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International Services Marketing: A Review of Structural Barriers, Regulatory Limitations, and Marketing Responses

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INTRODUCTION

The world's industrialized nations, e.g., the U.S., Japan, and Germany, have long depended upon the production, sale, and consumption of services (in addition to manufactured goods) to sustain and fuel domestic economic growth. Current trade figures indicate that exported services are a major contributor of their annual GNPs as well. Exported services are also the fastest growing sector of global exchanges–not only for the industrialized leaders but for many newly industrializing countries (NICs) and lesser developed countries (LDCs) as well (Bangsberg 1990). Present day estimates suggest that 20%-25% of the world's export/import commerce is represented by services (Nicoulaud 1989).

Ironically, regulation of this important international trade sector has been virtually an *ad hoc* effort as nations have negotiated, measured, and controlled the international economic arena almost exclusively in terms of manufactured goods (McDermott 1990). The global community has only recently begun to deal with com-

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prehensive services marketing issues. As a continuation of that process, this paper will use a literature review and analysis to discuss the importance of the services market, the characteristics of services which discourage importing and exporting, and the nature of various trading barriers. Governmental and organizational responses to these barriers will be presented as will a brief view of market entry strategies. While a U.S. perspective will be used, much of the discussion and resulting conclusions would be similar for any marketing-oriented economy.

DEFINING INTERNATIONAL SERVICES

The definition of international services is no different than that proposed for domestic services; namely, "activities, benefits, or satisfactions offered for sale where there is no exchange of tangible goods involving a transfer of title" (Bamossy and Semenik 1993) or "those separately identifiable, essentially intangible activities which provide want-satisfaction and which are not necessarily tied to the sale of a tangible product" (Stanton 1981, p. 441).

The operational difference is that some aspect of service ownership, production, or consumption must involve entities from two or more nations. Whatever philosophical controversy may exist over these textbook definitions of services should be held in abeyance since an internationally accepted commercial definition of what constitutes services is an important trade barrier and thus the more important issue.

For purposes of this paper, services exports would include such familiar categories as construction, retailing and telecommunications, and less familiar categories such as film royalties, hazardous waste disposal, and golf course design and construction. See Table 1 for a more complete listing of major service categories exported from the United States and other exporting nations.

COMMERCIAL IMPORTANCE OF INTERNATIONALLY TRADED SERVICES

The United States is the largest services exporter in the world; roughly one of every four U.S. export dollars is earned from the sale of

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TABLE 1. U.S. Trade in Private Services (Major Categories)

(in millions of $)	1990	1991	1992
EXPORTS			
TRAVEL	43,007	48,384	53,861
PASSENGER FARES	15,298	15,854	17,353
OTHER TRANSPORTATION	21,954	22,236	22,773
ROYALTY/LICENSE FEES	17,069	18,479	20,238
EDUCATION	5,126	5,683	6,140
FINANCIAL SERVICES	4,417	4,976	5,447
INSURANCE	751	1,028	1,069
TELECOMMUNICATIONS	2,735	3,316	3,306
BUSINESS, PROFESSIONAL TECHNICAL SERVICES*	6,951	11,261	12,678
TOTAL RECEIPTS FOR ALL PRIVATE SERVICES	137,936	153,025	167,826

*includes advertising, computer and data processing, research and development, legal services, management and consulting, installations and repair.

Source: U.S. Survey of Current Business 1993, p.122.

services products (Lewis et al., p. 71, 1992). This figure continues to rise as the value of U.S. service exports has increased from $100 billion in 1988 to an estimated $180 billion in 1993–an annual growth rate of 12.6%; roughly twice that of manufactured goods (Cohen 1993).

Key growth areas for the U.S. include tourism, American culture, and brainpower driven services which depend upon high technology, innovation and management skills. The last grouping includes many producer/business services which are both differentiated and knowledge-intensive; meaning that they are acquired at a high initial cost after which they can be provided at low marginal costs (Markusen 1989). Examples would include architectural designs,

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software packages, management systems, and engineering processes. See Table 1 for sales by category figures.

Other nations depend upon services exports such as banking, air travel, gambling or insurance to supplement their domestic economic activity. For example, the world travel and tourism industry accounts for $2.5 trillion in sales annually or about 5.5% of the world's GNP (Wharton 1991).

