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Te Whare Wānanga o Ōtāgo



THE INTERNATIONAL COMPETITIVENESS OF NEW ZEALAND SERVICE PROVIDERS

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ABSTRACT

This report presents the findings of a study of the successful international marketing strategies of New Zealand service providers. A mail survey of 123 New Zealand services firms has identified a number of major differences which distinguish successful exporters from their less successful counterparts.

Successful services exporters are found to have significantly higher levels of commitment to their overseas markets. This is demonstrated by their higher levels of investment in all aspects of their international business. Top performing international service providers have made a clear decision to internationalise and have put a deliberate strategy in place to achieve this. Overseas markets are important to their continued success as they recognise the opportunities that internationalisation offers them. Successful companies perceive fewer barriers to doing business overseas and have a strong international orientation with a desire to continue growing their overseas business.

Less successful New Zealand services exporters by comparison have very little commitment to their overseas customers. New Zealand is their most important market and they consider international markets to be just incidental to their business. The level of investment they make internationally is significantly lower than that of successful international service providers and in many cases there appears to be little real interest in developing their international operations further.

Firms of all sizes and in every service sector are found amongst the top performers which demonstrates that size is not a barrier to international success.

The study develops a typology of six international service providers - *Committed Internationalisers*, *Risk-averse Internationalisers*, *Ambitious Internationalisers*, *Adaptors*, *Disinterested Internationalisers* and *Reluctant Internationalisers*. Each of these clusters is profiled and the differences between them are analysed. Finally managerial implications are presented.

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1.0 INTRODUCTION

It is widely acknowledged that services have become increasingly important in the global economy. In spite of the acknowledged importance of international services there is still a limited amount of information available about the international trade in services (Samiee, 1999). The volume of trade in international services is not even known, as service sectors can be elusive, often invisible areas of business (Samiee, 1999). This limited information available makes it difficult for policy officials to promote the marketing of services internationally (Samiee, 1999) and for this reason Winsted and Patterson (1998) argue that many service firms with the potential to export remain domestic suppliers only. Furthermore, whilst there has been a lot of research into the factors influencing the performance of exporters in the manufacturing sector much less is known about what makes service providers successful in international markets.

This report presents the results of the second stage of a study of the international competitiveness of New Zealand service providers. The first stage identified the level of international activity of New Zealand service firms (Shaw and Hassan, 2002) and, based on that survey, this study aims to identify the marketing strategies associated with success in international markets.

The report, therefore, compares the marketing strategies of successful and less successful New Zealand service exporters and their differing perspectives on international business. It also presents a typology of six New Zealand services exporters and discusses the implications of these different exporter groups for managers.

2.0 RESEARCH METHODOLOGY

This study is the second stage of a two part study into the international activities of New Zealand service providers. The first study sought to gain an overview of the level of international activity by New Zealand service providers (Shaw and Hassan, 2002). In doing so the first study identified 255 companies which operated internationally. These companies were then targeted for the second survey. In addition, a scan of the Kompas New Zealand database identified additional service firms which were listed as being exporters. Those which had not responded to the first survey were included in this second study. This resulted in a

total of 399 questionnaires being mailed out. Thirteen questionnaires were returned as the company was no longer in business and a further 14 questionnaires were returned blank. The main reasons for non-response were that the company was no longer engaged in international operations, lack of time and no interest in the study. A total of 123 usable questionnaires were received which represents a response rate of 33.1%.

3.0 RESPONDENT PROFILE

3.1 Firm size and service sector

There is an even split across the company size range with just under 40% of the participating firms having less than ten employees (Table 1). This matches the population of New Zealand services exporters well. A range of service sectors are represented in the study. There are slightly more companies in the commercial and business services sector and slightly fewer computer and software companies than in the population, but the difference is not significant. In terms of company size and industry sector these respondents can be considered to be representative of the population of international service providers in New Zealand. Ninety percent of the participating companies are New Zealand owned.

Table 1: Size and service sector of the participating companies

No. of employees	% companies	Industry sector	% companies
Less than 10	39.5	Building and Public Works	19.8
11 – 50	37.0	Transport and Communications	12.9
51 and over	23.5	Medical and Social Services	0.9
		Education and Training	12.1
		Finance and Insurance	6.0
		Commercial and Business Services	37.9
		Computing and Software	9.5

3.2 Markets Served

Table 2: Number of different countries served

Number of countries served	% of firms
1	11.7
2 - 4	37.0
5 - 10	28.8
11 - 20	8.1
More than 20	14.4

Respondents were asked to indicate how many different overseas markets they served. As Table 2 shows approximately half of the participating firms target more than five markets which correlates well with managers' perceptions of their level of international experience.

