a

big way, it is easy to quickly lose money in the U.S. The enormous size of the U.S. marketplace can quickly devour your resources if you are not familiar enough with the market to focus selectively on the most attractive target markets.

The options below allow you to "get your feet wet, without drowning"—that is, to test the U.S. market before committing all your resources.

As you experiment in the market using these options ask yourself the following questions:

- What prospective customers have you contacted in the U.S.?

### Testing the Waters — Some Options

#### Find a "guide"

Find a company already in the U.S. who can help you learn more about the American market on a joint venture or other cooperative basis.

#### Tag along with your customers

If any of your Canadian customers are doing business in the U.S., see if you can tag along, and "get your feet wet" across the border.

#### Tag along with goods exporters

Identify Canadian goods producers doing business in the U.S. See if your services might be complementary to their products and join them in selling to the U.S. market.

#### Dance slowly

Take on one customer, or one contract, or one small market area; learn and move on. Go for a single, relatively modest sale to get you started and give you a sense of accomplishment.

#### Clone your customers

Aim first to sell to new U.S. customers who look and act most like your best Canadian customers (do remember that no two customers are exactly the same). Learn from these customers. Then move on.

#### Take precise aim

Identify any other market niche where your chances of success and profit are high (e.g. because of unmet need; high growth or profit potential; actual or potential dissatisfaction; or availability of good contacts or referral sources). Remember that expectations of service quality in market niches are often higher than for the market as a whole. Once successful in a core niche market, branch out.



- What has been their reaction?
- Is there anything you should be doing differently?
- Are any of your contacts to date influential enough to promote your service by word-of-mouth?
- What can you do to keep increasing your market visibility (joining associations, writing/speaking, sponsoring programs, advertising, etc.)?

The above strategies are “learn as you go” options. However, they should not serve as an excuse for

discontinuing research into the U.S. market in more systematic ways. And always remember that your interest in and commitment to exporting are still paramount.

## Writing it down

Once you have worked out your marketing strategies and marketing plan, it's time to write these down as part of an overall business plan for your expansion into the U.S. market. Chapter nine briefly reviews some of the factors to be considered in developing a business plan for your new U.S. venture.

## Sketching Out Your Business Plan

Purpose/goals for doing business in the U.S.

Size and nature of the target market.

Features/benefits of service to be offered.

Methods of offering the service.

Milestones for U.S. market penetration.

Financial projections and funding.



## CHAPTER 9

### Writing the export business plan.

#### *Developing a business plan and strategies for your U.S. market expansion.*

#### A business plan

What you know about the market, what you plan to do and how you plan to do it, as well as the financial consequences, should be summarized in a business plan. A business plan and its accompanying analyses will:

- Help you determine the feasibility of expanding into the U.S.
- Tell you the kind of information that is missing or needs further development.
- Give you a firm basis for developing a more detailed operating plan.
- Improve internal feedback and discussion.
- Assist in obtaining external funding (e.g. bank financing) for your export venture.

Remember, however, that a business plan will only help you succeed if you implement the necessary strategies.

The business plan should state the purpose and the goals of your firm in doing business in the U.S.; outline the size and nature of the market the service is aimed at; describe the significant features of the service being offered in the U.S. marketplace and how it is to be offered; set out milestones for U.S. market penetration; outline financial projections; and state funding requirements.

There are many guides available for writing business plans. The comments in this chapter focus on some of the specific strategies a service business should consider in developing a business plan for export, in addition to the marketing strategies discussed in the previous chapter. Considered in this chapter are:

- The form of doing business in the U.S.
- Financial and funding consequences.
- Other factors to consider in your business plan.

- A business plan checklist for service exporters.

#### Selecting the form of doing business in the U.S.

Once you understand the U.S. market and are ready to put together your business plan, you will need to address the question: what would be the best way for *your business* to sell and deliver services? In answering this question, consider the following two observations.

**1. The most important way in which services are exported is by a firm's own personal contacts and informal networks. Many services also require personal contact for delivery.**

**2. A second important way in which services are sold (and delivered) is by accommodating staff or establishing an office to transact the business in the export market—usually because the personal contact requirements of the service sale or delivery cannot be satisfied by travel.**

The second method of selling and delivering services can be achieved in different ways, including:

1. Establishment of an American office (either a branch or a subsidiary), and transfer of key people from the Canadian office(s).
2. Acquisition of an American office, from a firm already in the market. Limited transfer of Canadian staff to the U.S. operation.
3. Joint venturing with an existing American firm—for purposes of marketing the service, delivering it, or a combination of the two.
4. Franchising or other licensing arrangement.

5. Subcontracting or hiring locally, to either sell the service, deliver it or both.

As you move down these options, the extent of your *control over the operation will tend to diminish*. Nevertheless, the need for effective management does not diminish.

Further comments on joint venturing or other business alliances are covered in chapter ten of this guide.

## Financial and funding consequences

Essential in a business plan is a summary of the financial consequences of your export plans. In describing the financial implications of your U.S. market venture, the assumptions behind your projections are critical and require careful thought.

What you will need to develop for your financial overview are:

- U.S. sales and expense projections for the next three to five years, including profit and loss

statements by month or quarter, at least until break-even, and then annually;

- Assumptions on which the above figures have been based;
- Several different assumptions (more optimistic, more pessimistic) to test the reasonableness of your figures;
- Sensitivity analysis for key factors (for example, "what if" lower market penetration, higher travel costs occur?); and
- The funds required for U.S. market entry.

The resulting financial projections and requirements for funding should be set out in your export business plan.

Some of the questions you should be asking yourself regarding funding are listed below.

Questions about Funding	Your Answers
How much money do you require to start?	
How much will you require over the next 5 years?	
When will you require additional funding?	
How will the funds be used?	
What portion of the funds will you borrow?	
How will you raise any further investment required?	



## Other factors to consider in your business plan

Other factors to consider in your business plan for entry into the U.S. market include:

- There are a number of important differences between U.S. and Canadian bankruptcy laws, particularly in the provisions relating to preferences. The two most common forms of bankruptcy under the U.S. Bankruptcy Act are liquidation, and reorganization. The reorganization alternative under Chapter 11 has many features which are unique to the U.S. and has been used "creatively" by a number of companies in financial difficulties. Canadian service firms should be aware of these factors to avoid any unnecessary surprises. Credit policies should address the differences between Canadian and U.S. bankruptcy legislation.

U.S.A. Commercial Risk (Small Business) Insurance policies are available through the Export Development Corporation to protect Canadian exporters against non-payment of short-term credit due to insolvency or default of the buyer. Canadian exporters of engineering and technical services can qualify. For more information contact the Export Development Corporation office in Vancouver at (604) 688-8658.

- U.S. accounting principles and practices differ somewhat from those in Canada. For example, various state and federal agencies maintain special requirements for certain industries, such as banking, insurance and utilities. Canadian accounting firms through their U.S. affiliates can provide you with the information you need in this area.
- Employers typically provide fewer and less expensive fringe benefits than they do in many cases in Canada. However, wage rate differentials between U.S. and Canadian workers are narrowing. Chambers of commerce in many U.S. locations can direct you to information on labour costs and labour laws.
- Management salaries and benefits in the U.S. tend to exceed those in Canada. Executive search agencies in the U.S. can help you find

out more about U.S. salary levels.

- Access to capital is sometimes easier in the U.S. Canadian trade consulates in the U.S. can direct you to information on financing sources.
- Many federal and state governments give preference to purchasing services as well as goods from local firms ("buy American" policies) or firms that employ minority groups. Examples are included in the Annexes.

In addition, your business decision about entering the United States will have tax implications. Your tax liability will differ by the method you choose for doing business — whether it is through direct sale, a branch or a Canadian company, a separate U.S. subsidiary or a partnership.

Similarly, when you choose a location for your U.S. operations, you will do well to compare various state and local tax situations (and other incentive packages), including special tax concessions that are available in certain areas.

The box on the next page outlines some general tax considerations.

**As indicated above, for detailed information and advice on many of the above matters, it frequently pays to consult a professional advisor, such as a lawyer or accountant.**

## Business plan checklist for successful service export strategies

As you complete your business plan, review it to see if it effectively addresses the following key factors in service market success:

- Adequate resources.
- Careful U.S. market segmentation — based on expectations as well as needs.
- Distinctive service concept, identity, culture, values.
- Precise positioning of the service (focus).
- Image and marketing communication.

# The Impact of Taxes and Incentives on Your Entry Decision

## Overview

Companies that do business in the U.S. are taxed by three levels of government: federal, state and local. The most important federal taxes are corporate and personal income taxes. There are also federal excise taxes and employment taxes. However, the U.S. has no federal sales tax, no value-added tax and no export duties. The maximum U.S. federal tax is 34% for corporations and 28% for individuals.

## State and Local Taxation

Most states and some localities impose corporate and personal income taxes just as the federal system does. However, their tax rates are lower. Several states, however, have a unitary taxation approach that includes all income of an economic group (a group can consist of U.S. domestic corporations and foreign corporations) in the computation of state income tax. This form of taxation can increase both the tax and reporting burdens of foreign corporations. Worldwide unitary taxation in states such as Florida, California and Oregon has been repealed in favour of a so-called "water's edge" approach, but the replacement effect will take place over a period of several years. State and local governments also usually levy sales, property, franchise, and unemployment insurance taxes.

In the United States, state income taxes are deductible in computing taxable income for federal income tax purposes. Further, some states allow the deduction of federal income taxes in computing taxable income for state income tax purposes. Consequently, the effective combined state and federal income tax rates, taking into account the deductibility of income taxes, is lower than the direct addition of state and federal income tax rates.

## Other Highlights

In order to be subject to U.S. federal corporate income tax, a Canadian company must have a permanent establishment in the U.S., or a fixed place of business with regular business activity. In addition to paying the corporate income tax, foreign corporations are also subject to a branch profits tax on income that is effectively connected with the conduct of a trade or business within the U.S. They may also be subject to a branch-level interest tax.

All taxable profits from exporting services, licensing agreements, branch operations and partnerships in the U.S. will be subject to Canadian tax when they are earned. To the extent that any of these profits are subject to income tax in the U.S., the taxes paid in the U.S. can be credited against taxes owing in Canada. Where a U.S. subsidiary is used, Canada will generally not tax profits arising in the subsidiary.

Dividends paid by the U.S. subsidiary to the Canadian parent company will be subject to a 10% U.S. withholding tax but are not subject to Canadian income tax if they are paid out of the active business income of the U.S. subsidiary.



- Cost effective systems for service delivery.
- Pricing strategy and creativity.
- Management and reliable management systems.
- U.S. competitor assessment.

Consider also the following as you lay out the strategies in your business plan:

1. Do the strategies meet your objectives for exporting to the U.S.?
2. Do the strategies build on strengths and minimize weaknesses?
3. Are the strategies flexible if conditions change or windows of opportunity open up?
4. Are the strategies feasible given your resources (human, financial, etc.)?
5. Are you committed to the strategies?
6. Do your strategies give you a competitive advantage?

7. Can you afford to be patient if they do not work right away?

8. Do you have fallback strategies?

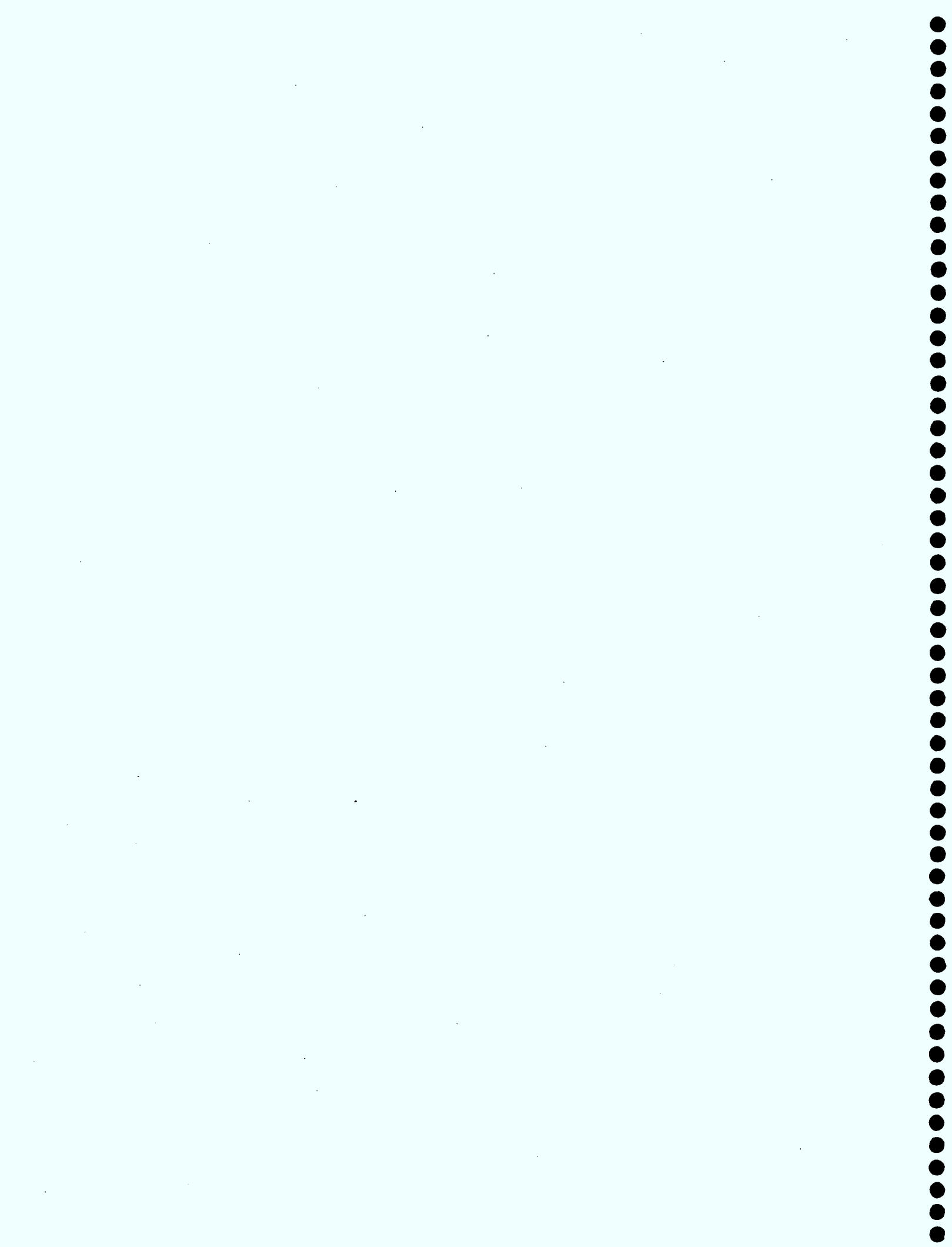
9. Are you giving your best?

The last of these questions may be the most important of all. The higher the quality of the resources you devote to your new export venture, the better the chances of developing the contacts and knowledge necessary for success.

### **Joint venturing—another consideration in your business plan**

A further factor to describe in your business plan is any proposed joint venturing for U.S. market entry.

Joint venturing is often a topic of special interest for exporters. For service exporters it is especially important because of the frequent need to have local resources for selling or delivering services. As a result, the topic of joint venturing is covered in a separate chapter, chapter ten, which follows.





## CHAPTER 10

### Forming alliances.

#### *What are the key factors in successfully joint venturing for service exports?*

##### **What is a business alliance?**

A business alliance is an agreement to work with someone else. The purpose of a business alliance is to achieve an objective (such as selling and delivering your services in the U.S. market) which you could not achieve as well on your own.

Take for example the situation where you know what you want to achieve in the U.S. market, but you are not sure you can do it on your own. Perhaps, you do not know the American market well enough or you have no industry contacts. Alternatively, you have "hot" U.S. customer prospects, but you cannot stretch your resources to deliver the service in demand. You have heard about business alliances and you feel this might be the time to try one.

There are two approaches to consider in forming a business alliance:

1. Agreeing to work with an American services firm interested in participating in or assisting your expansion into the U.S.
2. Agreeing to work with a Canadian firm interested in pooling its resources with yours in joint entry into the U.S. marketplace.

For many service businesses, the latter approach could prove to be a useful initial entry method—as a suitable U.S. partner may be more difficult to identify.

##### **What can business alliances do for you?**

Business alliances can help you and your co-partners in the following ways:

- Provide access to new geographical or niche markets.
- Increase knowledge about a new market.