Service sector employment has risen steadily in the U.S. for over a century and now accounts for the majority (63%) of our individual employment and income (Raynor 1992). Since nearly 9 of 10 new U.S. jobs are in the service sector (Koepp 1987), growth of services exports is considered crucial to sustained economic growth. As proof, it is estimated that service exports have created 1.7 million positions in the past six years (Cohen 1993).

Overseas, export service employment is also quite important. In the travel and tourism example mentioned earlier, Wharton (1991) reports that 112 million people are employed worldwide in this single service activity. In advertising, the world's top ten agencies obtain most of their gross revenue from abroad (Czinkota, Rivoli and Ronkainen 1992). As a general class, service employment accounts for the majority of employment in Japan (58%) and West Germany (55%); undoubtedly many of these jobs result from services exports (figures from Lewis et al. 1992).

Perhaps one of the most significant contributions of services exports is its effect upon a nation's balance of trade. The U.S. has experienced over two decades of continuous positive services trade balances. The services trade surplus for 1993 is expected to be $68 billion, up from $56 billion in 1992 and $45 billion in 1991 (Connors and Heller 1993). While service surpluses haven't offset the larger goods deficits since 1981 (the goods deficit now running in the $100 billion plus or minus range annually), they still substantially reduce the magnitude of the U.S. trade imbalance.

Other nations, especially those without ample natural resources or territory (e.g., Singapore and Bermuda) use service trade surpluses to finance their purchases of basic materials. Poorer nations like Jamaica and Portugal depend upon tourism surpluses to help finance the purchase of other imports (Korth 1991). Even non-capi-

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talistic nations such as China may be integrating into the world economy through services (Drucker 1993).

Without services exports, there would be much clearer delineations between the debtor and creditor nations; greater global economic instability; and greater financial disarray. Free movement of services is just as important as free movement of goods–if the world economic order is to continue.

THE NEED FOR RATIONALIZATION IN GLOBAL SERVICES TRADE

The many positive outcomes of global services trading suggest that trade regulations should shift from a country-by-country patchwork status to a comprehensive format similar to that of the goods-focused General Agreement on Trade and Tariffs (GATT). The first-ever round of the General Agreement on Trade in Services (GATS) was recently begun with that purpose. However, this or any other rationalization effort is not likely to be successful without all parties and trading participants first understanding the unique properties of services marketing.

THE UNIQUE CHARACTERISTICS OF SERVICES WHICH DISCOURAGE INTERNATIONAL TRADE

Many writers (cf. Berry 1980) have argued that services are substantially different than tangible goods and thus require different marketing strategies. The more commonly cited differences of intangibility, heterogeneous output, perishability, and simultaneous production and consumption become more obvious disadvantages when services must be traded internationally. The following brief discussion should serve to illustrate marketing difficulties caused by each property.

Regarding *tangibility*, the decision and post consumption evaluation processes depend heavily upon perception since tangible criteria and objective outcomes are rarely available ahead of time. Creating correct perceptions is largely a matter of selecting appropriate

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stimulus cues that give meaning to what is sensed by the consumer. A detailed knowledge of foreign culture (e.g., beliefs, values, life-styles symbols, psycholinguistics, attitudes, etc.) is highly important. Previous marketing experiences with tangible goods forcefully (and sometimes humorously) indicate how difficult communication between two cultures can become.

The characteristic of *heterogeneous output* usually requires that service marketers tightly control the quality of the service production process. In many cases, that means that service users must understand specific scripts and roles that will allow them to facilitate service delivery. When users and/or providers are from different cultures, the education of service users can be very time-consuming and difficult. Small misunderstandings and the effects of distance can easily cause service consistency to deteriorate.

In some cases, the lack of skilled service employees makes service consistency improbable. Even worse, the Western tradition of customer participation in service creation and delivery is not universally accepted; e.g., as in the Middle East (Kassem 1989). When heterogeneous output requires a high degree of contact and customization, the same problems are encountered as above.

Perishability means that services exist in real time and cannot be stored for later consumption. Typically this means the service marketer must operate a service production system with the flexibility to deliver varying output levels within acceptable cost limits whether here or abroad. This can be problematic in many foreign countries where labor laws prohibit many of the supply management systems typically used to rapidly increase or draw down supplies (temporary work forces, reassignments, layoffs, etc.). Regulating demand is even more difficult since service consumers must be willing to modify their demand patterns. Since these customers are from other cultures, service marketers must possess detailed knowledge of consumers' waiting line behavior, willingness to act as employees, or willingness to defer or reschedule consumption.

