

## UNIT 15 INTERNATIONAL MARKETING OF SERVICES

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### 15.0 OBJECTIVES

After studying this unit, you should be able to:

- define services and distinguish them from products
- identify the challenges in marketing of services
- explain the importance of international trade in services
- enumerate the service sectors with potential for international marketing
- describe the basic approaches to international marketing of services
- interpret and draw the implication of General Agreements on Trade in Services (GATS)
- assess the benefits and challenges in marketing of specific services internationally.

### 15.1 INTRODUCTION

We have already discussed the theory and practice of international marketing with practical illustrations. Since most illustrations were related to products, it should not be assumed that international marketing is relevant and applicable in the case of products only. International marketing equally relevant to services. In fact, international trade in services have grown much faster than that in products. World exports in services have increased from \$364.5 billion to \$1350 billion during 1980-1999. At present, services account for over 20% of world exports, and this share is projected to cross 50% in the

coming decades. In fact, one of the indicators of development of a country is the increasing share of services in the economic activity of a country. This is borne out by the fact that in all developed countries, the share of services in GDP and foreign trade is quite significant. Though the share of India in world exports of service is slightly more than one per cent only, her competitive advantage has been established in several sectors. India is the world's most popular sourcing country for software professionals. Indian accountants and healthcare professionals (doctors and nurses) have already established their credibility in many overseas countries. Many overseas countries are regularly sending their youngsters for studies and training in Indian universities and institutions. IGNOU is offering its academic programmes in several countries. These are some examples of the international marketing of Indian services. In view of the increasing importance of services in international business, a special focus on services is required. This unit provides a general background about services by discussing the meaning of services, how services differ from products, and the specific challenges associated with marketing of services. In the second stage, it focuses on various aspects relating to international marketing of services such as importance of international trade in services, the type of services that offer export potential, various approaches to services trade barriers to marketing of services, implications of GATS and assessment of opportunities for India in this growing sector.

### 15.2 SERVICES – MEANING AND MARKETING CHALLENGES

Before we discuss various aspects of international marketing of services, it is better to understand certain basic aspects of services at the outset. Let us first understand the meaning of services, how they are different from products and the special challenges being faced in marketing of services.

#### 15.2.1 What are Services ?

It is generally thought that marketing is related to products only. This perception is not peculiar to India or developing world only. In fact, till recently services never found a place in multilateral discussions in GATT or data and information relating to services were never included in either international or national publication. It should be remembered that marketing concepts and techniques are equally applicable to services with relevant adaptations in certain decision areas. Services are those separately identifiable, essentially intangible activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service. For example, courts offer a service. So are hospitals, universities, banks, insurance companies, transport firms, fire departments, police and the post office. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticised; the fire departments generally praised; the post office criticised for delays; the hospitals perhaps criticised for negligence and exorbitant rates; and so on. Therefore, it is obvious that maintaining a certain quality of a service is important for building up its image. Apart from government or public sector undertakings and other institutions listed above, there are 'non-profit' organisations such as museums and charities. Although they are not in the business of making profits, they also have to provide the best form of service for their popularity. The business and commercial sectors which include airlines, banks, hotels and insurance companies and the professionals such as chartered accountants, management consulting firms, medical practitioners, etc., need to market their offers.

To put it in simple terms, a product is an object, a device, a tangible thing; and a service is a deed, a performance, an effort. This captures the essence of the difference between products and services. Services are a series of deeds, processes and performances; hence tend to be more intangible, personalised, and custom-made than products. The services offered by SBI, LIC, IGNOU and MTNL are not tangible things that can be touched, seen and felt, but rather are intangible deeds and performances. Similarly, the core offerings of hospitals, hotels, and utilities comprise primarily deeds and actions performed for customers.

Services are produced not only by service businesses such as those listed above, but are also integral to the offerings of many goods. For example, car manufacturers offer warranties and servicing contracts, and industrial equipment producers offer maintenance services. White goods manufacturers provide after-sales services. Even producers of items such as medicines and food items offer services to the consumers in the forms of educating them through pamphlets as to how to use and maintain the item. These are examples of deeds, processes and performances associated with product offerings.

Compatible with broad definitions given above, services may include all economic activities whose output is not a physical product, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort or health) that are essentially intangible concerns of its first purchaser. This definition has been used also to delineate the service sector of the economy.

Details of industries classified within the service sector (as presented by Valarie Zeithaml and Mary Jo Jitner, *Services Marketing*, McGraw Hill), is discussed below for understanding of the broad spectrum of the services sector:

#### **Transportation and public utilities**

- Transportation (Railroad transportation, Local and inter-urban passenger transit, Trucking and warehousing, Water transportation, Air transportation, Pipelines except natural gas, and other Transportation services)
- Communication (Telephone and telegraph, Radio and television broadcasting)
- Electric, gas and sanitary services

#### **Wholesale trade**

#### **Retail trade**

#### **Finance insurance, and real estate**

- Banking
- Credit agencies other than banks
- Security and commodity brokers, and services
- Real estate

#### **Holding and other investment**

#### **Other Services**

- Hotels and other lodging places
- Personal services
- Business services
- Auto repair, services and garages
- Miscellaneous repair services
- Motion pictures
- Amusement and recreation services
- Health services
- Legal services
- Education services
- Social services and membership organisations
- Miscellaneous professional services
- Private household services

#### **Federal government**

- Civilian
- Military

#### **Government enterprises**

#### **State and local government**

- Education
- Other services

Though the above is not a very exhaustive listing, this should give a clear idea as to how services encompass a wide range of activities.

### **15.2.2 Services Differentiated from Products**

Based on the above discussion, we can identify four basic characteristics of services, that differentiate them from products. They are: (1) intangibility, (2) heterogeneity, (3) simultaneous production and consumption, and (4) perishability. Let us discuss them in detail.

#### **Intangibility**

The most basic difference between goods and services is intangibility. Services are performances or actions rather than objects. Therefore, they cannot be seen, felt, tasted, or touched in the same manner that we can sense tangible goods. The absence of tangible features means that it is difficult for the seller to demonstrate or display services, and for buyers to sample, test or make a thorough evaluation before buying them. For example, health care services are actions (e.g. surgery, diagnosis, examination, treatment) performed by doctors and directed towards patients. One cannot see or touch these services, although you may be able to see and touch certain tangible components of them (e.g. equipment, hospital room). In fact, many services such as health care are not easy for the consumer to grasp even mentally. Even after a diagnosis or surgery has been completed, the patient may not fully comprehend the services performed.

#### **Heterogeneity**

It is often impossible to assure homogeneity and consistency in the service provided by a seller, because services are performances rendered by human beings. Hence no two services will be precisely alike. The service is performed and delivered by employees (people), and people may differ in their performance from day to day or even hour to hour. Heterogeneity also results because, no two customers are precisely alike; each will have unique demands or experience and requires the service in a unique way. For instance, take the case of a restaurant which is a hospitality service. One customer may prefer a crisp Masala Dosa with sambar, while another customer may prefer soft Masala Dosa with coconut chutney. The cook has to prepare and serve according to their tastes. Thus, the heterogeneity connected with services is largely the result of human interaction between employees and customers and all of the vagaries that accompany it.