- Enhance your advantage over competitors.
- Take advantage of a growing market.
- Diversify your revenue base.
- Strengthen management skills.
- Spread risks and costs.
- Pool or optimize resources.
- Raise capital.

Business alliances work best where the partners' strategic goals match. Each then provides complementary capabilities or resources. As a new exporter of services into the United States, you will probably look for alliances that will help you market or deliver your services. In this case, your contribution will be a unique service concept or specialized technical knowledge. Your venture partner will likely provide local market contacts and knowledge.

##### **Forms of business alliance**

Business alliances come in many forms. They can be joint ventures; licensing agreements (for example, for technology, knowledge or brand-name transfer); marketing agreements; research and development agreements; partnerships, either limited or general (usually between individuals); or even mergers.

Which form is best depends on the overall objectives of the partners. One of the first things to determine is whether you need an alliance that will be long-lived or short-lived.

Simple marketing agreements or more formal joint ventures to market or deliver services are the most likely alliance structures that will suit most service exporters' needs. If you are looking for capital or tax benefits or a longer term relationship, consider structures such as limited partnerships, or licensing (sale of rights in exchange for royalty payments) and franchising agreements. Note that franchising agreements are the most common form of licensing.



This chapter will deal mainly with joint ventures. Usually a "joint venture" is for a specific period of time or for a specific project. Once the business purpose of a joint venture is accomplished, it is usually dissolved. On the other hand, a "partnership" differs from a joint venture in that it is formed for a longer term and involves joint work on many projects. In its formal definition, a joint venture involves at least two companies pooling resources to create a new, separate organization.

Note that most joint venturers benefit from the advice of experts such as lawyers, accountants and tax specialists in structuring a joint venture deal and negotiating the terms. Third-party experts can often also help identify a potential alliance partner.

### Joint venturing successfully

Some of the more important principles for a successful joint venture include:

- Joint venture definition is paramount.
- The partners' strategic goals should match and mesh with capabilities.
- Careful partner selection is essential to success.
- A continuing relationship should be tied to performance.
- Commitment is crucial but "divorce" procedure should be defined.

Each of these factors is discussed in more detail below.

### Careful joint venture definition

One of the keys to success in a joint venture is to clearly and carefully define realistic objectives and obligations for the joint venture.

One author has the following caution about joint ventures:<sup>1</sup>

**"Because a joint venture can mean just about anything to anybody, it is important to be as specific as possible in the joint venture agreement about the legal structure of the new entity, term, benchmark performances for both partners and expected returns."**

Some of the considerations in defining objectives and obligations in a joint agreement include:

- Does the joint venture marketing agreement cover only as large a territory as can be covered effectively?
- Will resources be available to handle the designated obligations in the agreement?
- Has thought been given to the appropriate balance between too much and too little autonomy for the new joint venture?
- Is there some protection provided for the core business of the respective venturers to prevent "raiding" of their respective competitive advantages?
- How will the U.S. joint venture be funded and how will the benefits be realized (distribution of earnings, charging of fees, sale of equity)?
- Will benefits of any profitable new services developed in the joint venture accrue to the various partners?
- Who will manage the American joint venture?

Note that a joint venture can simply be an agreement to do something together or it can be an operating entity. If the joint venture is an operating entity, two or more individuals or organizations invest to create a third, separate business. The extent of equity ownership of each party is generally established by negotiation among the various parties. The new business may be unincorporated. In most states, joint ventures are not recognized as legal entities separate from their participants.

### Matching strategic goals and capabilities

In an ideal alliance, the partners' strategic goals should match. In addition, capabilities should mesh in some way. Each partner should leverage the strengths of the other.

In a typical alliance, each partner will be strong where the other is weak. For example, as a service exporter, you are looking for market information and easier market entry. Your ideal partner should have



the local market expertise and contacts to help you out. Usually your U.S. partner will look to you to supply a service or know-how that is in some way unique or of special interest.

Studies have shown that factors beyond leveraging strengths contribute to joint venture success. For example, cooperation might be in areas of joint weakness, such as cooperating in joint advertising to achieve a common goal.

A balance of interests and capabilities is critical to the success of a joint venture. It has been observed that companies with equally deep pockets and similar cultures work best together. Remember, however, that your American partner will always have the position of strength simply by virtue of already being in the U.S. market.

### Careful partner selection

Take sufficient time to select partners carefully. Investigate your prospective joint venture partner, checking references and past claims. Verify any contracts, if relevant. As mentioned above, discuss your respective strategic goals and determine where they overlap.

Include the following factors in evaluating a partner:

- potential for a good working relationship;
- quality image;
- culture;
- delivery capability;
- competitive attitude (aggressive or not); and
- use of up-to-date technology and management processes.

Best of all, do a small project together and get to know your potential U.S. partner better before entering into a longer term venturing agreement. Alternatively, limit the initial agreement to the shortest time possible. Then review the situation and decide whether to continue or not.

Along the way build a relationship rather than just a joint venture.

### Tieing the relationship to performance

Tie a continuing relationship to performance by including a designated level of sales or some other concrete target in the joint venture agreement. Make the targets reasonable but firm.

Review performance at regular intervals, say, every quarter or every six months. Include first hand observation as well as management reports in your review. Obtain feedback from customers if possible.

In some states there are limitations on what the joint venturers can do and on their ability to bind each other.

In evaluating performance, remember why the joint venture was formed in the first place. If it exists primarily to help you learn (acquire knowledge) or demonstrate feasibility of U.S. market entry, avoid the mistake of judging venture success purely on the basis of profits. Develop a variety of criteria that might include:

- the degree of learning about the U.S. market, partner's skills or U.S. competition;
- how smoothly the venture runs (personnel and management);
- the extent to which the venture provides opportunities for prospective customer contact;
- the degree to which the venture assists in adopting new technology or development of new service products.

### Commitment v.s. "divorce" procedures

In any new venture, there is always a need to be patient and remain committed.

If performance is lagging, consider ways to rectify the problem. Avoid short-cuts. If required to get the venture back on track, increase training, provide incentives to the managers and to the staff involved in the joint venture, and/or improve the work environment. Do not automatically assume that the other party is at fault.

However, always define how much commitment and time you can afford to devote to the joint venture

and what fallback position you have. It is important to realize that, although a joint venture may be vital to your U.S. market success, you may end up in some way being dissatisfied with it. Firms that have operated many joint ventures are eager to repeat the experience, but indicate that there is much to learn before completing a successful alliance.

Because of the possibility for dissatisfaction, it is better to outline "divorce" procedures at the beginning of an alliance rather than later on. One aspect of "divorce" proceedings is the "divorce settlement". If you have any shared assets in the venture, agree how to liquidate them. Also consider such factors as who will own trade secrets or other intellectual property brought to or generated by the venture.

### **Tax considerations for joint ventures**

All taxable profits from joint ventures will be subject to Canadian tax when they are earned. In general, these profits are subject to U.S. federal, state and local income tax. However, the taxes paid in the U.S. may be credited against taxes owing in Canada.

In most cases, a joint venture in the U.S. is treated as a partnership for U.S. tax purposes. For U.S. tax purposes, the income and losses of a partnership are not taxed in the partnership itself, but instead flow out to the individual or corporate partners. The partnership is a conduit through which the partners or joint venturers are considered to have realized the income directly.

Joint venture participants are subject to U.S. tax only on their share of taxable profits. Where Canadian companies are joint venturers in the U.S., they may also be subject to branch interest and branch profits taxes in the U.S. in addition to federal income tax.

### **Looking to the future**

Now that your business plan is in place, take a last look at it and the strategies you have developed to determine how well they will get you through the 1990's. Some of the factors to think about as you polish up your market expansion plans are set out in chapter eleven.

<sup>1</sup>Lindsay, J., Joint Ventures and Corporate Partnerships, A Step-by-Step Guide to Forming Strategic Business Alliances, Probus Publishing Company, Chicago, Illinois, 1989.



## CHAPTER 11

### Epilogue.

#### *The evolving continental market for services in the 1990's.*

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##### **Stepping across the border in the 1990's**

In this guide, we have outlined some of the ways in which you can take advantage of the Free Trade Agreement to penetrate a much bigger market for services in the United States.

What opportunities will this bigger market hold for you in the 1990's? One thing is certain—the role services play in North America will expand rapidly in the next decade. The challenge for you is to keep up.

##### **North American trends in services in the 1990's**

If you decide to take the step across the border, into the American market, what might you expect to see as we approach the 21st century? Tremendous, continual change is a good guess. Across North America, on both sides of the border, a few of the many likely changes are as follows.

- Based on changing demographic and lifestyle patterns, North Americans will become increasingly demanding of access to more and more services.
- Greater opportunities will arise for specialized services in niche markets, (Tom Peters, author of *In Search of Excellence*, says there are no longer any non-niche markets).
- Expectations will rise for first class service and greater customer contact. Those companies that learn how to out-service their competitors will thrive.
- Slower North American economic growth will result in greater competition among goods producers, with value added services becoming a critical competitive weapon for manufacturers.
- The increased relative value of services will dominate manufacturing companies' overall output or value-added, leading many manufacturing industries to develop into service networks.
- Continuing technological breakthroughs will increase the service and informational content of products.
- The information revolution alone will fuel unimagined growth in services, made possible by state-of-the-art information processing. As John Naisbitt, author of *Megatrends*, observes: "we now mass-produce information the way we used to mass-produce cars".
- Marketing will increasingly stress the benefits of services packaged together with goods (e.g. engineering consulting services packaged with equipment purchases).
- The demand for business and commercial services will be strong. Many companies will "outsource" selected overhead costs to outside service providers, to ensure they can concentrate fully on areas of critical competitive advantage.
- The dwindling supply of labour will also increase outsourcing of services. In addition, it will mean greater capital spending in service industries to improve labour productivity.
- Being in the service business will require increasing technology investments to meet customer expectations and competitor advances.
- Service quality will be the "buzzword" of the 1990's. The inability to deliver quality customer service may be the most common source of business failure in the 1990's.

- High on the list of success criteria for services will be innovation. New, better, improved and more specialized services will bring a competitive edge.
- Acquisitions and mergers will continue in the North American service sector, driven in part by the need for deeper pockets for research into new services and investment in new service technologies.
- Larger manufacturing and service companies on both sides of the border will seek to ally themselves with smaller entrepreneurial firms offering new service concepts.

## **No bounds to services and service trade**

The growing demand for services will fuel greater trade in services—among provinces, states, regions and countries. As we become more demanding about the availability of services, both Canadians and Americans will reach further afield to find the service that meets their requirements best.

Consequently, borders as barriers to service will erode. In particular, services associated with the movement and management of information will flow wherever the demand exists, along telecommunications networks that can penetrate virtually anywhere.

Even service trade dependent on personal contact will expand, as new technologies facilitate communication in between personal meetings.

## **What this means for you**

Both new service opportunities and competitive threats will increase across North America in the period of the 1990's. As experience under the Free Trade Agreement grows, many more service firms will step across the border to "play on new fields". In addition, greater competition in the North American services marketplace may come from "left field"—from manufacturers providing increased services to complement the goods they sell.

Your ultimate strategy for success in the expanding continental market for services may well be your willingness to compete with "the best of them"—by standing up against American competition both at home and on American "turf". By entering the U.S. market, you will "do it to them, before they do it to you".

**Knowing yourself, knowing your market and knowing your competition—both in the Canadian and U.S. markets—will be your ultimate key to success.**





# ANNEXES

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- Annex A: The American Market For Services
- Annex B: Construction Services
- Annex C: Computer Services
- Annex D: Engineering and Architectural Services
- Annex E: Environmental Engineering and Consulting Services
- Annex F: Commercial Education and Training Services
- Annex G: Services Covered by the FTA Principle of National Treatment
- Annex H: Sources of Information and Recommended Reading
- Annex I: Ten Commandments for Successful (Unstructured) Market Research Interviews





# The American Market for Services

## Economic characteristics

### *Size of the economy*

The economy of the United States, measured by the gross national product, at \$C 4,900 billion in 1989, was approximately 10 times larger than that of Canada.

### *Economic growth in the U.S.*

In recent years, both Canadian and U.S. economies have enjoyed strong growth. During the past five years, Canadian and American economic growth has averaged 4.3 percent and 4.0 percent respectively.

However, there are indications that growth in both economies is slowing down, with 1989 rates of growth averaging about 3 percent.

### *Unemployment*

Unemployment has decreased from almost ten percent of the American labour force in 1982 to around five percent in 1989, and from eleven percent of the Canadian labour force to below eight percent during the same period.

The drop in unemployment figures somewhat understates growth in job creation, as the size of the labour force, on which the unemployment figures are based, has grown during this period.

### *Job creation in the service sector*

The majority of new American jobs have come from firms with less than 100 employees. Indeed, some 95 percent of new jobs created during the past six years have been from small start-up businesses.

Nineteen of every twenty new jobs have been created in the service sector and currently approximately 70 percent of all American jobs are in the service sector.

As in Canada, there has been a clear shift of employment in the last decade from manufacturing to services. Total American employment in services doubled during the 17 year period from 1969 to 1986, versus a six percent decline in manufacturing

employment.

Much of the growth in service sector employment has been absorbed through the operation of existing facilities for longer service hours and for longer work-weeks. Convenience stores, fast food outlets, retail stores, financial institutions and other service providers are increasingly offering their services on a 24-hour day and/or seven-day week basis.

### *Future growth in the service sector*

Service sector jobs in the United States are expected to expand by 16 million to a total of 76 million by the end of the century, with the fastest growth expected in high skill occupations such as engineering, medical technology, computer programming and systems analysis.

Environmental issues are also becoming increasingly prominent and growth in jobs related to testing, cleanup and construction services will be associated with this growing trend.

### *Population*

The population of the United States has not shown strong growth — expanding at only about one percent annually in recent years. Total population is forecast to grow from 246 million in 1988 to 260 million in 1995.

The largest populated region is the South with 34 percent of the total population, followed by the Midwest with 24 percent and the Northeast and West Regions each with 21 percent of the nation's population.

The American market is a collection of regional markets of significant wealth and population. For example, there are 41 metropolitan areas in the U.S. which have populations exceeding one million, compared to only three in Canada.

Five of the nine geographic divisions in the U.S. have populations exceeding that of Canada as a whole, while the remaining four divisions each exceed one-half of Canada's total population. Some

thirty percent of the American population resides in the states which border Canada.

### ***Regional growth***

As in Canada, American economic growth has not been equally strong in all regions. Growth has been highest in the western and southern regions during the past decade.

Nevertheless, certain markets within the regions have performed better or worse than the region average. New Hampshire, for example, with less than two percent unemployment, has until recently had strong economic activity in line with the New England region's booming high technology and service industries. At the other extreme, Texas has continuing high unemployment, and has had poor levels of construction activity as a result of the slump in oil prices.

While the population and economic clout has generally been migrating south and west during the past two decades, the rust-belt states have also been reinvigorated in recent years.

### ***Age distribution***

America's population, like Canada's, is "greying". By the year 2000, the older baby-boomers (born 1946 - 1954) will account for 14% of the population, and 40% of the spending power in the U.S. economy.

The teen market will decline in relative size, but will continue to exercise considerable economic clout. American teens spend \$30 billion a year themselves, and control another \$40 billion in household spending. One out of eight Americans is now over the age of 65, and this figure will rise to one-in-five within forty years. Life expectancy is also expected to rise from 75 years in 1985 to around 78 years in 2020.

As with each of the demographic trends discussed above, the aging population will impact upon the types, location, timing and demand for services. For example, regions such as Arizona and Nevada, and market segments such as nursing homes and retirement communities, will see more activity.

### ***Suburbanization***

In 1967, 34 percent of residents in the thirty largest American cities lived in suburbia. By 1983, this figure had risen to 44 percent. In 1967, 11 percent of employees in the thirty largest American cities

worked in suburbia. By 1983, this figure had risen to 18 percent. While central core population declines had stopped by 1983, central core employee declines appear not to have stopped.

## **American service industry trends**

American trends of relevance to potential service sector entrants include:

- ***Labour trends***

The American economy will continue to see increasing amounts of corporate rationalization and resulting labour dislocation in coming years. Also, rapid technological changes, labour shortages and an aging population will force significant skills retraining requirements upon the workforce.