Likewise, *simultaneous production and consumption* requires that the consumer enter the service "factory" or somehow participate in the service production process; a difficult task unless the service is produced in the buyer's home country or the buyer is

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brought to the country of production. Sometimes, high technology communications can be used to transport information-driven services from the country of production to the country of consumption. However, this method may introduce complexity and cost not encountered in domestic markets. International distribution channels and channel intermediaries available for goods are of little use in the international marketing of services.

Overall, the nature of services dictates that global trade is not particularly facile unless two rigorous conditions are met. The first condition requires putting buyers and sellers into an exchange-facilitating environment. This can be satisfied by using one or more of the four methods suggested by Mukherjee (1992); all more difficult than engaging in domestic marketing:

- Consumers move from one country to another
- Producers move from one country to another
- Producers establish a presence in another country
- Cross border trading, i.e., the services are transportable

The second condition is a thorough knowledge of the target market's culture (Lunsford and Fussell 1993). Knowing appropriate contextual cues are critical in achieving accurate positioning, evaluation and satisfaction. In addition, attempts to tangibilize the service, teach roles and scripts, leverage the service by adding value, shift demand patterns, manage expectations, reduce risk, improve assessment of quality, or many of the other familiar service marketing tactics are highly risky unless the marketer is intimate with each specific target market.

Even if inherent nature and cultural problems can be overcome, significant service trading barriers still exist in the form of externally imposed limitations; primarily tariff and nontariff barriers. However, the question of why services are susceptible to additional trading barriers should be examined first.

SERVICES MARKET CONDITIONS WHICH ENCOURAGE TRADE CONTROLS

The following discussion features some of the structural conditions which encourage services trade restrictions. Unlike the last

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section, these conditions typically lead to governmental, not organizational, responses.

Lack of a Sustaining Definition: In the U.S. goods are traded in roughly 10,000 classifications; services in less than 100 (Kirkland 1987). It is difficult to reach any kind of bi- or multi-lateral agreement when trading categories are so imprecise. In addition, the lack of congruent reporting between nations makes it difficult to estimate the economic effects of any system of trade rationalization.

Trade controls on specific services in an omnibus trade classification may unnecessarily limit trade in related services only because they are not specifically exempted. Similarly, it is harder to argue for trading changes since removal of some nominal service trading barrier might easily be interpreted to extend to trade in another, more sensitive sector in the same generic service category. In addition, the lack of definitional congruence also makes it very difficult to maintain an agreement since monitoring and adjudicating problems require common ground.

Nicolaides (1990) argues that services are susceptible to trade controls precisely because services cannot be defined. Services tend to be either tradeable (easily move across borders) or nontradeable (requires personal contact). The line between the two types is a function of available technology; as technology changes the line changes (cf. Vanderemerwe and Chadwick 1989).

For example, if the host country agrees not to impede certain services, it may be gradually opening their country up to more imports via technology. If a host country restricts imports at existing technological levels, it favors domestic producers who may adopt or surpass this level of technology. Under these circumstances, restrictive trading barriers appear simply to be a prudent hedge against future service import growth.

Services Are Often an Infant Industry: Many of the world's industrialized nations have been in the services business for decades; newly industrializing nations are just now beginning to develop their service sector. For them, trading barriers are particularly important since they realize that better capitalized, more experienced, and more productive competitors could quickly occupy key sections of their infrastructure (e.g., banking, telecommunications, transportation, construction). Since infrastructure touches on national

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sovereignty and memories of economic colonialism, it is not surprising that NIC's only reluctantly provide market access to service exporters.

In a related fashion, some American services carry strong elements of American culture (e.g., films, music, television programming, etc.) which are resisted as a cultural rather than a political/ economic threat.

Services Are Often Labor Intensive: One of the problems with services is grounded in the characteristic of simultaneous production and consumption. Importing services often means importing labor to produce the services. Importing service providers to compete with the indigenous labor force is a political liability for both NIC's and LDCs struggling to increase prosperity.

Conversely, developed nations resist free labor movement by low-skill service providers; partly as an immigration deterrent and partly to limit unemployment for their hard-to-employ. Erzan and Yeats (1991) estimate that about 30 million U.S. service jobs would be jeopardized if service labor were allowed to move freely across national borders. Erecting service trading barriers is an expedient way for both types of nations to avoid these problems.