#### **Simultaneous Production and Consumption**

Most goods are produced first, then sold and consumed while most services are sold first and then produced and consumed simultaneously. For example, an automobile may be manufactured in Mumbai, shipped to Delhi, sold two months later, and used over a period of years. But restaurant services cannot be provided until they have been sold and the dining experience is essentially produced and consumed at the same time. Similarly, in travel services, the ticket has to be bought first and then the travel service has to be availed of. Very often, the customer is present while a service is being produced and thus the views of the customer are taken into account in the production process. For example, in the restaurant when one orders for a cup of coffee, he may ask for strong coffee (more coffee less milk) without sugar. Here the customer has influenced the production process of coffee. Frequently customers may interact with one another during the service production process and thus may affect one another's experiences. For example, strangers seated next to each other in an airplane may well affect the nature of the services experience for each other. Another outcome of simultaneous production and consumption is that service producers find themselves playing a role as part of the product itself and as an essential ingredient in the service experience for the consumer.

### Perishability

Perishability refers to the fact that services cannot be saved or stored or resold or returned. A seat on an airplane or in a restaurant, an hour of a lawyer's time or telephone line capacity not used cannot be reclaimed and used or resold at a later time. This is in contrast to goods that can be stored or resold another day, or even returned if the consumer is unhappy. It is not easy to reset a bad haircut nor is it possible to transfer it to another consumer. Perishability makes this an unlikely possibility for most services.

### 15.2.3 Interdependence of Products and Services

Though, the products differ from services in many respects, there are so many inter linkages between services and products in several instances. In fact, services and products complement each other in many cases. Sales prospects of products that are in need of substantial technological support and maintenance will be badly affected if proper arrangement for service is not made. For this reason, the initial contract of sale of a product often includes a service clause. This practice is common in the case of many durable goods. In the case of TVs, cars, refrigerators, washing machines, etc., manufacturers provide for free after sale service for a certain period. Similarly, the sale of computer hardware is critically linked to the availability of proper servicing and software. Sellers of capital equipment often enter into maintenance contracts with buyers. These are some instances of services complementing products. Similarly products also complement services. For example, an airline cannot exist without airplanes. Without rooms, furniture and kitchen equipment, a hotel cannot provide hospitality service. In the same way, hospitals (health care service) cannot provide services without using tangible products such as operation instruments, testing equipment, medicines, hospital buildings, etc.

There is an increasing recognition of this complementary nature of services and products. Manufacturing based industries (such as automobiles and computers) are recognising the role of service in improving the competitiveness of a product. In many industries, providing quality service is no longer simply an option. The quick pace of developing technologies makes it difficult to gain strategic competitive advantage through physical products alone. Customers not only expect high quality goods, but also expect high levels of service along with them. Companies are realising the need to focus on service to keep pace with rising customer expectations and to compete effectively. Similarly, various services sectors are depending on quality products to improve their service quality. Good hospitals use the latest technical and testing equipment, hotels provide well furnished rooms, TV channels use the digital transmission equipment, banks use the ATM equipment, airlines use most comfortable airplanes, etc. Thus, continuous product improvement and service improvement are simultaneously going on in many sectors.

### 15.2.4 Challenges in Marketing of Services

The traditional marketing mix is composed of the 4 Ps viz., product, price, promotion and place (distribution). These elements appear as core decision variables in any marketing plan. All those four variables are interrelated, and there is an optimal mix of the four factors for a given market segment at a given point of time. Though, conceptually marketing of services is no different from marketing of products, the strategies of the 4 P's, however, require some modifications when applied to services.

Because of the significant differences between goods and services, marketers of services face some distinctive challenges. Such challenges revolve around understanding customer needs and expectations, and the efforts to keep promises made to customers. The basic differences between products and services, and the associated marketing implications, are shown in Figure 15.1

Figure 15.1: Differences between products and services, and the associated marketing challenges

Goods	Services	Resulting Marketing Implications
Tangible	Intangible	Services cannot be inventoried. Services cannot be patented. Services cannot be readily displayed or communicated. Pricing is difficult.
Standardised	Heterogeneous	Service delivery and customer satisfaction depend on employee actions. Service quality depends on many uncontrollable factors. There is no sure knowledge that the service delivered matches what was planned and promoted.
Production separate from consumption	Simultaneous production and consumption	Customers participate in and affect the transaction. Customers affect each other. Employees affect the service outcome. Decentralisation may be essential. Mass production is difficult.
Nonperishable	Perishable	It is difficult to synchronize supply and demand with services. Services cannot be returned or resold.

Source : Valarie A Zeithaml and May Jo Bitner. Services Marketing. McGraw Hill, New York.

*Intangibility* presents several marketing challenges. As services cannot be inventoried, fluctuations in demand are often difficult to manage. For example, there may be very huge demand for hotel accommodation in Shimla in summer as against low demand in winter. Yet, hotel owners have the same number of rooms to sell year-round. Services cannot be patented legally. Hence, new service concepts can be easily copied by competitors. Since, services cannot be readily displayed or easily communicated to customers, it may be difficult for consumers to assess the quality of a particular service before use. Decisions about what to include in advertising and other promotional materials may prove challenging, as is pricing. The actual costs of a unit of service are hard to determine and the price/quality relationship is complex. As services are not tangible, it is not possible to provide samples and physical evidence. The physical evidence of services includes all of the tangible representations of the service such as brochures, letterhead, business cards, report formats, and equipment. These physical evidence cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organisation's purpose, the intended market segment, and the nature of the service.

The *intangibility* of the service reduces the marketers' ability to provide samples. This makes communicating the service offer much more difficult than communicating a product offer. Brochures or catalogues explaining services often must show a "proxy" for the service in order to provide the prospective customer with tangible clues. A cleaning service for instance, can show a picture of an individual removing trash or cleaning a window or even a photograph of a clean room. However, the picture will not fully succeed in communicating the quality of service.

As services are *heterogeneous*, ensuring consistent service quality is challenging. Further, quality depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the ability and willingness of service personnel to satisfy those needs, the presence (or absence) of other customers, and the level of demand for the service etc. Because of these complicating factors, a marketer is often not sure whether the service is being delivered as originally planned and promoted. An associate problem is that, unlike in the case of products there is no objective yardstick to determine the quality of a service. Laboratory tests can establish the quality of a product but the quality of service is dependent on the perception of the customer.