A dwindling supply of young workers will be available to the service industries because of demographic trends and low unemployment rates. Barring substantial productivity gains, labour shortages and labour quality could become major problems during the next decade in service industries such as construction, food service and social services, and for smaller business.

U.S. firms are paying increased attention to hiring and retaining key people, and to recruiting and training entry-level personnel. Many organizations will be forced to contract out services rather than depend on hiring their own service workers.

Employee Share Ownership Plans and increased employee involvement are becoming prevalent in all of American industry including the service sector.

- ***Dependence of manufacturing on services***

The goods-producing sector in the U.S. will become increasingly dependent on information and other services to increase its productivity, expand its domestic markets and improve its international trade competitiveness. As manufacturing businesses get more complex, they will need more services in finance, insurance, law, advertising and public relations, accounting, data processing, equipment rental and management consulting.

According to one estimate, about 25 percent of U.S. gross national product was accounted for by services used as inputs by goods-producing industries—more than the total value added to GNP by the manufacturing sector.



- *Dependence of the resource sector on services*  
In agriculture, in the U.S., it has been estimated that 10 percent of the value-added is generated by such service activities as soil preparation, and veterinary and forest services. Services probably account for 20 percent or more of value-added in minerals and mining.

- *Changing lifestyles*

As more women move into the labour force and incomes rise, households, like firms, are transferring tasks once performed at home into the market economy. Demand has multiplied for day-care centres, fast-food restaurants and dry cleaning services.

As national disposable income rises, many consumer services are growing to facilitate new lifestyles: financial services, travel agents, tax preparation, education, health and personal care services.

- *Technological and information orientation*

More than 60 percent of U.S. employment is now in some type of information job, as programmers, teachers, accountants, writers, stock-brokers, lawyers and technicians.

Investment in technology in the services sector is increasing. Investment in new technology by service providers was estimated at \$US 47 billion in 1982.

In the 1990's, it is estimated between four and five million U.S. jobs will be held by technicians in such areas as energy, hazardous waste management, industrial laser processing, industrial robot production and maintenance, materials utilization, genetic engineering and computer assisted design, graphics and manufacturing.

- *Liability considerations*

Stabilization in the cost of liability insurance during the next several years is expected, although matters of insurance, litigation and liability are more prominent in the United States than in Canada, a fact which increases the cost of business.

Service industries such as engineering, environmental and health services should be aware of

such matters. Part of the expected stabilization in insurance costs is attributable to an increasing trend toward arbitrated settlements.

- *Increased service business sophistication*

Progressive service firms in the U.S. are allocating group planning time toward identifying ideal customers, markets and projects. Solid market planning and execution, good long-term public and client relations, the use of some non-technical people for planning and marketing, and the establishment of written marketing plans are leading to dramatically improved results for those American service firms adopting such practices.

- *Increased opportunity in publicly funded projects*

There is a trend toward the privatization of infrastructural developments, as city and county governments attempt to find funding for road, tunnel, sewage and water treatment projects. There is also an increase in the level of other contracting out by government (for example, by increasing levels of contracting of inspection and other services to private firms) stemming from deficit concerns and need for efficiency gains.

- *Increased mergers and acquisitions in the service sector*

Labour shortage problems and various other factors may lead to increased mergers and acquisitions in the service industries in order to add to the workforce of particular companies. Tax changes, which make it more expensive to transfer some service businesses from older to younger generations, may also prompt increased selling and acquisition activity.

Many foreign service firms penetrate the American market via acquisitions and this will also contribute to M&A activity.

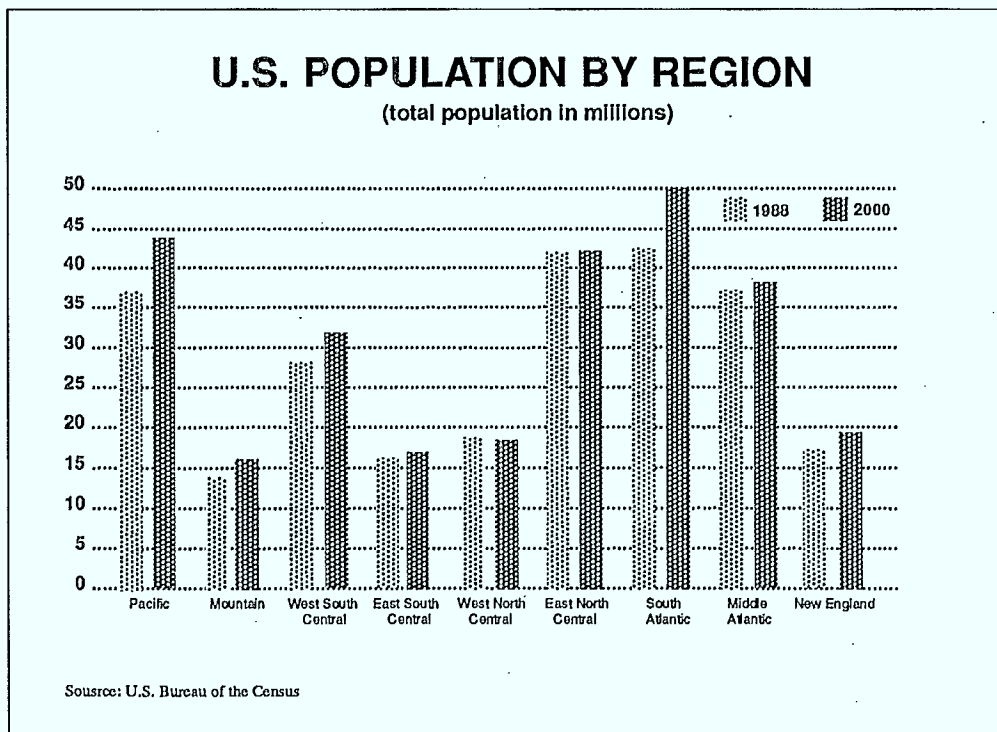
- *Increased suburbanization of corporate America*

To avoid inner-city traffic, high crime rates, and decaying educational systems, corporations have increasingly been following employees in moving to the suburban areas. Lower rental rates, lower real estate taxes, free parking, and worker satisfaction have also been factors driving this trend. The scale of the shift has been such that in

1949, there were only one hundred industrial parks in the United States, whereas there were 500 industrial parks in the Chicago suburban area alone.

The suburbanization trend is more pronounced in the U.S. than in Canada and impacts the location decision of providers of business services.

- **Increased domination of small business**  
Overall employment creation and its effect upon employment turnover, company failures, office and industrial construction, and other issues will increasingly be influenced by the dynamics of small business. Services will be increasingly provided by, and oriented toward, small companies.





## Annex B

### The Market for Construction Services

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#### Definition

The construction contracting industry comprises firms and specialized tradespeople engaged in the creation, renovation, repair and demolition of immobile structures and the alteration of natural topography.

#### Overview of Canadian and American markets

##### *Trade potential*

The American construction market is the largest in the world and offers a wide range of exciting opportunities to Canadian companies. Construction expenditures in California alone are approximately equal to those in Canada. More promising still is the fact that the American market is relatively open to foreign competition and the trend is toward increased foreign penetration of the U.S. market.

##### *Size of the U.S. market*

New construction in the U.S. was valued at approximately \$US 400 billion in 1988. Construction activity varies significantly across the country; growth trends vary by region and depend primarily on the state of the local economy.

The new construction market in the U.S. comprises: housing units (33 percent of total new construction activity); office space (9 percent); highways and streets (9 percent); industrial space (5 percent); and other activity (47 percent). The American and Canadian markets are quite similar in structure.

##### *Domestic industry*

There are some 1.4 million construction firms in the U.S., compared to 130,000 in Canada. 75% are individual proprietorships, with average billings of only \$US 300,000.

Over 4,000 American establishments (compared to 650 in Canada) bill annual sales of greater than \$US 10 million each; these firms collectively account for

36 percent of industry revenues. Annual billings for these firms average \$US 25 to 30 million.

The total value of international contracts won by U.S. contractors listed amongst the world's 250 largest construction firms have decreased in value from \$US 44 billion in 1980 to \$US 23 billion in 1986, due to slow growth in construction activity in many Third World markets.

In a given year, the U.S. industry "exports" approximately \$US 10 billion worth of construction services — it is estimated that sixty percent of this amount results from direct exports, while affiliate operations account for the remainder. Developing nations account for the bulk of American construction exports — some eighty percent of the direct exports from the U.S., and sixty percent of affiliate export sales, are directed toward developing nations.

##### *International competition*

Many of the largest foreign construction contractors have entered the American market during the past several years because of declining prospects in Third World markets. This has been accomplished primarily through buying existing American firms and through establishing branch operations.

Foreign-owned construction companies won \$US 7.6 billion worth of American contracts in 1986 (3.4% of all construction contracts awarded in the U.S. in 1986), compared to the \$US 4.8 billion figure of 1981. Note that this figure represents contracts awarded and need not correspond to trade figures for the year. Generally, around fifteen percent of American construction imports are conducted through direct imports, while the remainder represent work done by American affiliates of foreign firms. German, British and French companies account for the majority of this success, with Japanese firms being more recent entrants.

### *Canadian penetration in the U.S.*

Canadian firms, with a few exceptions such as PCL Construction Limited, have not been overly aggressive in the American market. It is estimated that PCL accounts for over one-half of the total U.S. revenues of all Canadian construction firms.

There are a number of factors which have limited the size and international success of Canadian construction contractors:

- The Canadian construction industry lags in the application of computer-based technologies to the office and job site;
- Inadequate financing is felt to have prevented many Canadian firms from bidding in export markets;
- Provincial procurement practices have led to the development of small local firms while, at the same time, limiting the growth of large national companies of sufficient size to compete effectively in the U.S. market;
- Significant foreign-ownership levels in the Canadian economy have created a situation where parent companies engage familiar American construction contractors when establishing or expanding their Canadian operations. This has deprived Canadian contractors of market share, particularly in resource-based projects;
- Canadian construction and engineering firms have not combined efforts to the same extent as U.S. firms, and this has also limited the success of Canadian construction firms in bidding on certain projects.

### *Canada's trade deficit*

About twenty American firms won contracts in Canada in 1986, worth a total of \$2.8 billion. Assuming that 1986 was not an unusual year, this indicates an annual bilateral Canadian trade deficit in construction services in the area of \$2.3 billion.

## **Trends and outlook**

Trends in the U.S. market for Canadian construction firms to be aware of include:

### *Market trends*

In many construction market subsegments, the size of the American market and the projected growth volumes are huge by Canadian standards. For example, residential renovation, including do-it-yourself activity, is expected to amount to \$US 105 billion in 1989 and to surpass new residential spending by the mid-1990's. Expenditures on manufacturing facilities total some \$US 15 billion annually and project fairly strong levels in the future as industry modernizes, as foreign investment increases, and as the trade deficit declines.

At more specific levels, the opportunities appear equally impressive. Along the west coast, for example, Seattle, San Francisco, Los Angeles and Honolulu, among others, all have mass transit expenditure plans far in excess of \$US 1 billion over the next decade. Other infrastructure areas, such as airports and sewage systems, have annual requirements in the \$US 5 billion plus range.

A number of construction market segments appear to have particularly attractive growth potential in the early 1990's and may be of interest to qualified B.C. firms. These segments, in approximate order of attractiveness, are: maintenance and renovation, mass transit, highways and bridges, health care facilities, environmental construction projects, manufacturing facilities, water supply systems, schools, and certain commercial facilities.

### *Financial trends*

There are some notable financial trends in the U.S. construction industry, including increased attention to cash management and collection of receivables, decentralization of accounting and finance to the job level rather than headquarters level, increased surety bonding problems, and increased devotion of management time toward matters of dispute resolution and claims administration.

There is also an increasing desire by private project sponsors for the constructor to take equity positions in the project in order to spread the risk. One of the largest contractors in the U.S., Bechtel, has become active in assuming equity positions in its projects.

### *Systems-related trends*

Systems-related trends include the use of computerized scheduling applications by a wider range of



U.S. companies as a selling tool, as a communication tool for field managers and estimators, and as a method of minimizing response time to sudden change. Field supervisors are increasing their use of on-site management computers. Contractors are faced with a demand for more structured, detailed and accurate billings and are increasingly using computers to assist them in this area.

Many contractors, although not yet the majority, are using computers as part of the estimating process. Those firms not yet computerized are gradually establishing databases and training their estimators to use their systems in the future. Fully integrated job costing/accounting systems are common in the American construction scene, while project management software should see rapid acceptance over the next few years.

#### ***Technological trends***

The role of robotics and computerization will increase. For example, automated equipment or robots are expected to handle heavier loads and work in dirtier environments, and it is projected that robot use will spread from hazardous waste cleanup into areas such as trenching, grading, and tunneling. Other technological advances are expected in areas such as seismic design of bridges and buildings, fire modeling, and software for integrating the cost-bidding packages of the contractors with the designing packages of the designers.

Construction material advances will also be increasingly evident during the next few years. For example, cement types which develop the strength of seven-day portland cement in only four hours are nearing commercial application. These require less formwork, and can be placed at colder wintertime temperatures.

#### ***Operational trends***

"Team approach" construction, wherein the private owner selects the contractor and designer as soon as the project is formulated, will be increasingly common at the expense of the traditional "hard bid" approach where the architect is first hired and the subsequent design is put up for bid without any contractor input. This trend stems from a belief that projects designed with contractor input will proceed more smoothly. Not surprisingly, the team approach is more commonly adopted on complex projects

such as high-rise office developments.

By providing pre-construction services, the contractor's profit from the job may increase substantially. The increased role of contractors in proposing "better ways to do the job", more formally known as *value engineering*, generates savings which are often split between the owner and the contractor.

#### ***Other trends***

There are a number of other factors affecting the pace of U.S. construction activity. Some are of a local nature, such as California or Florida implementing restrictions or development guidelines upon certain industry segments or in certain cities. Others are of a more general nature and include:

#### ***Positive***

- Rapidly growing environmental concerns could potentially stimulate significant construction expenditures in areas such as emission reduction, water diversion, and waste treatment. Environmental concerns tend to be more advanced in the United States than in Canada, particularly in regions such as California and New England. Environmental impact policies are becoming increasingly rigid and agencies such as California's South Coast Air Quality Management Agency are becoming increasingly active in altering building designs and monitoring construction;
- Associated with increased environmental concern is a movement toward the strategy of "mitigation" wherein the development of certain projects would be approved in return for equivalent concessions on the part of the developer in other areas;
- Continued suburbanization is increasing non-core development and placing expansion demands upon mass transit systems;
- The aging and over-use of highways, bridges, airports, water and sewage facilities is requiring increased expenditures;
- The aging of buildings and houses is requiring renovation, repair and remodeling expenditures;

- The Savings and Loans banking industry in the U.S. has suffered major financial problems since the high interest rate years of 1981 and 1982, creating an estimated \$US 300-500 billion worth of real estate holdings that will be released from banks' portfolios during the next several years;
- Funding and encouragement of re-vitalization and renewal projects in the downtown core and the increased role of Redevelopment Agencies is spurring growth in construction and rehabilitation of housing, offices, parks, community centres, and infrastructure in depressed neighbourhoods;

#### *Uncertain*

- Technological changes could decrease or increase the requirement for particular types of construction;

#### *Negative*

- Tax changes are slowing the pace of office and condominium construction;
- Federal budgetary concerns are slowing the pace of needed infrastructure spending;
- Trade deficits are contributing to excess plant capacity and therefore limiting industrial construction expenditures;
- Recent high volumes of construction activity in some regions may be leading to a situation of excess capacity of office space, industrial facilities, housing and other buildings.

### **Factors affecting Canadian success in the U.S. market**

The following factors should encourage U.S. market entry for Canadian construction companies:

- Canadian construction firms may have a cost and timing advantage over their American competitors through greater staffing flexibility in managing individual projects.
- While there still remain certain regions of the U.S. where unions have a significant presence, overall union strength appears to be in decline.
- Canadian contractors generally find that U.S.

construction labour is comparable in quality and cost to that in Canada.