Services Are Difficult to Control: Manufactured goods are discrete units. They can be counted and controlled through physical inventories and manifest documentation. However, what happens when an accountant is allowed into a country? Who controls how many clients the accountant is allowed to see or how many accounting problems he or she might solve? The variable nature of service performances means it may be easier to prohibit them than to control them.

Services Do Not Create Real Wealth: The governments of post-industrialized nations typically have favorable attitudes about the consumption of services. However, for many LDCs and NICs, services purchases are viewed as relatively non-productive uses of their limited resource base. Only extractive industries are held in similar disregard. It is both popular and practical to limit the importation of many non-essential services.

These and a variety of more country-specific reasons suggest why potential services importing nations might wish to severely limit market access. However, outright prohibition invites eco-

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nomic and/ or political retaliation. Instead, fear of service competition (or any other perceived negative effects of imported services) usually takes the form of regulatory barriers erected by governments.

REGULATORY BARRIERS TO INTERNATIONAL SERVICES TRADE

Over 850 tariff and non-tariff international trade distorting barriers have been identified (See Exhibit 1 for a categorical display). Most restrictions in this Exhibit are goods specific–reflecting the higher degree of attention focused on merchandise rather than services. However, it serves to illustrate the comprehensive collection of trade restricting options available to nations and businesses.

Tariff Barriers

In the classical sense, tariffs are an ad valorem assessment on the landed cost of products imported into a country. Whether for revenue generation or limiting competition, the impact is to distort free trade and the economic structure of both the importing and exporting countries.

The restrictive nature of tariff barriers works best on tangible goods delivered through physical distribution channels. This permits an actual accounting of units or value which becomes the basis for assessing surcharges. It also means that the actual impact of the tariff can be calculated since cost factors can be used to determine new supply, demand, and price levels.

Tariffs on services work best with what Erramilli and Rao (1990) call "soft-service" firms. These firms market services for which it is extremely difficult or even impossible to decouple production and consumption. Under these circumstances, it is less difficult to match customers with the service provider and collect the tariff. As examples of tariff trading barriers on services, Dahringer (1991) identified taxes on imported advertising, taxes on computer service contracts, and higher tuition for university students from outside the country.

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EXHIBIT 1. Categorical Display of Tariff and Nontariff Barriers in International Trading

Tariff Barriers	Nontariff Barriers
Direction –Import –Export	Government Participation in Trade –Administrative Guidance –Subsidies –Government Procurement & State Trading
Purpose –Protective tariff –Revenue tariff	Customs & Entry Procedures –Product Classification –Product Valuation –Documentation –License or Permit –Inspection –Health & Safety Regulations
Time Length –Tariff surcharge –Countervailing duties	Product Requirements –Product Standards –Packaging, Labeling and Marking –Product Testing –Product Specifications
Tariff Rates –Specific duties –Ad valorem duties	Quotas [Export and Import] –Absolute –Tariff –Voluntary
Production, Distribution & Consumption –Single Stage –Value Added –Cascade –Excise	Financial Control –Exchange Control –Multiple Exchange Rates –Prior Import Deposits –Profit Remittance Requirements
	Other Policies and Requirements –Market Reserve Policy –Performance Requirements

Source: Onkvisit and Shaw 1988, p. 66.

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However, tariffs are relatively ineffectual in preventing/minimizing foreign competition since services cross national borders in a variety of modes and often have little tangible unit or value features (Mukherjee 1992). For example, tariffs on data disks can reflect the cost of the disk or even the labor to keypunch the data, but how do you assess the value of the data (e.g., marketing research results) which is really the core service value being imported?

Dealing with Tariff Barriers

Potentially, many tariff barriers could be reduced in bi- or multilateral agreements. Barring elimination, negotiation could lower tariff rates or permit other forms of limited relief such as temporary suspension of the tariff or creative payment of tariff fees.

If negotiation between governments fails, organizations can attempt to ameliorate the effects of restrictive tariffs. In some instances, service customers could simply pay the added tax as part of the cost of receiving the service. This would drive up price and be more attractive to cost-efficient service producers or those with an inelastic demand curve. Tariffs could even be used as an entry barrier against less efficient competitors.

Like goods exporters, service providers could opt for reclassification of the service in order to take advantage of a lower prevailing rate. Unfortunately, this is not likely to be an attractive option since there are few standardized service classifications to use as substitutes.