Since services often are *produced and consumed simultaneously*, mass production is

difficult, if not impossible. Moreover, it is not usually possible to gain significant economies of scale through centralised production and delivery at different locations. Usually operations need to be relatively decentralised so that the service can be delivered directly to the consumer in convenient locations. Also because of simultaneous production and consumption, the customer is involved in and observes the production process thereby affecting (positively or negatively) the outcome of the service transaction. Some customers can cause problems in the service setting, leading to lowering of customer satisfaction. For example, in a cinema theatre, one person misbehaving with other audience can create negative experience to the entire audience and may become a dissuading factor next time.

As services are *perishable*, they cannot be stored for future consumption. Hence, demand forecasting and planning for capacity utilisation are challenging decision areas for marketers. The fact that services cannot typically be returned or resold implies the necessity for strong recovery strategies when things do go wrong. For example, while a bad hair cut cannot be returned, the hairdresser should have strategies for recovering the customer's goodwill when such a problem occurs. The hair dresser may, by refunding the charges collected from the customer, perhaps, recover part of the goodwill lost.

The *role of personnel* deserves special consideration in the marketing of services. Because the customer interface is intense, proper provisions need to be made for training personnel. Major emphasis must be placed on appearance and behaviour. Most of the time, the person delivering the service (rather than the service itself) will communicate the spirit, values, and attitudes of the service provider. All human actors who play a part in service delivery influence the buyer's perceptions and provide cues to the customer regarding the nature of the service itself. How these people are dressed, their personal appearance, their attitudes and the way they interact with customers, all influence the customer's perceptions of the service. Therefore, the role of service provider or contact person is very important.

The areas of pricing and financing require special attention. Because services cannot be stored, much greater responsiveness to demand fluctuation must exist and therefore, much greater pricing flexibility must be maintained. Hotels offering discounts in room tariff during off seasons is part of the flexible pricing strategy. The intangibility of services also makes financing more difficult. Financial institutions are less willing to provide financial support to services than for products. This is because of three reasons : (a) the value of services is more difficult to assess, (b) service performance is more difficult to monitor, and (c) services are difficult to repossess. Therefore, receiving payments may be much more troublesome for a financier in the case of services than products. This poses a challenge to the marketer of services in procuring finances.

Usually, short and direct channels are required for marketing of services. Closeness to the customer is of overriding importance in order to correctly understand what the customers want, to reach them fast with minimum cost, to monitor the flow and utilisation of services and to assist the consumer in obtaining a truly tailor-made service.

**Check Your Progress A**

1. What do you mean by services ?

.....  
 .....  
 .....

2. Identify the characteristics that makes services different from products.

.....  
 .....  
 .....

3. State the names of ten services you know.

- 1) .....
- 2) .....
- 3) .....
- 4) .....
- 5) .....
- 6) .....
- 7) .....
- 8) .....
- 9) .....
- 10) .....

4. Some products are given below. Identify the complementary services to make that product offering more attractive to consumers.

Product	Complementary service that can be associated with the product
a. Passenger Car	Ex: servicing .....
b. Personal Computer	.....
c. Air Conditioner	.....
d. Residential House	.....

5. Some services are given below. State the complementary products necessary for offering those services.

Service	Complementary product necessary to offer the service
a. Medical service	Ex : Operation equipment,
b. Banking services	.....
c. Telecommunication	.....
d. Airline	.....
e. Education	.....

**15.3 INTERNATIONAL TRADE IN SERVICES**

Over the last three decades, the services sector has grown exponentially in the wake of the informatics revolution and the annihilation of distances through advances in communication and transportation. The contribution of services to GDP has grown while the shares of industrial and agriculture sectors have declined significantly. The service sector has emerged as a very significant part of the national economies of many countries. In the developed economies, it accounts for over 60% of GDP. Export of services currently account for about \$ 1 trillion or about 15% of world exports of over \$ 6.9 trillion in 1999. It is expected that the share of services in global trade might reach 50% in the coming decades and rise still further subsequently.

World trade in commercial services is presented in Tables 15.1 and 15.2. World exports have grown from \$ 364.5 bn to \$1,350 bn during 1980 - 1999 (Table 15.1). The USA is the largest exporter with over 18% share followed by the UK (over 7%), France (above 6%), Germany (around 6%), Italy (4.5%) and Japan (4.5%). The European Union accounts for above 42% of exports followed by North America (Canada and the USA) with over 21% and Asia (about 20%).

Global imports of services present a picture similar to that of exports. World's major exporting countries and regions are also world's leading importers. The European union accounts for around 42% of world imports followed by Asia with 25% share and North America (16%). The single largest importing country is the USA accounting for over 13% share. Other major importing countries are Germany (about 10%), Japan (about 8.5%) the UK (6%), France (about 5%) and Italy (about 4.5%).

Table 15.1 : World exports of Commercial Services 1980-99 (in billion \$)

Region/Country	1980	1985	1990	1995	1999
World	364.4 (100)	381.7 (100)	782.7 (100)	1187.5 (100)	1350.0 (100)
North America	45.2 (12.4)	72.8 (19.1)	150.5 (19.2)	222.6 (18.7)	287.5 (21.3)
United States	38.1 (10.5)	63.59 (16.6)	132.2 (16.9)	197.2 (16.6)	253.4 (18.8)
Latin America	17.5 (4.8)	18.0 (4.7)	29.7 (3.8)	44.5 (3.7)	53.4 (4.0)
Western Europe	212.3 (58.3)	193.6 (50.7)	416.0 (53.2)	565.1 (47.6)	640.1 (47.4)
Belgium-Luxembourg	11.5 (3.2)	9.5 (2.5)	249.6 (3.2)	33.6 (2.8)	39.0 (2.9)
France	42.2 (11.6)	34.7 (9.1)	66.3 (8.5)	83.1 (7.0)	82.6 (6.1)
Germany	25.8 (7.1)	22.8 (6.0)	51.6 (6.6)	75.2 (6.3)	79.3 (5.9)
Italy	18.8 (5.2)	19.4 (5.1)	48.6 (6.2)	61.2 (5.1)	61.2 (4.5)
Netherlands	16.7 (4.6)	13.4 (3.5)	29.6 (3.8)	46.8 (3.9)	54.2 (4.0)
Spain	11.5 (3.2)	12.6 (3.3)	27.6 (3.5)	39.8 (3.4)	53.0 (3.9)
United Kingdom	34.3 (9.4)	29.4 (7.7)	53.2 (6.8)	74.6 (6.3)	101.5 (7.5)
European Union (15)	191.1 (52.4)	170.9 (44.8)	369.9 (47.3)	506.2 (42.6)	574.5 (42.6)
Africa	12.7 (3.5)	11.4 (3.0)	18.8 (2.4)	25.3 (2.1)	29.2 (2.2)
Asia	49.6 (13.6)	60.5 (15.8)	131.1 (16.7)	261.6 (22.0)	263.5 (19.5)
India	2.9 (0.8)	3.3 (0.9)	4.6 (0.6)	6.8 (0.6)	13.9 (1.0)
Japan	18.8 (5.2)	21.6 (5.7)	41.4 (5.3)	64.0 (5.4)	60.3 (4.5)

Source : [www.wto.org](http://www.wto.org)

Note : Figures in parentheses are percentages to the world exports.