- On average, the American market offers comparable or slightly higher profit margins than the Canadian market. American construction firms receive profits of around one percent of sales to as high as three to four percent in some markets. Nevertheless, Canadian firms should be aware that foreign construction companies as a group are suffering losses on their U.S. activities.
- Businesses in the United States and Canada operate with similar payment terms. Payment for services rendered is generally made within a 45-60 day period.
- Disadvantaged business and equal opportunity laws apply to public construction projects. These requirements may stipulate that 25 percent or more of particular public projects must be subcontracted to designated companies controlled by minorities or companies which may be unqualified or undercapitalized.
- The productivity and skill of American firms is on an approximate par with Canadian firms. With the exception of financial backing and local know-how, Canadian firms are felt to be very competitive with their American counterparts.
- Joint venturing or acquisition are the most successful entry routes for foreign firms in entering the American market. Retaining the local character of the acquired firm and the local entrepreneurs is recommended as American construction unions, inspectors, suppliers and developers tend to appreciate, recognize and reward established firms and people.
- Given the trend toward "value engineering", strategic alliances such as joint ventures or equity arrangements between Canadian developers, architects, engineers and contractors may increase the odds of successfully penetrating the U.S. market.
- Canadian firms in the past have succeeded best in entering into those U.S. market segments in which they have Canadian expertise.



## Impact of the Free Trade Agreement

Despite the limited success of Canadian firms in the U.S. market to date, it is felt by various industry and government representatives that the Canada-U.S. Free Trade Agreement will enhance the opportunities for the sector:

- Government procurement policies will, in the long-term, assist Canadian firms in gaining access to the important construction market. It is anticipated that further progress will be made in this area during the seven year negotiating period.
- The improved investment climate which will accompany the FTA in both Canada and the U.S. will lead to increased construction activity.
- The FTA stipulates that Canadian firms be treated in the same way as American suppliers in the U.S. with regard to future investment laws. This, combined with the future negotiations in the procurement area, will lead to the reduction of discrimination which may exist

based on nationality. These developments may assist Canadian construction firms in gaining contracts in the U.S market.

- Difficulties occasionally encountered by construction managers in crossing the border will be reduced.
- The FTA will provide an incentive and guideline to work toward the harmonization of accreditation standards.

It is necessary to note that the Free Trade Agreement does *not* permit entry of Canadian construction workers into the U.S. under the market access provisions. U.S. laws prohibit use of foreign construction workers on-site. Also, various preferential purchasing practices or "set-asides" of work for local or disadvantaged business enterprises discourage use of outside contractors or give preference to companies employing local "disadvantaged" labour groups. Canadian construction firms should therefore be aware that they will be required to hire their construction crews in the United States.

## Selected sources of information

### Associations

#### *Associated General Contractors of America*

1957 E. Street N.W.  
Washington, D.C. 20006  
(202) 393-2040

- 33,000 members including general contractors, subcontractors, industry suppliers and service firms.

#### *AGC Publications and Services Catalogue*

Lists a wide range of documents and services available from the Association, including training programs, bidding instructions and safety regulations. Free of charge.

#### *Construction Industry Management Association*

Suite 640 - 12355 Sunrise Valley Drive  
Reston, VA 22091  
(703) 938-608

- Membership includes corporations and individuals who furnish construction management as a professional service.

#### *National Association of Home Builders of the U.S.*

15th and M Streets, N.W.  
Washington, D.C. 20005  
(202) 822-0200

- Membership includes single and multifamily home builders, commercial builders and others associated with the building industry.

## Associations, cont'd

**American Subcontractors Association**  
Virginia  
(703) 684-3450

- This organization has 6,000 members and 54 local groups, and provides government liaison, legal, payment, and statistical services to its members. Members cover a range of specialties such as foundation, concrete, masonry, mechanical, electrical, painting, acoustics and roofing.

**National Association of  
Industrial and Office Parks**  
Virginia  
(703) 979-3400

- The NAIOP is a non-profit organization representing 7,000 professionals involved in developing, designing, constructing, financing and managing industrial and office park properties. Annual membership fees are in the \$US 460-500 range, while affiliate fees are \$US 250-300.

**National Electrical  
Contractors Association**  
Maryland  
(301) 657-3110

- The organization has 5,000 members encompassing the erecting, repairing, servicing, and wiring of electrical installations. It provides management services, labour relations programs, seminars, and other services through its eighty staff members.

**National Remodelers Council**  
Washington  
(202) 822-0212

- The mandate of this organization is to provide organizational and technical advice, represent its members before business, consumers, and local governments, lobby for legislative changes, and sponsor programs. Its members are involved in the rehabilitation and remodeling of (mainly residential) properties.

**Mechanical Contractors Association  
of America**  
Maryland  
(301) 897-0770

- This association serves 1,700 members who install and service heating, cooling, and other systems. It provides training, seminars, and advisory services on a range of subjects.

**Construction Financial Management  
Association**  
New Jersey  
(201) 287-2777

- This 1,600 member association provides and coordinates meetings and seminars dealing with the financial management of the construction industry.

**Construction Specifications Institute**  
Virginia  
(703) 684-0300

- This council provides for the exchange of information on databases, hardware and software, and their applications in the construction industry. It has 7,000 members.

**Coordinating Council for Computers in  
Construction**  
New York  
(212) 512-3268

- This council provides for the exchange of information on databases, hardware and software, and their applications in the construction industry. It has 7,000 members.

**American Institute of Constructors**  
Ohio  
(614) 464-0598

- This group provides its 1,600 members with a forum to exchange information and ideas to advance the practice of construction.



## Publications

### ***Cahners Building & Construction Market Forecast (monthly)***

Cahners Publishing Co.  
275 Washington Street  
Newton, MA 02158-1630

### ***U.S. Housing Markets***

Advance Mortgage Corp.  
406 Penobscot Building  
Detroit, MI 48226  
Statistics on local housing markets.

### ***Census of Construction, and other Construction Activity Data***

Bureau of the Census  
U.S. Department of Commerce  
Suitland, Maryland  
(301) 763-7662 or  
(301) 763-7244 Brenda Yates for building permits or  
(301) 763-5717 Vicki Garrett for monthly value of construction by type or  
(301) 763-7664 Henry Wulf, Governments Division for state and local government procurement outlays.

### ***Construction Cost Information - R.S. Means Company***

The research firm, R.S. Means, monitors the U.S. construction industry on an ongoing basis and publishes construction cost information dealing with foundations, framing, roofing, mechanical, electrical, overhead, profit and various other aspects of the construction of residential, commercial, repair and remodeling, and industrial structures. These documents can be purchased for around \$US 50 each, by calling (508) 747-1270.

### ***Dodge/Sweet's Construction Outlook***

McGraw-Hill Information Systems Company  
1221 Avenue of the Americas  
New York, NY 10020  
(212) 512-3711 Eileen Anderson  
Annual subscription: \$US 12,000.

### ***Foreign Construction Contractors Target the U.S.: Trends and Implications***

International Trade Administration  
U.S. Department of Commerce  
Washington, D.C. (202) 377-2000

### ***Coldwell Banker Current Construction Projects***

Semi-annual documents on rents, lease rates, tenant profiles, absorption and projects under construction in 57 markets across the United States.  
Contact Jeff Torto at (617) 742-5744

### ***Coldwell Banker***

#### ***Industrial and Office Vacancy Rates***

Quarterly industrial vacancy rates for rolling four-year periods for 32 major U.S. cities and office vacancy in 52 U.S. cities and regions.  
Contact Theresa Garrison at (703) 734-4700

### ***Construction Review Magazine***

Provides historical, outlook, and other construction information on a bi-monthly basis. Some of the information is available on a state basis. The magazine also summarizes some FW Dodge information.  
Contact Charles Pitcher (202) 377-0132, the editor of the magazine, at the Building Materials and Construction Division of the International Trade Administration of the Department of Commerce.

## Trade Journals

### ***Site Selection Magazine***

Conway Data, Site Selection,  
40 Technology Park/Atlanta, Norcross,  
Georgia 30092  
(404) 446-6996.

Annual subscriptions are  
\$US 75 within the United States and  
\$US 87 for foreign addresses.

- The magazine discusses real estate and site-related considerations and covers a wide variety of issues relevant to the U.S. construction industry. The April, 1989 issue, for example, provides information on private and public development organizations in several thousand communities and covering all regions of the United States.

## Trade Journals, cont'd

### ***Metro Magazine***

Published by Bobit Publishing  
2512 Artesia Boulevard,  
Redondo Beach, CA 90278

### ***ENR Magazine***

(formerly *Engineering News - Record*)  
*The McGraw-Hill Construction Weekly*  
McGraw-Hill Inc.

1221 Avenue of the Americas  
New York, N.Y. 10020

or

Shirley Kiss, ENR,  
P.O. Box 423423,  
Hightstown, N.J. 08520  
(609) 426-5129.

Subscriptions \$US 49 annually or  
\$US 94 for three years.

### ***Construction Review (bimonthly)***

Superintendent of Documents  
Government Printing Office  
Washington, D.C. 20402

### ***Blue Book of Building and Construction***

Contractors Register Inc.  
Jefferson Valley, N.Y. 10535  
(800) 431-2584

### ***Constructor Magazine***

An annual subscription costs \$US 35  
and can be obtained through calling  
(202) 393-2040

### ***Regional Magazines***

There are numerous regionally-oriented  
magazines.

- Published seven times yearly, this magazine reviews issues, products, people, trends and other matters of relevance to the U.S. mass transit market.
- ENR reviews activities, trends, forecasts, companies, and issues which are topical in the U.S. construction industry. ENR also produces annual issues on the Construction Forecast, the Top 400 Contractors, the Top 250 Specialty Contractors, and the Top 250 International Contractors. Each weekly issue contains information on specific projects by state and specific proposals by city. ENR is described by industry insiders as the best source of construction information in the country.
- Articles and statistics about construction.
- Publishes seven Regional Editions of the Blue Book listing companies in 1) New York and northern New Jersey; 2) East Pennsylvania, southern New Jersey and Delaware; 3) D.C., Maryland and northern Virginia; 4) Florida; 5) southern California; 6) Chicago and Milwaukee; and 7) New England. These are distributed to thousands of contractors, A&E's, manufacturers, governments and institutions.
- This sixty-odd page magazine is produced monthly by the Associated General Contractors and described as "the Management Magazine for the Construction Industry". It deals with labour issues, new products, legislative matters, environmental considerations, marketing, and various other matters of interest to construction managers.
- For example, *The Daily Construction Service*, published daily by Wade Publishing of San Francisco (415) 589-1010 provides information on low bids received, construction plans, sub-bids, equipment sales, and contracts pending for the California region, and costs \$US 540 annually.



## Annex C

# The U.S. Market for Computer Services

### Definition

There are three segments within the computer services industry that should be considered when exporting services. These are:

- The *professional computer service* industry, which is composed of firms which provide programming and design services, system selection advice, system and network management and integration services, and related training services. As some management consulting firms also offer these services, certain data on this segment may be included in the management consulting industry category. Services related to software development and distribution are described in another category, as are services related to data processing and data bases.
- The *information service* sector, which includes those firms which provide data processing and electronic database services.
- The computer *software* segment, which develops, produces, maintains and upgrades software on a custom and packaged basis.

### Overview of Canadian and American markets

#### Professional computer services segment

##### *U.S. market*

In 1987, total billings for professional computer services in the U.S. exceeded \$US 26 billion. This was derived as follows: \$US 8 billion for custom programming services, a 20 percent increase from 1986; \$US 8 billion for computer consulting and training services, up 21 percent from 1986; and \$US 10 billion for systems integration services, an increase of 18 percent from 1986. Revenues in the professional computer services industry reached \$US 32 billion in 1988, of which the two largest compo-

nents were systems integration services (approximately \$US 13 billion) and custom programming services (approximately \$US 11 billion). Revenues are expected to reach \$US 37 billion in 1989, an increase of about 16%.

In 1989, it is estimated that more than 30 percent of the revenues of U.S. custom programming firms will come from foreign clients, an export figure totalling about \$3 billion. The Office of Technology Assessment in the U.S. describes imports of professional computer services into the United States as being unmeasured — likely in the \$US 1 billion range.

Total exports of professional computer services from the U.S. are grouped in with data processing exports and also include sales of foreign affiliates with parents in non-computer fields. We estimate American exports of professional computer services to be in the \$US 2-3 billion range.

##### *Canadian market*

The Canadian professional services segment is virtually entirely domestically-owned, domestically oriented, and dominated by small firms. Only a few firms, such as Systemhouse and DMR, have annual revenues greater than \$5 million. In 1985, there were 600 firms in the professional services (consulting and system integration) segment in Canada, employing 8,000 people and generating annual revenues of around \$420 million. Certain large Canadian firms such as Systemhouse, DMR, LGS and CGI are quite active in the American market.

#### Information services segment

##### *U.S. market*

The U.S. *information service* segment represents a market of around \$US 25 billion, of which data processing accounts for ninety percent. There are around 2,100 data processing companies in the U.S., employing 300,000 people. However, the top 20 companies receive about half the industry's revenues. The four largest data processing firms in the

U.S. each have revenues over \$US 1 billion. The data processing market totals \$US 24 billion and is growing at around 13 percent annually. The U.S. is the world's largest market for data processing services.

Specialization in certain niche areas, such as health or insurance, has contributed to the profitability of successful firms. Payroll and accounts receivable management, facilities management, and hospital processing services are areas of large data processing expenditures.

Foreign sources provide an estimated 15 percent of the revenue of U.S. data processing firms, generally through foreign subsidiaries. This amounts to annual "exports" of around \$US 3 billion. The main overseas markets are the United Kingdom, France and West Germany. To a certain extent, restrictions on the use of leased telecommunication lines and on access to public-sector markets is a limiting factor in international trade of data processing services.

The activity of foreign firms in the U.S. is felt to be minimal. American firms are believed to have an advantage over foreign firms, due to their superior software and equipment, the diversity of the services they offer, and their long-term relationships with their clients.

The *electronic database segment* has increased significantly in recent years. User-friendly software, affordable computer equipment, and low telecommunication costs have contributed to annual growth rates of 18 percent in recent years. An increasing number of companies are using electronic database services to check credit ratings, conduct market research, and keep up to date with financial news. As further illustration of the growth in this industry, a worldwide estimate of 400 available databases in 1980 has increased to 3,400 in 1987.

Annual revenues of the American electronic data base industry are estimated at \$US 6.2 billion, for 1988, 80 percent of which are derived from business users. The industry employs 25,000 Americans, in 900 database producers and 300 on-line vendors.

The American industry derives approximately 25% of its revenue from international sources, with Canada, the U.K., France, Germany and Japan

representing the largest sources. A number of large, foreign-owned companies provide electronic database services in the U.S., primarily through acquired subsidiaries.

#### *Canadian market*

In Canada, there are approximately 225 data processing firms, employing 12,200 people and generating annual revenues of around \$926 million in 1988. The sector is highly concentrated — ten firms earn 70 percent of the industry's total revenue. Until recently, the sector was largely Canadian owned (more than 80% by revenue); however, foreign acquisitions of three of the top 10 firms reduced Canadian ownership to 50% of 1986 revenues.

The volume of international trade in the industry is felt to be small — the industry in Canada and other countries generally has a local market orientation. More recently, however, the larger Canadian companies have been establishing an American presence to take advantage of specialty markets.

#### *Software segment*

##### *U.S. market and industry*

The volume of software sales by hardware manufacturers (\$US 8 billion in 1988 by IBM alone) makes quantification of this industry very difficult and there are no official government figures either worldwide or in the United States.

American software firms generate over \$US 30 billion in annual worldwide revenue and employ around 235,000 people. It is estimated that U.S. firms capture 70 percent of the worldwide software market. The software revenue of American firms is segmented into packaged programs worth some \$US 20 billion and custom software worth \$US 10 billion. Of the packaged programs, \$US 11 billion was directed toward medium and small scale computers, a figure increasing at 25-30 percent annually.

Hardware manufacturers and independent software producers each have 40 percent of the software market, while systems integrators have the remaining 20 percent of the market. The software components of systems integration firms are classified in this category, while the professional services provided by the firms are included under the professional computer services category. The distinction between these two is often difficult to make. Hard-



ware manufacturers and systems integrators provide a great deal of software bundled together with hardware, thus making it difficult to achieve high statistical accuracy.

Some 60 percent of U.S. firms reported in a 1984 survey that they earned foreign revenues, with Britain, Canada, Australia, France and West Germany being the largest sources. Around 40 percent of the foreign revenues result from direct exports, while the remaining 60 percent result from sales through affiliates. The majority (perhaps four-fifths) of the "affiliate sales" are made by hardware firms such as IBM.