In other situations, providers might unbundle the service so that only the core of the service production system is imported and taxed. Ancillary services would then be acquired within the host country and rebundled to form the complete package; at a lower effective tariff rate. This may have the additional advantage of earning certain "country of origin" advantages. The opposite bundling strategy might combine lower tariff services with higher tariff services in order to moderate the impact.

The last category of tariff avoidance measures is the mode of entry. Import barriers can be avoided simply by moving service production into the host country. As suggested by Naumann and Lincoln (1991), "the selection of an entry strategy should be directly related to the level and nature of protectionism likely to be

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encountered" (p. 65). Licensing, franchising, joint ventures, and wholly owned subsidiaries are the usual choices. Each has it advantages and disadvantages (discussed in later sections) depending upon the environment of the host country and the specific tariffs to be avoided.

Non-Tariff Barriers

Ascher (reported in McDermott 1990, p. 37) observes:

> Talking about services in the trade context is relatively new. With services you are dealing with a whole host of non-tariff barriers like banking regulations and communications–things that are not easily recognizable or quantifiable. . . . things that can be used as a disguise for protection.

Non-tariff barriers (NTBs) are defined as government laws, regulations, policies, or practices that either protect domestic producers from foreign competition or artificially stimulate exports of particular domestic products (Foreign Trade Barriers 1987). In a broader context, NTBs nominally encompass all private and governmental policies and practices that serve to "distort the volume, commodity, composition or direction of trade in goods and services" (Ingo as reported by Mukherjee 1992, p.46).

More international services trade restrictions occur as non-tariff barriers (NTB), rather than tariff barriers. "Despite the havoc they wreak, trade barriers in services are more difficult for countries to debate and resolve. Unlike tariffs, restrictions on services are less quantifiable and their negative impact is harder to prove" (Cohen 1993, p. 57). Several lists of NTBs are presented in Exhibits 2 and 3. Like Exhibit 1, some of the NTBs focus on merchandise rather than services. However, these lists easily demonstrate the potential for widespread distortion in services trade.

Intent to Discriminate. Czinkota and Ronkainen (1990) believe that intent to discriminate against foreign competitor is a necessary condition of a NTB; i.e., if a regulation has an equivalent impact against domestic competitors, it is not a NTB. Using this rationale, the United Nations Conference on Trade and Development (1989) classified NTBs into three types:

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a. Type I barriers protect domestic producers from foreign competition;
b. Type II barriers are used occasionally to restrict imports or stimulate exports; and
c. Type III barriers are not intended to protect domestic producers but still have negative effects upon foreign producers.

Type I Barriers. Thailand, the Philippines, Indonesia and Malaysia place severe limits on foreign banks and also reserve domestic shipping for domestic flagships (Goldstein 1990). India and Korea prohibit foreign companies from marketing insurance and Thailand permits only joint ventures; marine insurers face similar barriers. Korea prohibits foreign shippers from offering ground transportation (Work 1989; Kirkland 1989; Goldstein 1990; and Brostoff 1993). Government owned monopolies, as a type of domestic producer, have the most severe impact upon market accessibility.

Germany requires imported advertising to use German models to avoid discriminatory treatment. American accountants are concerned with restrictions on the licensing of foreign professionals, limitations on the number of audits that may be performed by foreign firms, the difficulty in obtaining "audit firm" status and especially their inability to gain local professional certification (Hegarty 1991).

The proposed rules of the European Community also provide many examples of Type I barriers. For example, the EC would allow local postal and telecommunication (PTT) operators to cross-subsidize enhanced services at the expense of foreign competitors who cannot reassign service costs (Powers and Elliott 1992). The EC also tried to bar U.S. trucking companies headquartered in one EC country from picking up and delivering in a second EC country. When the U.S. complained, the bar was dropped but language was added to the regulation that allows the EC to intervene when there are unspecified "market interruptions." In effect, a proposed Type I barrier was moved to a Type II barrier.