Table 15.2: World Imports of Commercial Services 1980-99 (in billion \$)

Region/Country	1980	1985	1990	1995	1999
World	396.6 (100)	396.3 (100)	812.4 (100)	1187.6 (100)	1345.3 (100)
North America	39.0 (9.8)	70.3 (17.7)	125.4 (15.4)	162.2 (13.7)	218.9 (16.3)
Canada	10.1 (2.5)	13.2 (3.3)	27.5 (3.4)	33.0 (2.8)	38.5 (2.9)
United States	28.9 (7.3)	57.9 (14.4)	97.9 (12.1)	129.3 (10.9)	180.4 (13.4)
Latin America	28.5 (7.2)	22.0 (5.6)	34.7 (4.3)	54.4 (4.6)	62.4 (4.6)
Western Europe	189.1 (47.7)	165.1 (41.7)	391.8 (48.2)	529.1 (44.5)	609.3 (45.3)
Belgium-Luxembourg	12.4 (3.1)	9.7 (2.4)	24.3 (3.0)	32.5 (2.7)	36.6 (2.7)
France	31.0 (7.8)	25.0 (6.3)	50.4 (6.2)	64.5 (5.4)	63.1 (4.7)
Germany	40.7 (10.3)	33.0 (8.3)	79.2 (9.8)	125.3 (10.5)	132.8 (9.9)
Italy	15.7 (4.0)	16.0 (4.0)	46.6 (5.7)	54.6 (4.6)	58.4 (4.3)
Netherlands	17.8 (4.5)	14.6 (3.7)	29.0 (3.6)	44.6 (3.7)	47.5 (3.5)
Spain	6.0 (1.5)	4.2 (1.1)	15.2 (1.8)	21.0 (1.8)	30.0 (2.2)
United Kingdom	25.2 (6.3)	20.6 (5.2)	44.6 (5.5)	59.6 (5.0)	81.3 (6.1)
European Union (15)	171.1 (43.1)	147.6 (37.2)	349.6 (43.0)	491.8 (41.4)	561.4 (41.7)
Africa	27.7 (7.0)	21.0 (5.3)	27.0 (3.3)	34.8 (2.9)	35.2 (2.6)
Asia	69.7 (17.6)	77.2 (19.5)	178.5 (22.0)	327.5 (27.5)	336.3 (25.0)
India	2.9 (0.7)	3.8 (1.0)	6.0 (0.7)	10.1 (0.8)	17.2 (1.3)
Japan	32.1 (8.1)	31.2 (7.9)	84.3 (10.4)	121.5 (10.2)	114.2 (8.5)

Source : [www.wto.org](http://www.wto.org)

Note : Figures in parenthesis are percentages to the world imports

Despite immense potential, India's share in world trade in commercial services is barely 1% which is largely accounted for by software exports of well over \$ 4.5 billion in 1999, the inward remittance of people working abroad, and earnings from tourism. India enjoys a number of advantages which can be profitably utilised to promote services exports. For examples, the country has abundance of qualified personnel available at affordable wages. Furthermore, India is in a time zone which enables it to work while North America is asleep and is 5 hours ahead of the time even as compared to the UK and W. Europe. Besides, India has a large English speaking population and the legal system is patterned on English law, which is accepted readily by MNCs in the developed world.

The services sector in India has no doubt, grown phenomenally in recent years and its contribution to GDP now exceeds that of agriculture and industry even though agriculture accounts for the bulk of the employment in the economy. Services accounted for 46% of GDP in 1999-2000, while industry and agriculture contributed 27% each. India has, over

years, built up a very large pool of educated skills which have been recognised globally in diverse fields such as finance, technology, engineering, health, management consultancy, accountancy, education, construction, tourism, etc. The country requires to formulate proper marketing strategy to fully exploit the above strengths and step up exports of services.

## 15.4 INTERNATIONAL MARKETING OF SERVICES- STRATEGIES

To be successful in international marketing of services, the marketer must first determine the nature and aim of the services offering – that is, whether the service will be aimed at people or at things and whether the service act in itself will result in tangible or intangible actions. There are three basic strategies to enter the foreign markets in the services sector. Let us discuss these strategies:

- 1) For services that are delivered mainly in the support of or in conjunction with products, the most sensible approach is to follow the path of those products. For years, many large accounting and banking firms have done so by following the major multinational clients to places where they had set up new operations. Small sized service marketers who cooperate closely with manufacturing firms can follow the manufacturing firms to places where they are operating internationally. Ideally, of course, it would be advisable to follow a cluster of manufacturers in order to obtain economies of scale internationally while, at the same time, looking for entire new client groups abroad.
- 2) For service providers whose activities are independent of products, a different strategy is suggested. It is advisable for such service firms to search for institutions abroad that are similar to those in the domestic market. Such a reach should concentrate in their areas of expertise. For example, an architectural design firm can collect information on countries that are undertaking and explore the possibility of rendering its design services. Similarly, a management consultant with expertise in computer operations can look for opportunities in countries, which are computerising their operations and help those countries to bring about a smooth transition from manual to computerised activities. What is important is the understanding that similar problems are likely to occur in similar situations.
- 3) Another opportunity arises when countries undergo transition. For example, when new transportation services are introduced in an overseas country an expert in containerisation may exploit the opportunity and offer container service to improve the efficiency of the new system. Very often, leads for service opportunities are gained by keeping informed about international projects sponsored by international organisations such as the United Nations, the International Finance Cooperation, or the World Bank. Invariably such projects are in need of support services. Similarly, many developed countries, when they undertake development projects in developing countries under bilateral aid programmes, sub contract certain parts of the projects to enterprises in other countries. This also provides opportunities to service providers in third countries. Overall, the international service marketer needs to have a constant look out for similar situations or similar problems requiring similar solutions in order to formulate an effective international expansion strategy.

Depending on the situation, any of these three strategies either by itself or in combination may be adopted to market services internationally.

## 15.5 ASSESSMENT OF POTENTIAL AND OPPORTUNITIES

You have already learnt the importance of services in international trade and also have been exposed to different strategies of international marketing of services. In this section, we can assess which type of services have more potential for international

marketing and which helps India to acquire competitive advantage in those sectors.

### 15.5.1 Potential Services for International Marketing

Though a number of services may be said to have great potential for internationalisation, some of the services which have relatively speaking, large potential have been discussed here. The list is no means an exhaustive, but basically meant to provide an insight into the export potential of services.