Software exports from the U.S. are estimated at \$US 9 billion annually, with destinations being Europe (75 percent), Canada (10 percent), and other countries (15 percent). Imports of computer software into the U.S. are estimated to be in the vicinity of \$US 3-4 billion annually. Some of this amount is in the form of American firms importing software either developed by overseas affiliates or produced in multiple copies in affiliated offshore facilities. The Commerce Department suggests that hardware firms have been most active in importing software from affiliates.

#### *Canadian industry*

In Canada, there are about 1,200 software firms operating, with annual revenues totalling around \$1.9 billion and employment of 12,000. Some fifty firms have revenues greater than \$1 million and account for four-fifths of the industry's revenue. Industry revenue is derived approximately 40 percent from application packages, 40 percent from systems packages, and 20 percent from custom systems development.

Canada has minimal expertise in the operating system and spreadsheet application package software areas — these rapidly expanding areas are generally filled through imports. Canadian firms have instead concentrated in the systems development and specialized application package areas. The packaged software segment of the Canadian industry comprises firms such as Cognos, Bedford, Simware and BDM. This segment is highly export-oriented, with the successful companies exporting up to 80-90 percent of their sales to the United States. The specialized applications package area, such as sys-

tems for hospitals, is rapidly expanding and a few Canadian firms are felt to have considerable expertise.

The Canadian software industry exported \$125 million worth of exports in 1985, primarily to the United States. The federal industry department estimates that only 30-40 percent of the Canadian market is filled through domestic production. This suggests that annual imports are in the \$2 billion range. An estimated one-half of all software sold in Canada is marketed by computer manufacturers. Export success of Canadian software firms, particularly in the specialized applications area, has been restricted by the smallness of the firms and the limited financial, management and marketing resources which they possess.

### **Trends and outlook**

#### *Trade potential*

All segments of the computer services market in the U.S. present enormous potential for Canadian exporters. In particular, increased export of computer software holds tremendous potential. However, exploiting this potential requires unique products and selection of the "right" niche markets. Growth in sales potential varies by segment as follows.

#### *Information services*

The American information services sector is expected to grow at around 15 percent annually for the next five years, although there are some recent indications of slower growth in the next year to two.

The data processing market, which accounts for the majority of activity in the information services segment, totalled an estimated \$US 24 billion in 1989 and is growing at around 13 percent annually. Such growth is expected to continue through 1993.

User-friendly software, affordable computer equipment, and low telecommunication costs have contributed to annual growth rates of 20 percent in the electronic database segment, and this growth is expected to continue through 1993 when revenues are projected to reach \$US 16 billion in current dollars.

#### *Professional computer services*

The U.S. market for professional computer services

should achieve average annual growth rates in current dollars exceeding 17 percent through 1993 — with total revenues approaching \$US 70 billion in 1993.

#### *Software*

The American software market is expanding at 25-30 percent annually and imports of computer software into the U.S are estimated to be in the vicinity of \$US 3-4 billion annually.

### **Impact of the Free Trade Agreement**

Prior to the FTA, there were no tariff barriers to trade in computer services and software. Non-tariff barriers included restrictions on labour mobility, intellectual property protection, government procurement policies and regulation regarding data transfer.

#### *Professional services*

The FTA is expected to reduce border crossing difficulties and increase the level of activity in the professional services segment of the computer services industry. Consultants with experience in specialized applications are particularly well placed to expand their market into the U.S.

However, the U.S. government's "set asides" reserve certain procurements for small domestic suppliers, and the size ranges of these "set aside" assignments are precisely those in which generally smaller Canadian suppliers are best able to compete. Further progress in negotiating improved access in the procurement area would enhance American market opportunities for Canadian firms.

#### *Information services*

The FTA's market access provisions should encourage Canadian firms to pursue U.S. sales. The management experience and financial expertise of larger firms particularly may enable them to develop and establish themselves in new markets. For the smaller firms, opportunities abound in niche markets.

However, the Canadian information services industry is dominated by a few domestically-controlled

firms. To date, it appears that the industry has not devoted significant effort toward penetrating the U.S. market for information services, despite the fact that it is by far the largest in the world. It is possible that further research in this industry may reveal export potential in certain niche areas of Canadian expertise.

#### *Software*

The Canadian and B.C. software segment is already quite active in exporting abroad.

The FTA will benefit software companies as well as the professional service companies by reducing border delays and by easing the ability to train people and install products in the U.S. The security of access provisions of the FTA will be beneficial in convincing U.S. customers that Canadian suppliers are as reliable as domestic ones. There is, however, continued concern over U.S. government procurement restrictions.

#### *Enhanced telecommunications services*

Telecommunications, as well as being a service themselves, are a means of providing many computer services. In one of three annexes to the Chapter on Services in the FTA, telecommunications are specifically addressed.

The Telecommunications Annex is designed to maintain and support the development of an open and competitive market for the provision of enhanced telecommunications services and computer services within and between Canada and the United States. Each country must maintain the existing access for the provision of enhanced services through basic telecommunications networks of the other country and for the provision of computer services.

The FTA establishes rules governing how telecommunications monopolies will conduct themselves when competing with suppliers from the other country in providing network-based enhanced services. No obligations are placed on either country regarding regulation of their respective basic telecommunications services.



## Selected sources of information

### Associations

***ADAPSO, The Computer Software and Services Industry Association***  
Suite 300 - 1300 North 17th Street  
Arlington, VA 22209  
(703) 522-5055

***Independent Computer Consultants Association***  
P.O. Box 27412  
St. Louis, MO 63141  
(314) 997-4633

***Information Industry Association***  
Suite 800 - 555 New Jersey Avenue NW  
Washington, D.C. 20001  
(202) 639-8260

- Membership includes companies performing data processing services for the public, for a fee.
- Supports individuals, partnerships and corporations providing computer-related products and services.

### Publications

***U.S. Professional Services Market, 1987-1992***  
INPUT  
1280 Villa Street  
Mountain View, CA 94041-1194  
(415) 961-3300  
(Services include custom software, systems consulting, education and training, and systems operation).

***Software and Services Industry Review and Forecast - 1988***  
International Data Corporation  
5 Spreen Street  
Framingham, MA 01701  
(508) 872-8200

***Electronic Information Industry Forecast North America 1986-1991***  
LINK Resources Corporation  
79 Fifth Avenue  
New York, NY 10003

***International Competition in Services: Banking, Building, Software and Know-How***  
Congress of the United States  
Office of Technology Assessment,  
Washington D.C.  
U.S. Government Printing Office,  
July 1987  
(Includes a section on software)

Also from INPUT:

- ***U.S. Processing/Network Services 1987-1992***
- ***U.S. Turnkey Systems Market, 1987-1993***
- ***1989 Information Services Industry Report*** (annual)  
Report on key issues, trends, profitability, mergers and acquisitions, forecast, 150 pages, \$U.S.995.
- ***U.S. Professional Services Market, 1989 -1994***  
Available Feb. 1990: \$US 2,500

***The Impacts of the Computer Software and Services and Computer Hardware Industries in the U.S. Economy***  
ADAPSO (see above under associations)

***Computers and Office and Accounting Machines***  
Current Industrial Reports, Series MA 35R (87-1)  
Bureau of the Census  
U.S. Department of Commerce

***The Computer Industry Almanac 1989***  
Egil and Karen Juliussen  
Brady Inc. New York, 1988

## Trade Journals

*Byte*  
*Computerworld*  
*Datamation*  
*EDP Weekly*  
*Electronic Business*  
*Electronic Engineering Times*  
*Electronic News*  
*Electronics*  
*InformationWEEK*  
*Infoworld*

*MIS Week*  
*MIPS*  
*PC Magazine*  
*PC World*  
*Release 1.0*  
*Scientific American*  
*Software Magazine*  
*Solid State Technolgy*  
*Technology Research Group Letter*  
*VLSI Update*



## Annex D

# The U.S. Market for Engineering and Architectural Services

### Definition

This industry comprises firms primarily engaged in providing professional engineering services for the planning, design, construction, operation and maintenance of structures. The A-E industry also conducts environmental assessments, feasibility studies and a wide variety of other scientific and technical services. Environmental consulting is examined separately in Annex E.

### Overview of Canadian and American markets

#### *Trade potential*

Like the construction market, the U.S. market for architectural and engineering services is the largest in the world, offering a wide range of exciting opportunities to Canadian companies.

#### *Size of the U.S. market*

The total U.S. market for architectural and engineering firms amounted to \$US 46 billion in 1987, of which engineering billings were \$36 billion, architectural billings were \$8 billion, and surveying billings were \$2 billion.

Total billings by the industry have increased from \$US 15 billion in 1977 to \$US 36 billion in 1982 and \$US 46 billion in 1987. In each instance, engineering services account for approximately 80 percent of these figures.

Growth in profits has not, however, kept pace with revenues. The major reason has been growing insurance costs, particularly for liability coverage.

Over half of the total revenue of engineering firms is derived from two sources: industrial process contracts and power generating and transmission contracts.

#### *Domestic industry*

There are approximately 100,000 architect-engineer-

ing firms in the United States, employing 700,000 people.

The lower valued dollar has contributed significantly to the international competitiveness of U.S. firms. After a decline in 1986, the top 60 U.S. firms among the top 200 international design firms, increased their foreign billings 14% in 1987. Billings for American designers increased in all areas except the Middle East. U.S. design firms have held their own in international competition in contrast to U.S. construction firms which have lost market share to foreign contractors.

#### *International competition in the U.S.*

The United States "imported" approximately \$US 1.2 billion worth of A-E services in 1982, a figure which is currently likely in the \$US 2.5 billion range. Most of the foreign A-E firms operating in the U.S. market are Canadian or European, though Japanese and Asian firms are starting to penetrate the market as well.

Foreign design firms increased their billings in the U.S. by 45% in 1987, with 30% of these \$US 206 million in billings coming from foreign-owned U.S. design firms. Six Canadian firms placed among the top 10 in U.S. billings.

### Consulting engineering services segment

#### *Canadian industry and market*

In Canada, there are a total of 3,200 engineering consulting firms, employing approximately 52,000 workers. Approximately sixteen of these firms employ more than 500, while a further 80 firms employ 100-500 people. Most companies employ fewer than 50 persons; an average firm in this industry has a staff of about 15.

The industry is predominantly Canadian owned and comprises firms normally associated with the development and construction of capital projects.

Total billings in the Canadian industry in 1986 were estimated at \$3.4 billion, including approximately \$450 million (13% of the total) in foreign revenues. Foreign billings in Canada were estimated at \$25 million, indicating that Canada has a positive balance of trade in consulting engineering services.

#### ***Canadian industry exports***

Canada is the largest exporter of design engineering services to the U.S. Canadian engineering consulting billings in the U.S. are estimated at \$117 million. The export work in the United States has traditionally been derived four-fifths from private sector clients and one-fifth from public sector clients.

One indication of the world-class expertise of the Canadian industry is the fact that Canadian firms represent six of the ten largest foreign A-E firms operating in the U.S. In addition to these large firms, Canada also has numerous smaller engineering firms operating successfully in niche markets in the United States.

Of the world's 200 largest foreign engineering billers in 1986, fourteen were Canadian. Canadian firms have a nine percent share of the worldwide market in engineering consulting services, ranking third in this category behind the U.S. and Britain.

The industry's specific export strengths are in electric power, mining, forestry, transportation and municipal services. Weaknesses are found in the industry's capabilities in certain areas of manufacturing and processing, robotics and other advanced manufacturing technologies.

Lavalin, SNC, Monenco, Acres and H.A. Simons are among Canada's leading exporting engineering firms. Each is Canadian-owned and active internationally.

#### **Architectural services segment**

##### ***Canadian industry and market***

The architectural services industry is a wholly Canadian-owned industry made up of private firms owned and operated by architects licensed under provincial legislation to provide independent architectural design and consulting services to the public.

There are approximately 2,700 architectural service firms in Canada, employing some 12,000 persons.

Most companies are small, with an average staff of five in 1986.

Total revenues in the Canadian industry in 1987 were estimated at \$725 million. During 1986, 55% of Canadian firms billed less than \$200,000 each, while 25% billed under \$50,000.

#### ***Canadian industry exports***

In 1987, Canadian billings in foreign countries were estimated at \$6 million, less than 1% of total industry revenues. The United States accounts for about 35% of total export revenues and is Canada's major export market.

While highly competitive domestically, Canadian architectural firms have only recently entered the export field. One reason is that until the mid-1970's, rapid post-war economic growth kept Canadian architects fully employed in Canada. Since that time, a number of other factors have limited the penetration of international markets by Canadian architectural service firms:

- Strong competition — many other foreign firms are already firmly entrenched in potential markets;
- Licensing restrictions and immigration regulations imposed by other nations;
- The small size of Canadian firms, which tend to lack the human and financial resources of their international competition; and
- A lack of integrated firms capable of providing turnkey services such as those in the U.S., the U.K., France and Japan.

While joint ventures between Canadian architectural and engineering firms are becoming more common, these ventures have usually been on a project-by-project basis and consequently do not give rise to a continued marketing effort for effective export promotion.

#### **Trends and outlook**

##### ***General trends***

The prospects for A-E firms to a large extent follow those of the construction industry. Activity is influenced by the level of capital investment; consequently, the industry's performance is cyclical. Reference to the outlook in the Construction Annex



(Annex B) may be useful for Canadian A-E companies.

In the long-term, receipts for A-E services in the U.S. are expected to grow by an annual rate of three to five percent.

There has been a trend toward consolidation of A-E firms which is expected to continue. Some firms have used acquisition, in part, to obtain needed engineering and architectural staff due to the shortage of engineering talent in some disciplines. Given declining enrollment in U.S. engineering schools, the current shortage of engineering talent is expected to continue.

#### *Specific trends*

A 1987 study of the American market for architectural services prepared for the federal government identified eight market niches which may offer particular opportunity for Canadian architectural firms:

- revitalization and restoration;
- waterfront development;
- health facilities;
- commercial office buildings;
- residential development;
- educational facilities;
- correctional facilities;
- high-tech research and manufacturing facilities.

Generally, for A-E firms, there has been an increase in high technology projects (e.g. biotechnology) and environmental work, such as hazardous waste disposal.

#### **Surveying and mapping services sub-segment**

##### *Canadian advantages*

The vast diversity of Canada has helped the Canadian surveying and mapping industry to develop considerable expertise in a number of areas including aerial photography, mapping and remote sensing, geodetic surveying, hydrographic surveying, airborne geophysical surveying and natural resource surveying. While the U.S. does not currently represent a major export market for Canadian firms, superior technology and competitive price structure

have allowed a number of Canadian firms to win U.S. contracts.

Canada also has expertise in the area of remote sensing and Geographic Information Systems (GIS) and a few Canadian firms are rapidly expanding operations into the U.S. market. MacDonald Detwiller and Spar are among these firms.

There is active development of Canadian expertise in photogrammetric and image analysis, satellite positioning, inertial surveying systems, spatial information management systems and software development for various surveying and mapping applications. These and other technological developments have the potential to win contracts for Canadian firms in the U.S., particularly if the relatively weak capital structure of Canadian firms is improved upon.

##### *U.S. market and industry*

Because surveying services are grouped in with engineering and architectural services for statistical purposes, it is difficult to obtain specific figures on market size. Estimates indicate the U.S. market for surveying services totalled approximately \$US 2 billion in 1987.

Assuming imports have similar shares of the surveying and engineering markets, it is estimated that annual U.S. imports of surveying services total approximately \$US 100 million.

On the "export" side, approximately 2% of U.S. surveying establishments operate internationally. Of these firms, 20% of their revenue is derived from foreign sales—a level consistent with that of engineering and architecture firms reporting foreign sales. However 6% of U.S. engineering firms operate in foreign markets versus the 2% figure mentioned above for surveying firms (and 3% figure for architecture firms).

The GIS industry segment is expanding worldwide at approximately 30% annually and it is estimated that the GIS industry will total \$US 5 billion worldwide within five years.

##### *Canadian market*

The Canadian survey and mapping market consists of approximately 1,200 firms and 9,000 employees. Annual revenues of \$340 million include \$60 mil-

lion in export sales of which approximately \$5 million is derived from the United States. Imports of survey and mapping services into Canada are described as 'negligible'.

Approximately two-thirds of industry revenues are derived from private industrial developers of land and resources. The remaining third is from government sources. The industry works quite closely with engineering consultants, contractors, urban planners and exploration companies.