Type II Barriers. Another European Community Type II barrier includes a proposed requirement for personal privacy and information security. This would prohibit U.S. firms from transferring personal data on EC residents outside of the EC without "informed

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EXHIBIT 2. Nontariff Barriers to International Marketing of Services

Type	Impact
Bilateral and Multilateral Country Agreements	Restricts Market Accessibility and Equal Treatment
Buy National Policies	Discriminates Against Foreign Suppliers
Prohibit Employment of Foreigners	May Prevent Suppliers from Going to Service Buyers
Distance	Reduces Economies of Bringing Buyer and Seller Together
Direct Government Competition	Must Market Services to Government
Scarce Factors of Production	Limits Production of Services
Restrictions on Service Buyers or Sellers	Limits Affected Industry in Specific Ways
Subsidies to Domestic Firms	Foreign Supplier May Have Price Disadvantage
Discriminatory Taxation	Foreign Supplier Has Earnings Disadvantage
Limitations on Purchase of Real Estate	Must Use Foreign Partner
Franchising Restrictions	Lose Ability to Control Service Production/Delivery System
Restricted Licensing of Professionals	No Free Movement of Providers or Their Services
Limitations on Data Transfers	Day Increase Costs and Lower Quality

Adapted from Dahringer 1991; Basche 1986; and Naumann and Lincoln 1991

consent." This would seriously disrupt the operations of American firms offering credit cards, consumer banking, insurance, tours, or any other business where analysis and utilization of consumer data is essential (Powers and Elliott 1992).

Type III Barriers. Type III barriers may be unintentional but they

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EXHIBIT 3. Twenty Common Non-Tariff Barriers

1. Import Quotas
2. Minimum Import Pricing
3. Marketing or Advertising Restrictions
4. Restrictive Transportation Requirements
5. Port of Entry Taxes or Levies
6. Import Licensing Requirements
7. Complex Customs Procedures
8. Product Quality or Technical Standards
9. Arbitrary Product Classifications
10. Safety and Health Requirements
11. Packaging and Labeling Requirements
12. Low Cost Government Financing and Subsidies
13. Local Content Regulations
14. Rebate of Domestic Taxes to Exporters
15. Discriminatory Government Procurement Contracts
16. Required Countertrade
17. Voluntary Export Restraints
18. Domestic Monetary Restrictions
19. Volatile Exchange Rates
20. Lack of Access to Suitable Market Channels

Source: Naumann and Lincoln, p. 63.

discriminate against foreign operators anyway. For example, Kassem (p. 62) writes,

> A bank executive cannot sue a reluctant borrower to pay interest with the principal; Saudi courts do not recognize interest. Similarly, hotel executives are constrained as to what kind of drink or meat they are allowed to serve. Likewise, hospital executives are constrained as to what kind of fee they are allowed to charge for every service item and patient category.

In the EC, Type III barriers are commonplace. The trucking industry sets access restrictions, fixes fare structures, and regulates technical requirements. PTT operators have to buy terminal equipment from a government-owned PTT provider (Powers and Elliott, 1992). In Japan, cultural barriers stifle acceptance of innovative

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U.S. insurance products (Brostoff 1993). [Footnote: See the Samiee and Mayo (1990) article for an additional perspective on socio-cultural trade barriers in Japan.]

Remedies for Non-Tariff Barriers. Unfortunately, there are few well-defined responses to NTBs. In most cases, they can only be removed through good faith negotiations by governmental representatives; often on an industry specific bilateral basis. Basche (1986) recommends the negotiated approach along with pursuing remedies through existing multilateral trade organizations.

Dahringer's (1991) list of organizational responses for combating international trade barriers are not NTB specific but could readily be applied to a variety of NTB-type limitations. He recommends embodying, superior management, customizing, technology, and macromarketing as useful managerial responses. Each is briefly defined as follows:

Management Action	*Key Activities*
Embodying:	To include services in physical goods. To move the total product toward the more tangible domain.
Superior Management:	To develop strategic alliances, most particularly franchising which permits a partnership between a locally knowledgeable partner and the foreign organization.
Customizing:	Developing the most attractive package of benefits so the customers will pay a higher price or move to the service rather than have the service brought to them.
Technology:	Especially communications and computer technologies. Technology transfer is another way of overcoming barriers.
Macromarketing:	Working with governments to relieve discrimination through government actions.

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This list corresponds closely to the organizational responses (first four listed) of bundling, entry mode, high value and technology; and the governmental response (last one listed) of negotiation previously discussed. Usually some combination of organizational responses is recommended while governmental assistance is sought. Negotiations are usually quite lengthy and may not provide relief immediately even if they appear successful on the surface–as the securities and insurance industry has discovered (cf. Banham 1991 and Gorman 1993).