- a) Financial services which fall into two broad categories viz., insurance and banking, cover a range of activities. Financial institutions can offer some functions very competitively internationally in the field of mergers and acquisitions, securities sales, asset management, etc. Insurance includes both life and non-life insurance, reinsurance, insurance intermediation and auxiliary insurance services.
- b) Another area with great international potential is construction, design, and engineering services. Economies of scale can be effected not only in the sale of machinery and material, but also in the overall management of projects.
- c) Firms in legal and accounting services can aid their domestic clients abroad through support activities. In the field of computer and data services, international opportunities are rapidly growing. Knowledge of computer operations, data manipulations, data transmission and data analysis can be exploited internationally by even small and medium sized firms.
- d) Communication services offer substantial international market opportunities. For example, activities in the areas of video text, home banking, and home shopping may find valuable market abroad, particularly where geographic reasons and time constraints make retail outlets cumbersome and expensive.
- e) Substantial growth can also be expected in the field of human resource development services. The educational sector has largely concentrated its work in the domestic market and has expertise in importing knowledge and skills in a number of areas.
- f) Management consulting services can be provided to foreign institutions and corporations.
- g) Tourism is an increasingly important area of services trade. Every overseas visitor who spends foreign currency on a vacation contributes to improvement in the current account of the country.
- h) Health related and social services also have great potential for internationalisation. These include hospital services, other human health services and social services.
- i) India is increasingly participating in providing international data services. Although some aspects of the data field are high-technology intensive, many operations still require skilled human service input. Because of lower wages, Indian companies can offer data-inputting services at a rate much lower than more industrialised countries. This comparative advantage may greatly help, India can compete in the field of international data services.

### 15.5.2 Assessment of Opportunities for India

The past two decades have witnessed rapid growth of the services sector. In addition to an increasing realisation of the importance of the services sector, there has been a deeper understanding of its crucial role in the development process. The reason, of course, is the large proportion of service transactions in the world economic transactions. But much more significant is the linkage of services with the production and development processes. Services have a major role in the manufacturing sector and other sectors of the economy. The role of what has been termed producer services is especially important, because of their contribution to the competitiveness of goods and services trade, through integrated systems. In the long run, the development of a strong international position in services requires the development of human capital through training and acquisition of technology. Another fundamental pre-requisite is the development of a modern and efficient telecommunications system. In many sectors relating to mineral extraction, manufacturing and the processing of agricultural products, there is a large services content. Some countries have been successful in exporting not only the product but also

the related services, such as the engineering services in the processing of certain minerals, and technical services for the exploration of minerals, crude petroleum, natural gas etc. Information has become a key factor in the production and export of many services. Firms which have been able to link service inputs into a network or system of production have demonstrated success in the world market, as they are able to maintain a continuous process of innovation and adaptation. Services have now become an integral part of the production process, whether manufacturing, mining or agriculture, in order to increase productivity and improve competitiveness.

Services sector contributes significantly to employment. Employment potential is expected to grow at 4% per year in the service sectors as compared to an expected growth rate of 2.6% per year in the labour force. This trend is likely to continue in the new millennium.

A framework on services will require a system of checks and balances. Liberalisation of trade in services would help to further the development process, if it were to be accomplished, in a multilateral contractual framework, in which developing countries would be able to implement effectively the policy aimed at developing their services sectors.

Nearly a million and half people of Indian ethnic origin are now domiciled in USA and are rated among high-income achievers. Similarly in Canada, UK, Australia, and Germany, Indian professionals have acquitted themselves well in diverse fields. Indian skills in software are universally recognised in Silicon Valley, where 700 Indian companies have made their mark. Canada has over 850,000 persons of Indian ethnic origin, and UK has well over 1.75 million.

Prominent among services with high international growth potential are software and related services. An essential aspect of commercial transactions involving software is the service linked to its supply, installation, maintenance and utilisation.

India has considerable potential in professional services with its large pool of skilled manpower. India provides the cheapest source of educated skills and has the benefit of a large English knowing community as also the legal system based on English law. It is estimated that India could raise its software exports from the current \$ 6 billion in the year 2,000 to \$15 to 20 billion in the next three/four years and could even touch \$ 30 to \$ 40 billion over the next ten years. To achieve such levels India needs to improve its infrastructure to world class standards and optimally develop its vast human resource potential to global levels.

India can meaningfully contribute to various segments in the services sector such as construction and engineering, tourism, telecommunications, professional services, transport and financial services in the international market. India has been active in civil construction and related engineering sectors in the West Asian region. Both the Taj and Oberoi groups have set up a number of hotels abroad, and restaurants have been set up by the Welcome group, Ashoka and other chains. India has developed hotel management expertise of high international standards and tourism can be greatly developed with infrastructural supports.

Financial institutions and markets around the world have undergone profound changes in recent years. Reforms have been undertaken in international as well as domestic financial markets that have resulted in increase in cross border financial flows and foreign participation in domestic markets. An added outcome has been the intensification of competition in financial markets.

Trade in financial services has expanded rapidly over the eighties. Between 1978 and 1988, net international bank lending exhibited an average yearly growth rate of 15% as against the 5% growth rate observed in the volume of world trade. The growing importance of international finance is reflected in the proliferation of financial activities taking place in the markets of both developed and developing countries as well as in the rise in the share of foreign loans and of purchases of foreign securities in the transactions of banks.

Internationalisation of banking services has greatly expanded the scope for the provision of inter bank services and has given rise to corporate efforts in the development of the hardware which underpins the interaction of national financial systems. The quickening

pace of internationalisation in banking and securities related activities has led to rapid growth of the market for international financial services. These services include traditional activities such as import and export financing, foreign exchange trading as well currency and bond operations in the Euro markets. Rapid technological change in telecommunications and data processing has vastly expanded the scope for cross border financial transactions. Over \$ 1,600 billion is traded daily in the global forex markets. Banking and securities related services are sectors of economic activity in which a significant degree of deregulation and liberalisation has, in recent years, been progressively achieved both domestically and internationally in developed and developing countries alike.

Producers' services sector is growing rapidly in developing countries, which helps corporations to raise their productivity, make structural adjustments, encourage innovation and creativity, remove bottlenecks in production and distribution processes and ultimately provide business and employment opportunities particularly for the small and medium scale enterprises. The growth of producer's services has led to many innovations. There is a high degree of interdependence between production and information services.

Tourism has tremendous potential in India, if the requisite infrastructure is fully developed. In construction, India has considerable expertise that can be utilised at home and abroad. Similarly, skills are available for professional and consultancy services. Many multinational corporations have set up 'Call Centres' and 'Medical Transcription' centres apart from other back-end services. Also, many foreign airlines get their documentation work done in India.

Transnational Corporations dominate international markets in most service sectors. But there is plenty of scope for small and medium firms to engage themselves in this growing area. The services sector has great employment potential and the developing countries would do well to strengthen infrastructural facilities for this purpose. Development of telecommunications is particularly vital for countries like India to capture part of the global services market. Media services are an area where Asia Pacific countries, particularly India, have demonstrated considerable talent.