There are approximately 10 firms in Canada with greater than \$3 million in sales revenue. The industry is characterized by the presence of many small, under-capitalized firms — a characteristic which has hindered export sales.

### **Factors affecting Canadian success in the U.S. market**

The factors outlined in Annex B, dealing with the construction sector, are in some cases relevant to A-E firms. Beyond these, there are a few other considerations to keep in mind:

- Exports of architectural and engineering services to the U.S., as is the case in most service industries, traditionally require the establishment of an actual physical presence through a local office or joint venture. This stems mainly from the requirement to provide the necessary local service to successfully complete the job. Certain jobs, particularly government procurement projects, may require local investment in order to win the job.
- Increasing consolidation of Canadian engineering and architectural firms into major sized firms may help to improve the ability of this service sector to export services into the U.S. and around the world, by increasing financial and resource capacity.
- Close relations with those Canadian industrial and real estate firms which are increasing their American investments may be a wise strategy for Canadian A-E companies. On occasions in the past, the Canadian engineering industry has voiced concerns regarding the tendency of U.S. manufacturing, resource and service firms operating in Canada to source their engineering

services from the American firms with whom their parent companies' may be familiar. The petroleum industry is felt to represent a good example of this practice. Through following this same strategy, Canadian A-E firms may have the opportunity to benefit in a similar manner from increasing Canadian development investment in the U.S.

- While the U.S. has not to date represented a major export market for Canadian survey and mapping firms, superior technology and competitive price structure have allowed a number of Canadian firms to win U.S. contracts. Reduced problems in entering the U.S. and in obtaining work permits will be a positive aspect of the FTA. Given the very high level of government procurement involvement in the survey and mapping industry, further progress in the procurement negotiations pursuant to the FTA would greatly benefit the Canadian industry.

### **Impact of the Free Trade Agreement**

#### ***Reduction in trade barriers***

For a number of reasons, the Canada-U.S. Trade Agreement should further entice Canadian A-E firms to examine American market prospects:

- The FTA will reduce 'annoyances' at the border. While short work trips to the U.S. traditionally have required the telling of 'white lies' at the border, this will no longer be required. Similarly, longer work trips have required permits which have often taken several months to receive. Such delays will be avoided through the FTA.
- The future seven year negotiating period should provide opportunity for the Canadian and American negotiating boards to develop mutually acceptable standards, ethics and licensing practices. This would eliminate a significant irritant to business between the industries of the two countries.
- The FTA stipulates that Canadian firms will be treated in the same way as American suppliers in the U.S. with regard to all *future* laws. Future negotiations in the government procurement area may also lead to the reduction



of discrimination based on nationality and, in so doing, open new markets to Canadian firms. These developments would further assist Canadian engineering firms in the export market.

- The macroeconomic spin-offs and increased investment and restructuring which is expected to accompany the FTA will also provide additional work for engineering firms in designing these capital projects.

The FTA largely addresses the problems faced in the past by professionals crossing the border for work purposes, through the market access provisions of the Agreement. For the most part in the past, Canadian architectural and engineering firms have established American offices, staffed largely by U.S. residents, to serve the American market. Under the FTA, it will be easier to staff these offices with Canadians or to work out of Canadian offices, whichever is appropriate.

## Continuing obstacles

### *Engineering*

However, a more problematic issue is the difficulty facing Canadian engineers in becoming accredited as professional engineers. Canadian engineers must be accredited in each state in which they work, a process which requires applying for a temporary licence.

Some jurisdictions are harder to get licensed in than others. California is one state where temporary licenses to practise are more difficult to get, while the state of Washington has lower barriers. However, Canadian engineers wishing to work in California can get a Washington licence and then, using reciprocity relations existing between the two states, gain admittance to California.

Despite differing state requirements, industry representatives who have worked in the U.S. indicate that the red-tape involved in getting temporary licences is not a severe problem and should not inhibit entry.

A further factor limiting export of certain engineering services is the lack of standardization among design codes and the lack of bilateral acceptance of test data for the purpose of obtaining permits. These are costly and time-consuming barriers to the free movement of such services as environmental protec-

tion services. While less of a barrier in many traditional areas where uniform standards have developed over time, lack of standardization particularly affects rapidly changing areas such as movement of toxic wastes.

Despite the continuing existence of these obstacles, progress is being made in working toward mutual recognition of standards. As a result of a Memorandum of Understanding executed in 1989, the U.S. based Council of International Engineering Practice (CIEP) is working with the Canadian Council of Professional Engineers (CCPE) to establish equivalent registration standards. The format established between Canada and the U.S. hopefully will serve as an international standard. Agreement has already been reached in the area of accreditation and the two groups are working on: experience and examination requirements, residency requirements, conduct and ethics standards, possible discipline for noncompliance and continuing education programs.

The State of Delaware has opted to liberalize even before the CIEP and CCPE complete their work. The state's engineering registration law now allows qualified engineers in Canada to be treated the same as qualified engineers in the U.S. for purposes of registration in Delaware.

### *Architecture*

One area in which accreditation is specifically addressed is in three special sectoral annexes to the Chapter on Services. The Architecture Annex (Annex 1404) provides for mutual recognition of architects' professional qualifications. It reflects an undertaking on the part of the Royal Architectural Institute of Canada and the American Institute of Architects to review existing licensing requirements and to seek standards acceptable to both.

Canadian provincial and U.S. state regulators will be invited to review proposals to eliminate barriers to trade (not related to competence or ability) and make any necessary legislative changes to enable the agreed licensing standards to be brought into effect by the end of 1991.

It is expected that this approach will serve as a model for other professions in pursuing mutual recognition of professional qualifications.

## Selected sources of information

### Associations

*American Institute of Architects*  
1735 New York Avenue, N.W.  
Washington, D.C. 20006  
(202) 785-7264

*American Consulting Engineers Council*  
1155 15th Street, N.W.  
Washington, D.C. 20005  
(202) 296-5390

*National Society of Professional Engineers*  
2029 K Street, N.W.  
Washington, D.C. 20006  
(202) 331-7020

- Professional society of architects with 31,700 corporate members.
- Membership includes consulting engineering firms engaged in private practice. Publishes *The Last Word*.
- 78,000 members including professional engineers and engineers in training, qualified graduate engineers, student members and registered land surveyors.

### Publications

*International Competition in Services: Banking, Building, Software and Know-How*  
Congress of the United States  
Office of Technology Assessment,  
Washington, D.C.  
U.S. Government Printing Office,  
July 1987  
(Includes a section on engineering and construction.)

*Shaping our Nation: An Economic Analysis of Canada's Consulting Engineers*  
David L. Hammes  
Vancouver, B.C.: The Fraser Institute, 1988

*Information Transfer in Engineering*  
H. L. Shuchman  
The Futures Group,  
Washington, D.C. 1981

### Trade Journals

*ENR, The McGraw-Hill Construction Weekly*  
(formerly *Engineering News Record*)  
McGraw-Hill Inc.  
1221 Avenue of the Americas  
New York, N.Y. 10020

*Worldwide Projects*  
International Publications Inc.  
15 Ketchum Street  
Westport, CT 06880

*1987 Service Annual Survey*  
September 1988  
Bureau of the Census  
U.S. Department of Commerce

*Engineering Journal*  
*Journal of Industrial Economics*  
*Mechanical Engineering*  
*Cadalyst - The Journal of CADD*  
*International Construction Weekly*

See Annex B for other relevant sources of information



## Annex E

# Environmental Engineering and Consulting Services

### Definition

The environmental services industry includes engineering and other consulting firms (biologists, resource planners, economists and others) which provide services that assist in improving, analyzing or protecting the natural environment (air, water, land and renewable resources).

Included are services related to conservation and development of air quality, water supply, sanitation, water pollution control, conservation area management, soil and vegetation conservation, pest management, solid waste disposal, and hazardous and toxic chemicals disposal.

Included also as environmental services are information collection and dissemination (e.g. resource inventory, measurement and monitoring services, software with environmental applications), laboratory (e.g. analytical support services), design and construction, education and training, as well as research services provided in each of the above areas.

### Overview of Canadian and American markets

#### *Trade potential*

The environment is an area with rapidly increasing profile in both Canada and the United States. Goods and services associated with the protection of the environment are becoming a major "industry" in the world economy. Growing concern over the environment in the U.S. and tough policies regarding measuring and controlling all forms of pollution, handling and cleaning solid waste, air emissions, toxic dumps and other forms of pollution, favour increased demand for foreign as well as domestic environmental consulting expertise.

California, in particular, is setting tough standards such as those set by the South Coast Air Quality Management Agency. B.C. environmental firms have many of the skills required increasingly by U.S.

government and industry.

#### *U.S. market*

Environmental consulting and development of regulations are tied closely to economic activity across the United States, as industrial and social expansion creates the need for pollution control equipment, materials and services.

Environmental services in the U.S. can be classified into the following consulting and engineering service categories:

- air, water and other pollution abatement and control;
- solid and liquid hazardous waste management (handling, treatment and disposal);
- laboratory testing and other biotechnology services;
- recycling/conservation;
- environmental enhancement (restoration and rehabilitation);
- training.

Some of the noteworthy trends in the environmental services market in U.S. include:

- In 1985, \$19.8 billion was spent on air pollution abatement for mobile sources, yet the U.S. Environmental Protection Agency (EPA) estimates that 73 cities currently exceed the ozone standard.
- Major areas of opportunity in the U.S. for services to control industrial air pollution exist in air quality planning, compliance assurance, computerized process controls and research, monitoring and improvement of indoor air quality.
- Extensive investments are expected to be made in the U.S. in the 1990's to rehabilitate aging water, sewage and drainage systems and to

expand these systems to meet growing community infrastructure needs. For example, the Associated General Contractors of America estimate that over \$US 500 billion will need to be spent by Americans on wastewater treatment through the year 2000.

- The U.S. has strengthened the Water Quality Act and the EPA is preparing further guidelines in a number of pollution control and abatement areas and will announce major pollution controls in areas such as release of industrial contaminants into bodies of water.
- Americans continue to designate and develop wild lands for conservation and park use.
- Several states are mounting major efforts to better manage farm chemicals.
- Many states are encouraging or requiring recycling: Florida, North Carolina, Oregon and Wisconsin are among the states that provide lower state tax rates for recycling businesses.
- Heightened public concern over environmental deterioration is said to be related specifically to the federal 1980 Comprehensive Environmental Response, Compensation and Liability Act, known by the acronym CERCLA or, more commonly, as SuperFund. The act specifies that private companies and individuals can be held responsible for cleaning toxic waste sites.
- The EPA has identified 10,000 hazardous waste sites in the U.S. for cleanup. The U.S. Office of Technology Assessment estimates that total cleanup would cost in the neighbourhood of \$100 billion.

Statistics on the U.S. environmental engineering and consulting industry are usually included in the overall engineering category.

#### *Canadian industry*

There are thought to be roughly 200 engineering consulting firms operating in environmental protection areas in Canada. The Department of Regional Industrial Expansion (1987) estimated that consulting engineering fees on environmental projects in 1987 were in the order of \$200-\$400 million nationally. Other estimates indicate that there are some

2,000 environment sector employees involved in consulting and engineering (1987).

In British Columbia, an estimated 175 companies draw a major source of their income from the environmental industry, providing either goods, services or both. Roughly 70% of these firms and some 70% of the industry's workforce provide services as either consulting engineers, foresters or other environmental consultants, with a further 10% providing recycling services. In 1987, the B.C. environmental industry recorded sales of about \$114 million with 45% of sales attributed to firms providing largely services, 26% to manufacturers and distributors and 29% to recycling companies.

A study of Ontario firms indicates that roughly 13.5% of total reported environmental production in that province was exported in 1987. Services amounted to roughly 60% of total environmental export sales, with the majority of exported services related to solid, hazardous waste disposal.

In British Columbia, 1987 environmental industry exports amounted to roughly 60% of industry sales, with the majority of exports by recycling firms. Service exports were valued at some \$13 million, or roughly 18% of total exports.

#### **Factors affecting Canadian success in the U.S. market**

##### *Canadian advantages*

Canadian environmental consulting engineers are recognized internationally in specialty fields of water and wastewater management, with increasing strengths in solid and toxic waste management.

Many environmental services are associated with environmental products in which Canada has an acknowledged strength—such as higher efficiency anaerobic industrial wastewater treatment systems, reverse osmosis and ultrafiltration, ozone and ultraviolet sterilization equipment, and computerized pollution control instrumentation.

##### *Canadian disadvantages*

To date, the Canadian industry does not appear to be well-defined, nor is there any knowledge base regarding potential U.S. export opportunities for the industry. The government's industry knowledge



base appears to be spread amongst various individuals within Industry, Science and Technology Canada; Environment Canada; External Affairs; and provincial ministries.

This lack of definition and cohesion could be very costly to the country, not only in terms of lost export opportunities but also in terms of U.S. penetration of the Canadian market. Clearly, the requirement exists for detailed information on the expertise of the Canadian environmental service industry as well as on growing U.S. export opportunities.

## **Impact of the Free Trade Agreement**

### ***Reduction in trade barriers***

The Free Trade Agreement has the primary effect of reducing difficulties in crossing the border for those

environmental consultants who qualify under the professional visitor categories of "engineer", "management consultant", "scientific technician or technologist" or other categories of professionals who do not require labour certification for engaging in work in the U.S. Entry can also occur under the business visitor category for management and executive personnel involved in managing U.S. businesses.

Under the FTA, Canadian environmental consulting firms are to be treated in the same way as American firms with regard to all future laws, but may find that there is still the need to qualify under state or local accreditation standards in order to practice in certain areas of engineering or technical consulting.

## **Selected sources of information**

### **Associations and Government**

#### ***American Academy of Environmental Engineers***

Suite 206 - 132 Holiday Court  
Annapolis, MD 21401  
(301) 266-3311

#### ***Environmental Economic Division***

Bureau of Economic Analysis,  
U.S. Department of Commerce

- 1,800 members include environmentally oriented registered professional engineers certified as Diplomates of the Academy. Purposes are to improve the standards of environmental engineering, to certify those with special knowledge and to furnish lists of those certified to the public.
- The Department of Commerce puts out a publication entitled "*Survey of Current Business*" with periodic articles on environmental issues.

### **Publications**

***International Opportunities for  
Canada's Environmental Industry***  
Environment Canada (1987)  
Ottawa: mimeo.

***Preliminary Profile of the  
Environment Industry:  
North America, Asia Pacific and  
the World, 1988***  
Quadra Planning Consultants Ltd.,  
West Vancouver, B.C.  
(604) 926-2080

#### ***1986 Update: Water Pollution Control Industry Outlook***

Ropes, Allison L. and William T. Lorenz (1986)  
William T. Lorenz and Company:  
Concord, New Hampshire

#### ***Environmental Industries: Export Market Development Background***

Bird, Clifford D., January 1988  
Agricultural and Construction Equipment Division,  
Department of Regional Industrial Expansion,  
Canada

## Publications, cont'd.

**State Regulation Report: Toxic Substances & Hazardous Waste; Multinational Environmental Outlook; Toxic Materials News**  
and various other newsletters' from  
Business Publishers, Inc.,  
951 Pershing Dr.,  
Silver Spring, MD 20910-4464  
(301) 587-6300

**1990 Washington State Environmental Industry Directory**  
Washington State Department of Trade and  
Economic Development,  
Contact Don Jackson at (206) 464-6282

**World Environment Directory 5th Edition - North America**  
(listing product manufacturers, professional  
services, federal government agencies, state  
government agencies, environmental  
databases, corporate environmental officials  
and more.)  
Business Publishers Inc.  
(301) 587-6300

**British Columbia Environmental Industry Directory**  
(listing of environment-related  
companies active in export markets)  
B.C. Trade  
(604) 844-1900

**Ecology; Pollution; Digests of Environmental Impact Statements; Health and Safety Science and other abstracts;**  
Cambridge Scientific Abstracts  
A Division of Cambridge Information Group, Inc.  
7200 Wisconsin Avenue,  
Bethesda, MD 20814  
(301) 961-6750

**Environment Reporter; Toxic Laws Reporter; Product Safety & Liability Reporter; Chemical Regulation Reporter; Air & Water Pollution Control ;**  
and other related information services; from  
The Bureau of National Affairs, Inc.,  
1231 25th Street, N.W.  
Washington, D.C. 20037  
(301) 258-1033

**Export Market Capabilities of the British Columbia Environmental Industry**  
Price Waterhouse, 1989, for  
Asia Pacific Initiative  
Export of Services Task Force  
(604) 660-3848

## Trade Journals

**EPA Journal**  
**Technology Review**  
**Environment**  
**BioCycle**  
**Pesticides News**  
**Omni**  
**Orion Nature Quarterly**  
**Earthwatch**  
**Ecos**  
**Environmental Ethics**  
**The Environmental Forum**

**Alternatives**  
**The Public Interest**  
**Natural Resources Journal**  
**Waste Age**  
**Issues in Science and Technology**  
**Journal of Environmental Quality**  
**E: The Environmental Magazine**  
**Maine Environ News**  
**Buzzworm: The Environmental Journal**  
**The Hazardous Waste Industry Review**  
**World Directory of Environmental Organizations**



## Annex F

# Commercial Education and Training Services

### Definition

This industry comprises institutions and firms primarily engaged in providing commercial education and training services to organizations and individuals. These services are delivered outside the public education system and are paid for directly by the purchaser.