At other times, removal of nontariff barriers is not probable. For example, Kassem (1989) points out that Arab policy makers and businessmen do not want deregulation of services. "The former are against it because it threatens the survival of infant industries, the latter hate it because it exposes their inefficiency and their inability to compete" (p. 68).

THE IMPORTANCE OF MARKET ENTRY

Structural and regulatory barriers may be difficult but are not insurmountable. For the service firm intent upon international trade, selection of the appropriate entry mode may be the most critical decision since later problems and opportunities will largely depend upon this decision. A good case in point in the J.C. Penney Company. They devised four entry strategies; each providing the foundation for entry and operations depending upon the restrictiveness of the environment.

In "retail-friendly" countries, J.C. Penney owns and operates its own department stores; in less friendly markets, Penney licenses local retailers who own and operate a Penney Collection store; even tougher markets are entered via licensees who operate in-store shops that carry only specific branded Penney lines; and the most restrictive markets are reached through authorized third-party catalog operators who accept orders, buy the merchandise from Penney's, and arrange shipment from stocks pre-positioned in warehouses (Ortega 1994).

MARKET ENTRY STRATEGIES

Typically, services require more adaptation than goods before entering foreign markets. The problems of perishability, simulta-

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neous production and consumption, heterogeneity, and intangibility introduce higher level of risk. For these reasons, services cannot ease into foreign markets like products. "Producer-consumer intimacy is immediate" (Carman and Langeard 1980, p. 18). The service marketer must make the correct entry decision.

Specific entry modes are discussed below as a means of overcoming both structural and regulatory trading barriers.

Exporting. Taking the product from the seller country to the buyer country is the most common foreign entry strategy. The nature of services imposes serious limitations on this conventional exporting model but several service production/delivery systems are compatible with this approach.

Business services which depend upon professional advice and counsel can be shuttled from country to country in the form of employees. This precludes high volume demand, low profit margin, and undifferentiated services. This works best between adjoining countries; where service product properties are universally understood; and/or when there are no labor migration or professional licensing/authorization trading barriers. A similar case can be made for entertainment services and others where the service provider never leaves the political or economic control of the service firm in the seller country.

Another suitable category is information driven services which depend upon satellite or fiber optic communications to deliver service products to various customers. Accessibility of transmission equipment, technologically sophisticated customers, and a friendly government in the buyer country are prerequisite. Older technologies such as telecommunications, or film, videotape, and audio recordings are export vehicles as well.

Services provided from mobile (e.g., plane or ship) facilities would also qualify as exported services since the service provider can easily return to the seller country without formally repatriating assets. Live entertainment, cruise ships, and oil exploration are representative of this category. United Parcel Service (UPS) has entered the world market in this manner although they operate on the ground in the buyer countries as well.

The reverse situation is also possible. If a service is high value/demand, foreign consumers will come to the service facility. For

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example, thousands of foreign skiers go to the Colorado slopes every year. International visitors to Disneyworld, students at the University of Missouri, and patients at the Mayo Clinic are also consumers of exported services even though consumption occurs in the United States.

In addition, the consumer may not have to physically make the trip to the service provider. Pension managers in New York electronically receive raw materials and transmit the finished service product to foreign consumers; an example of a "hard service" where the service can be produced separately from the consumer.

Unfortunately, exported services are those most likely to suffer the negative consequences of ethnocentrism, lack of adaptation/customization, and lack of consumer contact. Exporters should take special steps to avoid these problems.

Licensing. This establishes a service producing presence in the buyer country without making a financial commitment. Patent rights, trademark rights, and the right to use a service process are granted to the licensee under a royalty agreement. On the negative side, the opportunity to license successfully is limited because many buyer countries do not protect intellectual properties. McDermott (1990, p. 37) reports that "thievery of patents, copyrights, and other forms of intellectual property cost American companies an estimated $60 billion a year." There is little protection against blatant imitation if the host country does not rigorous prosecute violators–something not done even in many industrialized or industrializing nations; e.g., it is estimated that 99% of the computer software in Thailand is pirated (Engleman 1994). Finding, supervising, and motivating licensees is another significant problem as is finding a sufficiently trained labor pool to deliver the service.

On the positive side, licensing does avoid most cultural barriers since the local licensee provides most of the service production system. The marketing problems associated with exporting services (perishability; and simultaneous production and consumption) are largely eliminated with licensing since the licensee provides the services within the borders of the buyer nation.