Improvements in transport and port facilities are indispensable for the growth of service exports. Information concerning international standards and quality control techniques would also need to be widely disseminated. Cooperation at the regional and sub-regional levels is an essential tool for strengthening the international competitiveness of Asia and Pacific service producers.

## 15.6 BARRIERS TO INTERNATIONAL MARKETING OF SERVICES

While opportunities for the export of services are great and growing competition is also growing equally. Therefore, success in this increasingly competitive sector is possible only through proper understanding of international services concepts, issues, and challenges. You have already learnt that services have certain distinctive characteristics which pose certain challenges to marketers. Firms also face certain unique problems while marketing services internationally. Valarie and Bitner (Services Marketing, McGraw Hill, New York) have identified two types of barriers viz., legal barriers and cultural barriers, in international marketing of services. A brief discussion about these barriers is presented below.

### 15.6.1 Legal Barriers

Because production and marketing of services are closely intertwined with the societies being served, often the barriers associated with trade in services are even more restrictive than those associated with trade in products. Marketers of services face a plethora of legal restrictions in the global market place. An interesting example is the South Korean government's ban of Japanese movies. The motivation behind the ban on cultural preservation stemming from Japan's colonisation of Korea before World War II. While there are other similarly motivated restrictions around the world, the real purpose behind

most legal barriers is economic protection of domestic service industries and workers. Legal barriers usually fall into four main categories as discussed below :

1. **Quantitative and qualitative border prohibitions and restrictions :** Perhaps the simplest forms of restrictions are those that affect firms at the time their operations cross borders. For example, tariffs (taxes) are often levied by one country when advertisements or computer services are produced in another country. Tariff rates seem to change almost on a monthly basis. Quotas are another common form of border restriction. For example, to protect local film and TV producers, the European Union (EU) authorities impose restriction on the percentage of air time allotted to US produced programmes. Many countries have erected barriers to entry of banks and insurance firms. Almost all countries restrict the marketing of services by controlling work permits.
2. **Laws and regulations discriminating against foreign firms :** A second common approach to protect domestic firms from foreign competition is to let foreign firms in, but then discriminantly restrict their operations. In Indonesia, foreign banks have been allowed to operate only in Jakarta, with limits on import financing. Government employees in India are required to travel by Indian Airlines and Air India during official tours.
3. **Direct and indirect subsidies to local firms :** A more subtle form of protection from outside competition is government subsidies to domestic workers and industries. Local services industries are commonly supported financially by government. For example, most countries offer their national airlines concessional loans, fare subsidies, and other financial assistance.
4. **Infringement of international copyright and trademark laws :** This perhaps is the most important from the perspective of American industry. This often takes the form of ideas and innovations that are quite easily copied. Non existence of laws on intellectual property or lackadaisical enforcement of laws in the concerned countries serves to protect their own domestic industries and limits the profitability of foreign companies.

### 15.6.2 Cultural Barriers

As trade in services frequently involves people-to-people contact, culture plays a much bigger role in such trade than in merchandise trade. The perception of service to a large extent depends on cultural context. Good service at Kentucky Fried Chicken in the United States means orders are filled accurately and quickly. AT KFC in Japan, accuracy and speed are likewise important, but good services also means that the customer is handed his or her order by the clerk "with two hands," demonstrating the respect the customer deserves. It is useful to consider important dimensions of culture and the ways in which culture can affect services buyers, service providers, and entry into international markets. A simple list of the major elements of culture would include: (1) language, (2) values and attitudes, (3) manners and customs, (4) material culture, (5) aesthetics, and (6) education and social institutions. Each of these elements of culture is discussed here in the context of services marketing.

1. **Language :** Communication is an essential part of the international marketing task. Hence the first issue is which language should be used in providing services. Obviously the language of customer is most appropriate. Therefore, services marketers must communicate in the language of the market. Adoption is needed in advertising and personal selling and in market research, which is often accomplished using national employees, distributors, and advertising agencies. Mistakes made in this area can have serious repercussions, particularly when one cultural group feels threatened by another. When translations are involved, care should be taken that the spirit of the original version is carried into the translated version.
2. **Values and attitudes :** These help to determine what members of a culture think is right, important, and/or desirable. Because behaviour, including consumer behaviour, flows from values and attitudes. Services marketers who want their services adopted cross-culturally must understand these differences among cultures for preparing appropriate marketing strategies. Wal-Mart found that the cachet of US brands was fading in Mexico because the Mexican news media were alerting consumers to

shoddy foreign goods and some Wal-Mart customers were turning to a spirit of nationalism.

3. **Manners and customs :** These represent a culture's views of appropriate ways of behaving. It is important to monitor differences in manners and customs, as these can have direct impact on the service encounter. Central and Eastern Europeans are perplexed by Western expectations that unhappy workers put on a "happy face" when dealing with customers. As an example, McDonald's required Polish employees to smile whenever they interacted with customers. Such a requirement struck many employees as artificial and insincere. The fast food giant then made managers in Poland probe employee problems and assigned troubled workers to the kitchen rather than to the food counter.
4. **Material culture:** Material culture consists of the tangible products of culture. What people own and how they use and display material possessions varies around the world. Cars, houses, clothes, and furniture are examples of material culture. Most Mexicans own small refrigerators and have limited incomes, which limit the amount of groceries they can purchase at one time. Instead of the once-per week shopping trip typical in the United States, Mexicans make frequent smaller trips. Any American visiting the Tokyo Zoo is taken aback by the small cages in which the animals are kept. To the Japanese who live in one of the most crowded countries in the world and own relatively small houses, the small cages seem appropriate, whereas, to the American eye, the animals may be perceived as being mistreated.
5. **Aesthetics :** Aesthetics refers to cultural ideas about beauty and good taste. These are reflected in music, art, drama, and dance, as well as the appreciation of colour and form.
6. **Education and social institutions :** Both kinds of institutions are affected by, and are transmission agents of culture. Education includes the process of transmitting skills and knowledge, and thus may take place in schools and in less formal training circumstances. The structure and functioning of each are heavily influenced by culture. Culture manifests itself most dramatically in the people-to-people contact of our social institutions. Notice if the student from Japan sitting next to you in class thinks that every participation is nonsense. Alternatively, because Spaniards are used to huge undergraduate classes (hundreds rather than dozens), they tend to talk to their friends even when the instructor is talking. Likewise, health care delivery systems and doctor/patient interactions also reflect cultural differences. Americans ask questions and get second opinions. Innovative health care services are developed on the basis of extensive marketing research. Alternatively, the social hierarchy is heavily reflected in the Japanese health care system, but instead of customers (i.e., patients) being on top, it's the doctors who command deference. Thus, the Japanese health care system, while delivering the best longevity statistics of any country, is quite unresponsive to concerns of consumers.
7. **Culture's effects on customer behaviour :** Given all kinds of cultural differences associated with the delivery and marketing of services, it is a wonder that some firms are so successful in international markets. This may be due to efficient delivery of services action. Thus, part of that success depends on the firms' abilities to manage behaviours of satisfaction and potential innovations. In the Netherlands, consumers don't complain because they doubt its efficacy. Given culture's pervasive influence on consumer preferences and expectations, how can services marketers narrow the gaps culture creates so that they can maximise customer satisfaction in the international context? Management of customer and employee behaviour and the proper adaptation of the marketing mix in the international markets provide the answer.