The industry is made up of four major components:

1. Firms that specialize in providing education and training services;
2. Businesses (such as engineering or consulting) that have some education or training activity attached to them;
3. Private schools that rely on tuition fees for their operating revenues;
4. Universities and colleges that sell some of their services commercially.

Trade in education and training services can involve the travel of instructors into a foreign market to deliver a service or it can result from students travelling to a foreign country to engage in education or training sessions. In the latter case, students fall within the definition of international travellers and their expenditures are often captured by travel and tourism surveys.

This profile is concerned primarily with the first two categories of commercial education and training services and with Canadian education and training professionals travelling to the U.S. or setting up facilities in the U.S. to provide their services directly in American markets.

Firms that provide specialized education and training programs also provide services that include production of manuals and training videos, as well as curriculum design, trainer training programs and evaluation and design of training needs. Firms that provide education and training programs as an activity attached to their main line of business (e.g.

accountants, consultants and engineers) typically teach specialty courses based on their own professional expertise in areas such as environmental protection, management techniques, project management and resource management.

### Overview of Canadian and American markets

#### *U.S. market*

U.S. data on commercial education and training services is fragmented and little formal data exist on revenues in many parts of the industry. Some portion of revenues are included in management consulting services, some in computer services (when learning or training programs are sold), and some in miscellaneous business services. Various membership organizations as well as non-commercial education, scientific and research organizations provide part of the commercial education and training available in the U.S. In addition, libraries, information centres, correspondence and vocational schools, and other schools contribute to the overall picture of the industry in the U.S.

1982 census data for the U.S. indicate that selected taxable educational services organizations—including libraries, information centres, correspondence, vocational and other schools—earned revenues of \$US 2.4 billion in that year and employed over 68,000 people in over 7,000 establishments. In addition, non-taxable organizations providing selected similar educational services earned \$US 1.2 billion in 1982 with 53,000 employees in over 4,000 establishments. A further 100,000 sole practitioners and partnerships contributed \$US 0.9 billion in revenues. In total, the value of these services (\$US 4.5 billion) was roughly equivalent in 1982 to the value of medical and dental laboratory services or to the revenues of electrical and electronic repair shops.

Of total U.S. spending on education of some \$US 300 billion, about 20 percent is spent in private schools, colleges and other institutions.

These estimates do not include the estimated value of in-house education and training services or of job training and vocational rehabilitation services provided under the U.S. Job Training Partnership Act (\$3.8 billion in 1987).

The American Society for Training and Development estimates that American businesses spend \$30 billion annually on formal training. This amount includes direct costs of training only (i.e., development and delivery) and job-related tuition reimbursement. A further \$90 to \$180 billion is estimated to be spent on informal training in the form of coaching on the job at or near the work station. One in eight American workers are said to get employer-based training. In total, American businesses spend an average of 1.4% of payroll on formal training.

#### *U.S. trade*

U.S. firms and institutions participate in the international market for training and education. About 350,000 foreign students were enrolled in U.S. schools in the year 1985. However, only about \$100 million in receipts were recorded as being received in the early 1980's from the foreign educational affiliates of U.S. firms.

Much of the U.S. effort in trade in education and training services is focused on bringing foreign students into the U.S. to attend commercial education and training courses. The U.S. government regularly leads trade missions abroad to develop interest in American commercial education and training services.

#### *Canadian market*

In Canada, the commercial education and training services industry is characterized by a diverse number of small firms, consultants, and public and private institutions. As in the U.S., statistics about the various industry segments are often unavailable or incomplete.

However, it is estimated that, in 1988, Canadian businesses spent \$5.5 billion to \$6 billion providing employee education and development courses.

An interesting aspect of Canadian commercial education is the development of distance education services. There are more than 35 public institutions in Canada involved with distance education services.

The province of British Columbia has actively supported distance education to meet domestic requirements. However, with the advent of improved technology in the communications and educational fields, the potential for this type of education will grow domestically and could present interesting export opportunities as well. B.C. should be particularly well positioned to participate in these opportunities.

### **Trends and outlook**

Education and training programs have been increasing in importance in the U.S., as organizations of all types strive to improve their competitiveness. Some of the apparent trends in this market include:

- Increased proportions of employees in all job categories involved in formal training.
- Higher training participation rates particularly for managers, professionals, sales and marketing people.
- Increased use of internal (line) managers as well as outside training resources as trainers.
- Growing commitment towards reducing or containing training and education costs, while increasing the value of programs.
- Growing demand for general and functional management programs conducted by universities.
- Growing use of new technologies—video, computer-aided instruction, interactive video and satellite broadcasting—to improve the training function and control content through centralized program development.
- Increased responsibility of line managers to provide training specific to the needs of their operation.
- Adoption of new technologies throughout the organization, requiring more training to ensure employees keep up with change.
- Greater awareness of the linkage of education and training to the organization's goals and strategies in a more competitive environment.



- Increased support from top management for learning in the workplace.
- Increased call for training resulting from introduction of quality circles and similar productivity improvement programs.
- Increased participation of women and minorities in training and development activities.
- Poor language and math skills among many young people in both Canada and the U.S., requiring corporate remedial programs.
- Average spending per employee on training in the U.S. was \$283 in 1984, with the highest levels of spending occurring in public administration, communications, utilities, finance and mining sectors.

## Impact of the Free Trade Agreement

There are no direct barriers to trade in the U.S. on provision of commercial education and training services. Nor are there any significant tariffs on goods (e.g. books) associated with the delivery of these services.

Most notable in preventing free trade in these services between Canada and the United States are mobility and market access barriers. Under the FTA, provisions which facilitate temporary entry of service providers will ease entry into the U.S.

## Sources of selected information

### Associations

*American Society for Training and Development, Inc.*  
1630 Duke Street, P.O. Box 1443,  
Alexandria, VA 22313  
(703) 683-8100

*American Association for Adult and Continuing Education*  
Suite 420 - 1112 16th Street, N.W.  
Washington, D.C. 20036  
(202) 463-6333

*Council on the Continuing Education Unit*  
Suite 700 - 1101 Connecticut Avenue, N.W.  
Washington, D.C. 20036  
(202) 857-1122

*OD Network*  
P.O. Box 69329  
Portland, OR 97201  
(503) 246-0148

*Association for the Development of Computer-Based Instructional Systems*  
Miller Hall 409  
Western Washington University  
Bellingham, WA 98225  
(206) 676-2860

- Produces an annual *Who's Who in Training and Development Directory* of members by professional practice area, by industry groups and by region. Also publishes *ASTD Training Video Directory* and the *ASTD Buyer's Guide and Consultant Directory* and *Info-Line*, dealing with training delivery issues.

- Provides leadership in advancing education as a lifelong learning process. Serves as a central forum for a wide variety of adult and continuing education special interest groups.

- Membership includes educational and training organizations, including colleges and universities; professional societies, associations, and professional training groups; hospitals; and individuals.

- Publishes the *OD Practitioner*.

## U.S. Government

Department of Labour  
Employee & Training Administration  
Information Office: (202) 523-6871

Bureau of Labour Statistics  
(202) 525-1092

Job Training Partnership Act Program  
(202) 535-0236

## Research Groups and Databases

*Lakewood Publications, Inc.*  
Publishes *Training* periodical and the  
*Training Marketplace Directory*  
Also sponsors the *Training Annual Conference*.

*ERIC (Educational Resources Information Center)*  
National Institute of Education  
U.S. Department of Education  
1200 19th Street, N.W.  
Washington, DC 20208

## Publications

*Global Perspectives in Education:  
The United States prepares for its future*  
New York: Peter Williams, 1987

*Training and Development Handbook*  
Robert L. Craig,  
American Society for Training  
and Development,  
McGraw-Hill, Inc. 1987.

*Breaking In: The guide to over 500  
top corporate training programs*  
Ray Bard and Fran Moody,  
New York, NY: William Morrow Press Inc., 1985

*Trends in Corporate Education and  
Training, Report No. 870*  
The Conference Board, Inc., 1985  
846 Third Avenue,  
New York, N.Y. 10022  
(212) 759-0900

*Training and Development Organization Directory*  
Gale Research  
Lists firms and programs offering training and  
development.

*Post-secondary International Education in  
British Columbia*  
Peter Williams,  
British Columbia: Ministry of Advanced Education  
and Job Training, 1988.

*Directory of Training and Development  
Consultants in B.C.*  
Training and Development Society of B.C.  
Vancouver, B.C., 1988.

*Training and Employment Report of the  
Secretary of Labor*  
Office of Strategic Planning and  
Policy Development,  
Employment and Training Administration  
Department of Labor,  
U.S. Government Printing Office, August 1988.

## Trade Journals

*Adult Education Quarterly*  
*Human Resource Management*  
*Journal of Industrial Teacher Education*

*Education Communications & Technology Journal  
(ECTJ)*  
*Training and Development Journal*



## Annex G

### Services Covered by the FTA Principle of National Treatment

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Services covered by the principle of national treatment are limited to those services corresponding to the Standard Industrial Classification (SIC) numbers included in the Schedule to this Annex, with the addition of computer services, telecommunications-network-based enhanced services and tourism services. For purposes of reference, the services covered by this Annex are broadly identified below.

#### Agriculture and forestry services

- Soil preparation services
- Crop planting, cultivating and protection services
- Crop harvesting services (primarily by machine)
- Farm management services
- Landscape and horticultural services
- Forestry services (such as reforestation, forest firefighting)
- Crop preparation services for market
- Livestock and animal specialty services (except veterinary)

#### Mining services

- Metal mining services
- Coal mining services
- Oil and gas field services
- Non-metallic minerals (except fuels) services

#### Construction services

- Building, developing and general contracting services
- Special trade contracting services

#### Distributive trade services

- Wholesale trade services
- Vending machine services
- Direct selling services

#### Insurance and real estate services

- Insurance services
- Segregated and other funds services (managed by

- insurance companies only)
- Insurance agency and brokering services
- Subdivision and development services
- Patent ownership and leasing services
- Franchising services
- Real estate agency and management services
- Real estate leasing services

#### Commercial services

- Commercial cleaning services
- Advertising and promotional services
- Credit bureau services
- Collection agency services
- Stenographic, reproduction and mailing services
- Telephone answering services
- Commercial graphic art and photography services
- Services to buildings
- Equipment rental and leasing services
- Personnel supply services
- Security and investigation services
- Security systems services
- Hotel reservation services
- Automotive rental and leasing services
- Commercial educational correspondence services
- Professional services, such as
  - Engineering, architectural, and surveying services
  - Accounting and auditing services
  - Agrology services
  - Scientific and technical services
  - Management consulting services
  - Librarian services
  - Agriculture consulting services
- Non-professional accounting and bookkeeping services
- Training services
- Commercial physical and biological research services
- Commercial economic, marketing, sociological, statistical and educational research services
- Public relations services
- Commercial testing laboratory services
- Repair and maintenance services

Other business consulting services  
Management services, such as  
    Hotel and motel management services  
    Health care facilities management services  
    Building management services  
    Retail management services  
Packing and crating services

## Other services

Computer services  
Telecommunications-network-based enhanced services  
Tourism services

## Schedule

Each Party shall apply the national treatment provisions to the services listed under the Party's respective section below and shall extend those provisions to all subdivisions of each division, two-digit, three-digit or four-digit industrial code listed, except as specified, and shall also extend those provisions for each Party to tourism services as specifically defined in Annex 1404(B) and to computer services and enhanced services as specifically defined in Annex 1404(C) of the Free Trade Agreement.

## For Canada

(Standard Industrial Classification (SIC) numbers as set out in Statistics Canada, *Standard Industrial Classification*, fourth edition, Department of Supply and Services, 1980).

02 (except 0211), 05, 09 (incidental to 06, 07, 08), 40, 41, 42, 44, 4599 - packing and crating only, 51, 52, 53, 54, 55, 56, 57, 59, 60 (except 602) - management services only, 61 - management services only, 62 - management services only, 63 - management serv-

ices only, 635, 64 - management services only, 65 (except 651) - management services only, 69, 7211 - managed by insurance companies only, 7212 - managed by insurance companies only, 7213 - managed by insurance companies only, 7291 - managed by insurance company only, 73 (except 732), 7499 - franchising, 75 - except mobile home and railroad property leasing, 76, 77 (except 776, 7794), 852 - commercial services only, 861 - management services only, 862 - management services only, 863 - management services only, 865 - management services only, 866 - management services only, 867 - management services only, 868 - commercial services only, 911 - management services only, 92, 9725, 99 (except 9931, 996, 9991).

## For the United States of America

(Standard Industrial Classification (SIC) numbers as set out in the United States Office of Management and Budget, *Standard Industrial Classification Manual*, 1987).

071, 0721, 0722, 0723, 075, 0762, 078, 085, 108, 124, 138, 148, 15, 16, 17, 4783, 50, 51, 52 - management services only, 53 - management services only, 54 - management services only, 55 - management services only, 56 - management services only, 57 - management services only, 58 - management services only, 59 - management services only, 596, 63 (except 639), 64, 6512, 6513, 6514, 6519, 7213, 7218, 731, 732, 733, 734, 735, 736, 7381, 7382, 7389 - hotel reservation services and telephone answering services only, 751, 753, 76 - repair and maintenance services only, 80 (except 807) - management services only, 807 - commercial services only, 824 - commercial services only, 871, 872, 8731, 8732, 8734, 8741, 8742, 8743, 8748.



## Annex H

### Sources of Information and Recommended Reading

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#### Recommended Reading

##### Publications on Services and Service Management

*International Competition in Services: Banking, Building, Software and Know-How*, Congress of the United States, Office of Technology Assessment, Washington D.C.: U.S. Government Printing Office, July 1987.