Franchising. Semenik and Bamossy (1993, p. 572) describe franchising "as the fastest growing market entry technique for the marketer of international services." Franchising, like licensing, pro-

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vides a relatively low cost entry mode which avoids the problems of perishability and simultaneous production and consumption. In addition, it addresses heterogeneity by providing a proven service production and delivery system. Franchised services such as food, lodging, financial services, and rental car agencies successfully address the problems of intangibility by providing well known/regarded symbols of service performance. The chief drawback is finding a franchise model which either is universally applicable or can be locally adapted without losing the value of the standardized service delivery process–and appropriate franchisees to operate it.

Joint Ventures. Taking a foreign based partner is an intermediate step between franchising and direct investment. For some markets, this is the only viable entry mode due to local restrictions. The advantages address many of the unique problems associated with production and delivery of services. An American bank credit card system could be operated as a joint venture with a foreign bank as could a courier system, retail stores, or photo processing services. Primarily, it avoids the cultural pitfalls and local trade barriers that a majority/wholly owned enterprise might encounter without local knowledge and participation.

Direct Investment. This is typically the most risky and irreversible type of service market entry. While some services–like publishing–resemble manufacturing plants, services often have limited physical assets for collateral, resale, or reassignment. The wealth of many service firms–for example advertising agencies–is the expertise of its employees, good will, and a production/delivery system tied to the consumption practices of the buyer nation. Direct investment suggests mostly irretrievable costs and unshared risk.

Otherwise, direct investment provides an opportunity to deal with service's unique properties without many of the time and distance problems commonly associated with international services marketing. The degree of cultural difficulty depends upon the degree of local employment.

In research related to market entry, Erramilli (1991) found direct investment to be correlated with experience and desire for control. The relationship is U-shaped suggesting "service firms demand high-control modes in the early and later stages of their international evolution" (p. 496). The early stages are marked by high

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enthnocentrism and entering culturally similar markets. As firms move into markets more culturally or geographically distant from their own; perceive greater uncertainty about risks, profits, and problems; and/or become less enthnocentric, control is more likely to be shared through some of the other entry modes. Later stages marked by greater experience, less uncertainty, and more confidence see a return to full control entry modes.

Erramilli and Rao (1990) found services firms exhibit "significantly greater aggressiveness in choosing entry modes when following their existing clients, than when serving new customers (p. 147). Aggressiveness is defined as more joint ventures and direct investment since some market uncertainty has been removed.

DELIVERING CUSTOMER SATISFACTION

While selecting the appropriate entry mode is a necessary precondition for success, it is not sufficient for success. Service marketers in any market, foreign or domestic, must deliver consumer satisfaction in order to succeed. In effect, marketers must understand the needs, the decision making processes, the consumption processes, and the post-evaluation processes of their services consumers. Carmen and Langeard's (1980) treatment of growth strategies is somewhat dated and is not international specific but still provides an excellent discussion of growth options once service firms have become established in any market. Region-specific service marketing precautions are available from a variety of authors, cf. Lunsford and Fussell [Central Europe] (1993) or Kassem [Middle East] (1989).

International services marketers also need to select appropriate measures of organizational success. Porter (1990) defines international success as possessing a competitive advantage relative to one's best competitors. Since protectionism, subsidies, and differing accounting conventions distort balance sheets, service marketers should not use market share or profitability as reliable indicators of competitive advantage (Li and Guisinger 1992).

SUMMARY AND CONCLUSIONS

The economic and political consequences value of internationally traded services continues to increase for most nations. With

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increased importance comes increased demands for both protection and trade liberalization.

Tariff and nontariff barriers are a particular problem since services have not historically been part of the successful General Agreement on Trade and Tariffs convention. The Uruguay Round (as yet unratified) GATT agreement promises to gradually eliminate trading barriers on a selected group of services. However, the broad goals of market access, market equity, transparency, and free flows of transfers and payments are not yet in sight (Davis and Ingrassea 1993).

Exporters also must contend with the unique problems of services marketing; compounded by distance and culture, in order to be successful.

While waiting for rationalization of services trading policies, services marketers should actively pursue strategies and tactics which reduce the negative effects of tariff and nontariff barriers. Providing and marketing satisfying services, selecting the correct entry mode, and having appropriate success measures are key organizational decisions. Political activism is also recommended to keep services trading issues in a high profile status.

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