## 15.7 GENERAL AGREEMENT ON TRADE IN SERVICES (GATS)

Services had long been considered to offer less potential for trade expansion than goods. This view has been confounded by the introduction of new technologies facilitating the supply of services (e.g. satellite communication), the opening in many countries of long

entrenched monopolies ( e.g. voice telephony), and gradual liberalisation of hitherto restricted sectors like banking and insurance. These developments, combined with changes in consumer preferences, helped to liberalise international services flows. The creation of the GATS, one of the major results of the Uruguay Round, was inspired by essentially the same objectives as the GATT : (a) improving trade and investment conditions through multilaterally agreed disciplines, (b) stabilising trade relations through policy bindings on an MFN basis, and (c) achieving progressive liberalisation through subsequent rounds of negotiations. Since, GATS is expected to boost international trade in services, it is essential for you to understand the provisions of GATS. This section is based on the information downloaded from the web site of the World Trade Organisation (www.wto.org).

### Members

All WTO members, over 130 countries at present, are members of the GATS and have assumed specific commitments in individual services sectors.

### Services Covered

The GATS applies to all services, except those supplied in the exercise of governmental authority. Services supplied in the exercise of governmental authority cover any service not provided on a commercial basis or in competition with other suppliers. This includes the activities of central banks and other monetary authorities. Such services are not covered under GATS.

GATS schedules largely follow a classification based on the United Nations Central Product Classification system, which identifies 11 basic service sectors plus twelfth category for miscellaneous category. The 12 sectors are as follows :

1. Construction and related engineering services
2. Distribution services
3. Educational services
4. Environmental services
5. Financial (insurance and banking) services
6. Health services
7. Tourism and travel services
8. Recreational, cultural and sporting services
9. Business (including professional and computer) services
10. Communication services
11. Transport services
12. Other services not included elsewhere

### Modes of Supply of Services Covered

The GATS distinguishes between the following four modes of supplying services.

- **Cross border supply** is defined to cover services flows from the territory of one member into the territory of another member (e.g., banking or architectural services transmitted via telecommunications or mail).
- **Consumption abroad** refers to situations where a service consumer or his/her property moves into another member's territory to obtain a service (e.g., tourism, ship repair or aircraft maintenance).
- **Commercial presence** implies that a service supplier of one member establishes a territorial presence, including through ownership or lease of premises, in another member's territory to provide a service (e.g., insurance companies or hotel chains).
- **Presence of natural persons** consists of persons of one member entering the territory of another member to supply a service (e.g., accountants, doctors or teachers).

### Basic Obligations

Obligations contained in the GATS may be categorised into two groups : (a) General obligations and (b) specific commitments.

- a) General obligations comprise the following:

**MFN Status** : Members are held to extend immediately and unconditionally to services or services suppliers of all other members "treatment no less favourable than that accorded to like services and services suppliers of any other country". Members were allowed to list such exemptions before the agreement entered into force. New exemptions can be granted only to new members at the time of accession or to current members by way of a waiver. All exemptions are subject to review. They should, in principle, not last longer than 10 years.

**Transparency** : GATS members are required, *inter alia*, to publish all measures of general application and establish national enquiry points mandated to respond to other members' information requests.

Other unconditional obligations include the establishment of administrative review and appeals procedures and disciplines on the operation of monopolies and exclusive suppliers.

- b) Specific Commitments comprise the following :

**Market access** : The granting of market access is a negotiated commitment undertaken by individual members in specified sectors. It may be made subject to one or more of six types of limitations enumerated. For example, limitations may be imposed on the number of services suppliers, service operations or employees in a sector, the value of transactions, the legal form of the service supplier, or the participation of foreign capital

**National treatment** : In any sector included in its Schedule of Specific Commitments, a member is obliged to grant foreign services and service suppliers treatment no less favourable than that extended to its own like services and service suppliers. In this context, the key requirement is to abstain from measures which are liable to modify, in law or in fact, the conditions of competition in favour of a member's own service industry. Members are entitled to make the extension of national treatment in any particular sector subject to conditions and qualifications.

Consequently, the GATS does not impose the obligation to assume market access or national treatment commitments in a particular sector. In scheduling commitments, members are free to tailor the extent of the commitments they take so as to avoid or modify obligations that they consider too demanding at present. However, there is a common obligation of WTO members to enter into successive rounds of trade negotiations with a view to achieving a progressively higher level of liberalisation.

The scheduling of specific commitments triggers further (conditional) obligations concerning, *inter alia*, the objective administration of domestic regulations and the avoidance of restrictions on international payment and transfers.

### Services Schedules

Each WTO member is required to have a Schedule of Specific Commitments, a document which identifies the services sectors, subsectors or activities subject to market access and national treatment obligations and any limitations attached to them. The necessary indications must be entered with respect to each of the four different modes of services supply.

Most schedules consist of both sectoral and horizontal sections. The horizontal section contains limitations that apply across all sectors included in the schedule. They often refer to a particular mode of supply, notably commercial presence and the presence of natural persons. The "sector specific section" contains limitations that apply only to the particular sector, subsector or activity to which they refer.

Each Member is required to indicate in its Schedule of Specific Commitment, the date of entry into force. In the absence of an indication, the commitments took effect at the

same date as the GATS did for the member concerned. Commitments resulting from extended negotiations apply from the date at which the relevant Protocol enters into force for a member. Specific commitments may be modified not earlier than three years after their entry into force. However, countries which may be affected by such modifications may request the modifying member to negotiate compensatory adjustments. Any such adjustments are to be granted on MFN basis.

### Specific Exemptions

Governments are free, in principle, to pursue any national policy objectives provided the relevant measures are compatible with the GATS. In addition, the GATS allows members in specified circumstances to take or maintain measures in contravention of their obligations. This applies, in particular, to:

- measures in reaction to serious balance of payments and external financial difficulties;
- measures necessary to protect public morals or human, animal or plant life or health; and
- measures necessary to secure compliance with laws or regulations not inconsistent with the agreement including, among others, measures necessary to prevent deceptive or fraudulent practices.

The Annex on Financial Services entitles members, regardless of other provisions of the GATS, to take measures for prudential reasons, including the protection of investors, depositors, policy holders or persons to whom a fiduciary duty is owed by a financial service supplier, or to ensure the integrity and stability of the financial system.

Any exemption clause carries a risk of abuse. However, to limit such risks, the relevant Articles define minimum requirements that must be met. For example, restrictions taken in response to balance of payments problems must be non-discriminatory and consistent with IMF provisions; avoid unnecessary damage to other countries' commercial, economic and financial interests; not be more stringent than required by the circumstances; be temporary and be phased out progressively as the situation improves. Conflicts about interpretation of these provisions may be referred to WTO Dispute Settlement.