*At America's Service*, Karl Albrecht, Homewood, IL: Dow Jones-Irwin, 1988 (Focuses on the practicalities and pitfalls of implementing a well-managed service organization)

*Total Customer Service: The Ultimate Weapon*, William H. Davidow and Bro Uttal, New York, NY: Harper & Row, Publishers, Inc., 1989

*Managing in the Service Economy*, James L. Heskett, Boston, MA: Harvard Business School Press, 1986

*Services Marketing: Text, Cases and Readings*, Christopher H. Lovelock, Englewoods Cliffs, NJ: Prentice-Hall Inc., 1984

*Service Management: Strategy and Leadership in Services Businesses*, Richard Normann, New York, NY: John Wiley & Sons, 1984

*Management of Service Operations*, Earl Sasser, Paul Olsen, and Daryl Wyckoff, Boston, MA: Allyn and Bacon, 1978

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## Sources of Information

Type of Information	Source	Comments
U.S. Market and Industry Data	<b><i>Standard &amp; Poor's Industry Surveys</i></b> Standard & Poor's Corporation 25 Broadway New York, N.Y. 10004 (212) 208-8000	<ul style="list-style-type: none"> <li>Comprehensive two volume reference work providing an overview of all major U.S. industries. Industry trends and prospects are discussed.</li> </ul>
	<b><i>U.S. Industrial Outlook</i></b> U.S. Department of Commerce International Trade Administration Washington, D.C. (202) 377-2000	<ul style="list-style-type: none"> <li>Contains overviews of some 70 major U.S. industries, with reviews of the recent scene, long-term outlook, trends and characteristics.</li> </ul>
	<b><i>Statistical Abstracts of the U.S., Service Annual Surveys, and Federal Statistical Directory</i></b> U.S. Department of Commerce Bureau of the Census Suitland, MD (301) 763-7662	<ul style="list-style-type: none"> <li>Standard summary of statistics on the social, political and economic organization of the U.S. Serves as a statistical reference and as a guide to other statistical publications and sources. Service annual surveys provide data on various service industry sectors.</li> </ul>
	<b><i>Metro Insights</i></b> DRI/McGraw-Hill 24 Hartwell Drive Lexington, MA 02173-9966 (617) 863-5100	<ul style="list-style-type: none"> <li>Contains comprehensive profiles of 100 top U.S. metropolitan areas.</li> </ul>
	<b><i>A Guide for Canadian Exporters - United States Series</i></b> External Affairs Canada Toll-free: (800)-267-8376	<ul style="list-style-type: none"> <li>Guides for Canadian exporters for the following areas are available: New England, Southwestern States, Western States, Southeastern States, Upper Midwest, Michigan &amp; Indiana, Eastern Midwest, New York, Mid-Atlantic and Upstate New York.</li> </ul>
	<b><i>State Data and Data Base Finder</i></b> Information USA, Inc. P.O. Box 15700 Chevy Chase, MD 20815 (301) 657-1200	<ul style="list-style-type: none"> <li>Lists marketing information you can obtain through the states.</li> </ul>
	<b><i>The Encyclopedia of Associations (U.S.)</i></b> Gale Research Company 835 Penobscot Building Detroit, MI 48226 (313) 961-2242	<ul style="list-style-type: none"> <li>Covers the location, size and objectives of almost 18,000 trade associations, professional societies, labour unions and other groups.</li> </ul>

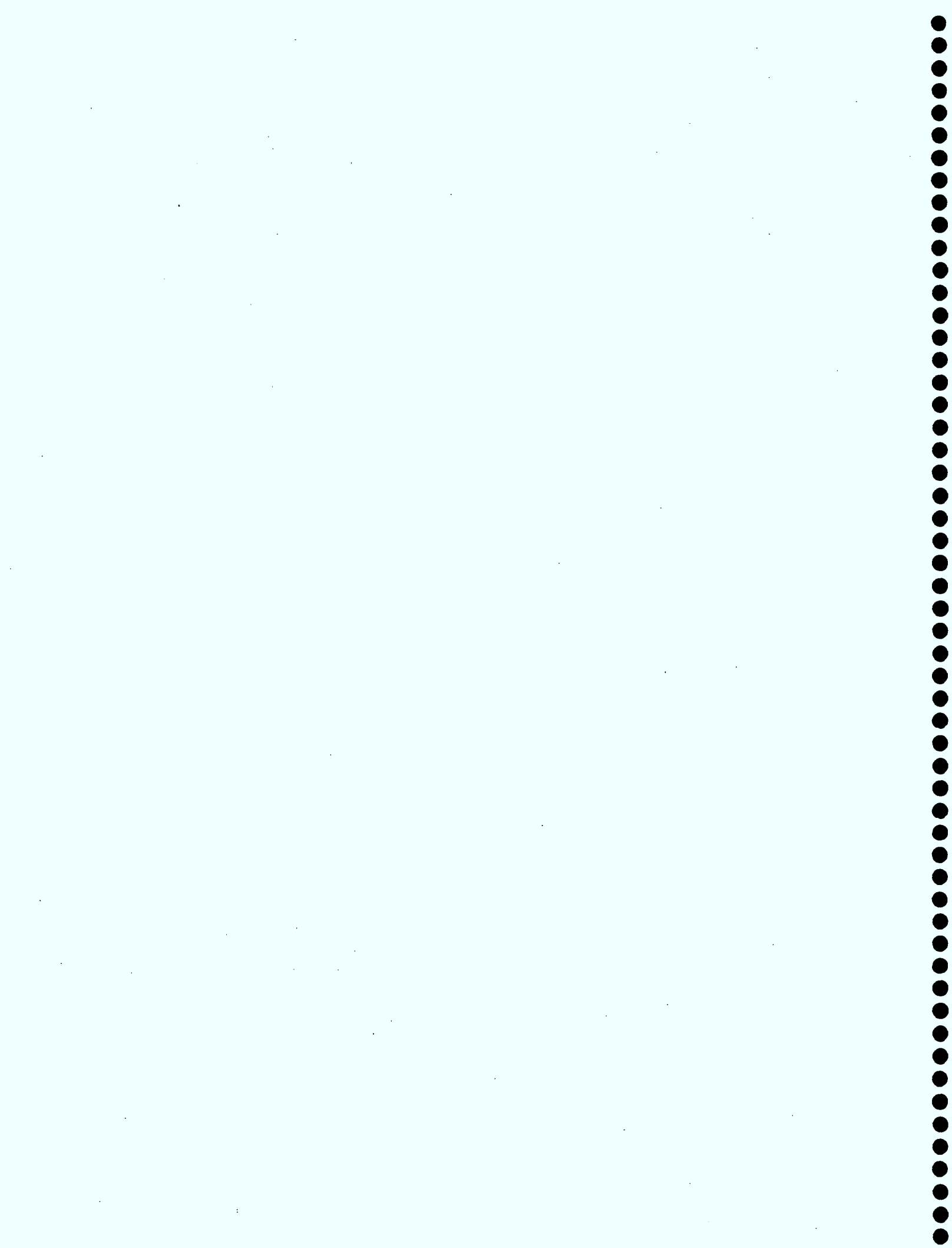
Type of Information	Source	Comments
U.S. Market and Industry Data Cont.	<i>Chambers of Commerce of the United States</i> 1615 H Street, N.W. Washington, D.C. 20062 (202) 659-6000	<ul style="list-style-type: none"> <li>Membership includes 3,800 state chambers of commerce and trade associations; over 77,000 business firms.</li> </ul>
	<i>Trade Show and Convention Guide</i> Billboard Publications Nashville, TN (615) 321-4250	<ul style="list-style-type: none"> <li>This annual publication lists and provides information on U.S., Canadian and international trade shows by industry.</li> </ul>
	<i>The Nation's Top 100 Markets, Sales and Marketing Management</i> , 140 (November 1988), p. 67-69	
	<i>American Demographics</i> P.O. Box 68 Ithaca, N.Y. 14851 (800) 828-1133	<ul style="list-style-type: none"> <li>This periodical covers trends in the demographic structure of the U.S. market. \$US 48 per year.</li> </ul>
U.S. Corporate Data	<i>Million Dollar Directory Who Owns Whom Reference Book of Corporate Managers</i> Dun & Bradstreet Inc. Three Century Drive Parsippany, N.J. 07054 (201) 953-0300	<ul style="list-style-type: none"> <li>Includes over 160,000 U.S. companies, each with a net worth in excess of \$500,000 listed geographically and by line of business.</li> </ul>
	<i>American Business Lists Inc.</i> Omaha, NE (402) 331-7169	<ul style="list-style-type: none"> <li>This firm compiles a listing of fourteen million American businesses from yellow page listings and provides the number of companies by state and industry. For example, there are 107 sub-sectors under the heading "construction". \$US 20.</li> </ul>
	<i>Dun's Census of American Business</i> (see Dun & Bradstreet above)	<ul style="list-style-type: none"> <li>A statistical resource, covering over 5 million U.S. businesses. Contains a national count of establishments in all industrial and commercial SIC categories, as well as by state, by number of employees and by annual sales volume.</li> </ul>
Forecasts		
	<i>Predicasts Forecasts</i> Predicasts 11001 Cedar Avenue Cleveland, OH 44106 (800) 321-6388	<ul style="list-style-type: none"> <li>Contains projections for products, markets, industries and the economy of the U.S. marketplace. This publication is organized by product and industry.</li> </ul>

Type of Information	Source	Comments
Forecasts Cont.	<i>World Economic Outlook</i> The WEFA Group 150 Monument Road Bala Cynwyd, PA 19004 (215) 896-4927	<ul style="list-style-type: none"> <li>Contains an analysis and forecast of mainly economic variables for 72 countries, including the United States.</li> </ul>
	<i>The Conference Board</i> 845 Third Avenue New York, N.Y. 10022 (212) 759-0900	<ul style="list-style-type: none"> <li>Provides economic projections for U.S. census regions and industries.</li> </ul>
Market Research Studies	<i>The Information Catalogue</i> Find/SVP Information Products Department 625 Avenue of the Americas New York, N.Y. 10114-0354 (212) 645-4500	<ul style="list-style-type: none"> <li>A free catalogue of reports and studies prepared by Find/SVP and other well-known research firms, publishers and brokerage firms. The catalogue lists the cost of individual reports which are available for a variety of products and industries.</li> </ul>
	<i>Directory of U.S. and Canadian Marketing Surveys and Services</i> Charles H. Kline & Co. Inc. 165 Passaic Avenue Fairfield, N.J. 07006 (201) 227-6262	<ul style="list-style-type: none"> <li>Lists marketing research firms and their services, studies for sale, etc.</li> </ul>
	<i>Off-the-Shelf, International Catalog of Business Reports</i> 2171 Jericho Turnpike Commack, N.Y. 11725 (516) 462-2410	<ul style="list-style-type: none"> <li>Monthly catalog. Free.</li> </ul>
	<i>International Directory of Marketing Research Houses and Services</i> New York Chapter: American Marketing Association (212) 687-3280	<ul style="list-style-type: none"> <li>Lists firms along with a brief description.</li> </ul>
Databases (on-line)	<i>Dialog On-Line Database Service</i> Dialog Information Services, Inc. 3460 Hillview Avenue Palo Alto, CA 94304 (415) 858-3810	<ul style="list-style-type: none"> <li>Provides access to over 230 data bases in a broad range of subject categories. Data bases are primarily focused on the United States.</li> </ul>
	<i>Predicasts</i> <i>S&amp;P Corporate Descriptions</i> <i>Business Wire</i> <i>IP Sharp</i> <i>Business Dateline</i> <i>Nexis</i>	



Type of Information	Source	Comments
Databases Cont.	<b>DRI Data Bases</b> DRI/McGraw-Hill 24 Hartwell Avenue Lexington, MA 02173 (617) 863-5100	<ul style="list-style-type: none"> <li>Provides access to over 125 data bases including historical and forecast data bases for the U.S. national and regional economies.</li> </ul>
Trade Journals and Indexes	<p><b>Vancouver Public Library</b> 750 Burrard Street Vancouver, B.C. V6Z 1X5 (604) 665-2280</p> <p><b>Main Library</b> University of British Columbia 2075 Wesbrook Mall Vancouver, B.C. V6T 1W5 (604) 228-6375</p> <p><b>Predicasts F&amp;S Index - United States</b> Predicasts 11001 Cedar Avenue Cleveland, OH 44106 (800) 321-6388</p> <p><b>Business Periodical Index</b> H.W. Wilson Company 950 University Avenue Bronx, N.Y. 10452 (212) 588-8400</p> <p><b>Canadian Business Index</b> Micromedia Ltd. 158 Pearl Street Toronto, Ontario M5H 1L3 (416) 593-5211</p>	<ul style="list-style-type: none"> <li>Vancouver Public Library, the Main Library at U.B.C. and other university and specialized libraries have a listing of periodical holdings by industry.</li> <li>Covers product, industry and company activities reported in leading U.S. business publications. Entries are arranged by product, industry and company.</li> <li>Covers a wide range of subjects including general business and marketing.</li> <li>Covers approximately 150 Canadian magazines and several newspapers on business, industry, economics, etc. Articles classified by subject, company name and personal name.</li> </ul>
General Export Information	<b>Info Business Centre</b> British Columbia Trade Development Corporation, Ministry of International Business and Immigration, World Trade Centre Vancouver, B.C. (604) 844-1900	<ul style="list-style-type: none"> <li>A variety of published material on U.S. markets and assistance in exporting to the U.S. are available.</li> </ul>

Type of Information	Source	Comments
General Export Information Cont.	<i>Exporting to the United States</i> Department of Treasury, U.S. Customs Service Washington, D.C. 20229 (202) 566-8195	<ul style="list-style-type: none"> <li>• Guide to exporting to the U.S.</li> </ul>
	<i>Directory of the Canadian Trade Commissioner Service</i> External Affairs Canada Toll-free: (800) 267-8376	<ul style="list-style-type: none"> <li>• Lists Department of External Affairs Trade Commissioners responsible for promoting Canadian Trade, investment and tourism. Contacts in Canada, the U.S. and around the world are provided.</li> </ul>
	<i>International Trade Centre</i> Industry Science & Technology Canada 900 - 650 West Georgia Street Vancouver, B.C. V6B 5H8 (604) 666-0434	<ul style="list-style-type: none"> <li>• A variety of published material on exporting to the U.S. is available.</li> </ul>
	<i>Export Guide: A Practical Approach</i> External Affairs Canada Government of Canada Toll-free: (800) 267-8376	<ul style="list-style-type: none"> <li>• General guide for Canadian firms interested in exporting. Primarily concerned with goods exports.</li> </ul>
	<i>Canadian Exporters' Association</i> (CAE)250 - 99 Bank Street Ottawa, Ont. K1P 6B9 (613) 238-8888	<ul style="list-style-type: none"> <li>• The CAE consists of more than 1,000 Canadian companies involved in exporting. These include firms from all sectors, large and small manufacturers, consulting firms, trading houses, banks and other financial institutions and insurance companies.</li> </ul>
	<i>The Free Trade Handbook</i> Federal Business Development Bank and CCH Canada Ltd., 1989 FBDB toll-free number in B.C.: 1-800-663-0433 or (604) 666-7800	<ul style="list-style-type: none"> <li>• A reference guide of information sources and key trade contacts for Canadian business. (Available at FBDB branches, \$10.95)</li> </ul>
Canadian Industry Profiles	<i>Industry Profile Series</i> Industry, Science and Technology Canada 235 Queen Street Ottawa, Ont. K1A 0H5 (613) 995-5771	<ul style="list-style-type: none"> <li>• A series of papers which assess, in summary form, the current competitiveness of Canada's industrial sectors, taking into account technological and other key factors, and changes anticipated under the FTA.</li> </ul>





## Annex I

# Ten Commandments For Successful (Unstructured) Market Research Interviews

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### I. Set objectives

Before starting your unstructured interviews, you must have some objectives in mind. Set these objectives by asking: what kind of information would help reduce the risk of entering a new market? What is the respondent likely to know about your potential market? Choose some "must have" questions to ask, if you cannot get a long interview.

### II. Revise questions

Experienced market research interviewers know that the list of questions to be asked will change as your knowledge grows. Basically you should analyze the responses as you move forward — never go into the next interview asking the same questions as in the last one. Go for greater depth.

### III. Ask simple open-ended questions

To ask "what makes a supplier good?" is much better than going down a whole list of possible items and then trying to find an order to the ones that matter.

### IV. Do not accept generalizations

If someone answers "big" or "large" — this does not mean anything. Ask if it means 1,000 or 10,000 or 2% or 50%. If they respond with "we often use this service", ask them: "how often? in what ways?"

### V. Probe

"Yes/no" answers in interviews are not very useful. Ask: who is good? why? what do you mean by good? Aid respondent's recall by prompting them to remember some information which otherwise might not come out.

**VI. Make it interesting**

Most people like to talk about their business and what they are looking for in a good supplier of services. Let them talk. But keep bringing them back to the point. Offer some of your experiences, in Canada or in previous interviews, to make them feel they are also learning from the interview.

**VII. Keep it short and simple**

Do not take more of the respondent's time than you need. Cover the key points — the fewer, the better — and then see if the respondent wants to talk on.

**VIII. Start with the least important interviews**

Professional market researchers leave the really key interviews to the last when they have polished up their approach and know the really important points they want to cover.

**IX. "Snowball" your contacts**

Ask respondents to suggest other contacts: "if you were doing this study, who would you go and see?"; "which companies?"; "what job function?"; "who by name?". This is a good way to find very specialized interview contacts. Conclude with "is there anything I can tell you that you would like to know, or anything else we should discuss?" Finally, ask if you can call back in case you missed something.

**X. Keep track**

Take notes — good notes. Fill out and expand these notes IMMEDIATELY after the interview so the maximum information is recorded. Studies in the U.S. have shown that half the value of an interview is lost if it is not written up for one week. Remember, you have made an investment in doing the interview; do not lose it.

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