### Special Provisions for Developing Countries

Developing countries' interests have inspired both the general structure of the Agreement as well as individual Articles. In particular, the objective of facilitating the increasing participation of developing countries in services trade has been enshrined in the Preamble to the Agreement and underlies the provision of Article IV. This Article requires members, *inter alia*, to negotiate specific commitments relating to the strengthening of developing countries access to distribution channels and information networks, and the liberalisation of market access in areas of export interest to these countries.

While the notion of progressive liberalisation is one of the basic tenets of the GATS, Article XIX provides objectives and members development levels, both overall and in individual sectors, liberalising fewer types of transactions, and progressively extending market access in line with their development situation. Other provisions ensure that developing countries have more flexibility in pursuing economic integration policies, maintaining restrictions on balance of payments grounds, and determining access to and use of their telecommunications, transport networks and services. In addition, developing countries are entitled to receive technical assistance from the WTO Secretariat.

### Built in Agenda

The GATS set out a work programme which is normally referred to as the "built-in-agenda". The programme reflects both the fact that not all services-related negotiations could be concluded within the time frame of the Uruguay Round, and that members have already committed themselves to successive rounds aimed at achieving a progressively higher level of liberalisation. For each round, negotiating guidelines and procedures are to be estimated, and the Council for Trade in Services is mandated to carry out an

assessment of services trade. In addition, various GATS Articles provide for issues-specific negotiations intended to define rules and disciplines for domestic regulation, emergency safeguards, government procurement, and subsidies. These negotiations are currently under way.

At the sectorial level, negotiations on basic telecommunications were successfully concluded in February 1997 and negotiations in the area of financial services in mid-December 1997. In these negotiations, members achieved significantly improved commitments with a broader level of participation. In addition, the Council is mandated for Trade in Services to establish procedures for the modifications of Schedules.

### Benefits to Member Countries

The following are various economic and political advantages to members associated with liberalisation commitments under the GATS.

- **Overcoming domestic resistance to change** : In trade negotiations, countries are normally confronted with liberalisation requests in their weaker sectors while, at the same time, seeking to improve export conditions for their strongholds. The prospective gains in the latter areas – underpinned by internationally guaranteed access conditions – tend to facilitate more ambitious reforms, in terms of adjustment and growth, than would be attainable on a national basis alone.
- **Improving conditions for sectorial growth** : International bindings help to enhance a country's location attractiveness for traders and investors as these are protected from sudden policy changes. Such bindings are particularly important if used to lock in a currently liberal regime or map out a future liberalisation path.
- **Promoting overall economic efficiency** : Many services sectors, including transport, telecommunications and financial services, cater not only for direct consumer demand, but provide efficiency-enhancing inputs across a range of user industries. In turn, this underscores the importance of maintaining a competitive environment, through market access and national treatment obligations, for such sectors.

### Check Your Progress B

1. Enumerate the basic strategies to start international marketing of services.

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2. Identify four services where which, India have export potential and give your reasons for the same.

Name of the Service	Reasons
1. ....	.....
2. ....	.....
3. ....	.....
4. ....	.....

3. State any three factors in favour of India as a potential country for marketing services internationally.

1. ....
2. ....
3. ....

4. What are the barriers to international marketing of services ?

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 .....  
 .....  
 .....

### 15.8 LET US SUM UP

International trade in services is growing much faster than that in products. At present services account for 15% of world exports of all goods and services, which share is expected to cross 50% in the coming decades. Therefore the study of international marketing of services becomes very important.

Services include all economic activities whose output is not a physical product, is consumed at the time it is produced, and provides added value in forms that are essentially intangible concerns of its first purchaser. One can identify four basic characteristics of services viz., (1) intangibility, (2) heterogeneity, (3) simultaneous production and consumption and (4) perishability, that make services different from products. However, there are several instances where products complement services and services complement products. Because of the distinctive characteristics of services, marketers face some special challenges while marketing services.

World trade in commercial services has grown from \$ 365 bn to \$ 1,350 bn during 1980 - 1999. USA, UK, France, Germany, Italy and Japan are the major exporters and importers of services. India's share in world trade of services is around 1% only. However, there is a great potential in the services sector for India as the country has an abundance of qualified technical and trained manpower available at affordable wages. Software and software services, construction and related engineering, tourism, telecommunications and professional, transport and financial services are some of the sectors where India enjoys a comparative advantage.

There are basically three strategies for international marketing of services : (1) to follow the path of the products for those services which are essentially delivered in support of or in conjunction with products; (2) search for market institutions abroad that are similar to domestic market for those services which are independent from product offers; and (3) identify the points of transition abroad and market the related services. Depending on the situation, a firm may adopt any one or more of these strategies.

There are several barriers to international marketing of services. These can be classified into two categories; viz., as legal barriers and cultural barriers. Legal barriers include (1) quantitative restrictions, (2) discriminatory laws, (3) subsidies to domestic firms, and (4) infringement of international copyright and trademark laws. Cultural barriers arise due to differences in languages, values and attitudes, manners and customs, material culture, educational and social institutions, etc. While designing marketing strategies all these barriers must be kept in view. However, legal barriers can be overcome, to a large extent, in international marketing of services with the implementation of the General Agreement on Trade in Services (GATS).

### 15.9 KEY WORDS

**Services :** All economic activities whose output is not a physical product, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort, health, etc) that are essentially intangible concerns of its first purchaser.

**General Agreement on Trade in Services :** Uruguay Round services package of internationally agreed rules and commitments for international trade in services.

### 15.10 ANSWERS TO CHECK YOUR PROGRESS

- A. 4 a. Servicing, repairs, cleaning  
 b. Software, maintenance service  
 c. Maintenance service  
 d. Repair and maintenance
- 5 a. Equipment, medicines building  
 b. Building, equipment, furniture  
 c. Satellite, cables, instruments, buildings  
 d. Aircraft, buildings and runway, equipment  
 e. Books, buildings

### 15.11 TERMINAL QUESTIONS

1. Define services and explain how they are different from products.
2. "Compared with products, marketing of services poses distinctive challenges to marketers". Explain why it is so, and enumerate the marketing challenges.
3. Explain the importance of services in world trade. Critically evaluate the opportunities for India in international marketing of services.
4. What are the alternative strategies of international marketing of services ? Explain them with appropriate illustrations. Critically evaluate these strategies and suggest for which services each of them is suitable.
5. Discuss various barriers to international marketing of services. Examine how these barriers can be overcome with the implementation of GATS.
6. Explain the main features of GATS.
7. "GATS eliminates various legal barriers to international marketing in services". Discuss.
8. Identify the services that offer potential for international marketing and examine India's strengths and weaknesses in exploiting the potential.