Table 3 : Overseas markets served by New Zealand service providers

Market served	% of companies serving this market
Australia	74.8
North America	47.2
United Kingdom	44.7
South Pacific markets	40.7
People's Republic of China	32.5
Singapore	32.5
Hong Kong	31.7
Malaysia	30.9
Other Asian markets	28.5
Germany	26.0
Other Western European markets	26.0
South Korea	22.0
Taiwan	21.1
Japan	21.1
Eastern European markets	18.7
South/Central America	17.1
African markets	16.3

Australia is the most popular market for New Zealand service providers to serve (Table 3). This is because of Australia's close proximity and cultural similarity to New Zealand. In the service sector cultural similarity appears to play quite a major role as the next two major markets served are North America and the UK. This could also be a reflection of the size of the service sector in these markets with services accounting for over 70% of GDP in Australia, North America and the UK.

Markets in the South Pacific are served by over 40% of the companies in this study with Fiji, Samoa and Papua New Guinea being the main three countries targeted. Asian markets, in particular the People's Republic of China, Singapore, Hong Kong and Malaysia are the next most important markets for New Zealand service providers. By comparison European, Central/South American and African markets are less important markets for New Zealand service firms. This may be related to the physical distance of these countries from New Zealand. These markets may also be more difficult to get to as they are probably not as well serviced by flights as Asian markets.

It is interesting to compare the markets currently being served by New Zealand service providers with those that managers perceive to be important to them in the future. Based on the likelihood of a company to serve a particular overseas market and the relative importance of that market to the respondents the major markets for New Zealand service providers in the future are Australia, North America, UK and the markets of the South Pacific (Table 4). This suggests that there is unlikely to be any major change in emphasis on specific overseas markets by New Zealand service firms in the next five years.

Table 4: Important overseas markets for future international business

1. Australia
2. North America
3. United Kingdom
4. South Pacific
5. Other Asian markets
6. People's Republic of China
7. Hong Kong
8. Germany
9. Singapore
10. Malaysia

3.3 Mode of Operation in International Markets

The most common mode of operation by New Zealand service providers overseas is through direct sales with nearly 70% of companies adopting this approach (Table 5). Given the relative size of New Zealand firms the adoption of the lowest risk approach to international markets is to be expected. Just over a third of companies use an agent and only one third engage in either joint ventures or strategic alliances. Only one fifth of companies have their own sales office overseas and these tend to be the larger firms.

Table 5: Mode of operation in international markets

Mode of operation	% of companies
Direct Sales	69.1
Agents	36.6
Joint Venture	33.3
Strategic Alliances	33.3
Sales Office	20.3
Distribution Agreements	15.4
Licensing/franchising	8.1

3.4 International experience of participating firms

As Table 6 shows there is a good level of experience by New Zealand service providers in international markets with over 45% of participating firms having over 10 years' experience of offering their services in international markets. In addition, respondents were asked, on a five point scale (1 - very limited; 5 = considerable) to rate their international experience. The number of years operating overseas equates well with manager's own perceptions of their international experience with 43.1% of managers rating their level of international experience as high or very high.

Table 6: International experience of participating firms

Number of years firm has been engaged in international business	% of firms
Less than 3	19.3
4 - 10 years	34.2
11 - 20 years	31.6
Over 20 years	14.9

Commitment to international markets has been shown in other studies of exporters to be a key factor in determining success. Based on their self perception over three quarters of the respondents in this study (67.5%) reported that senior managers in their firm had a high or very high level of commitment to their firm's international operations. Such a high level of commitment is important for New Zealand's economic success in overseas markets. A further indication of the commitment of most of the firms in this study to overseas markets is the observation that 61.2% of all respondents claimed that overseas markets are important or very important to their firms' overall success. However, it is a little worrying that nearly 30%

considered overseas markets to be of little or no importance to their overall success. Later discussion will show that the level of commitment a firm has to its international markets is a key factor influencing the performance of the international operation.

Respondents were asked to give the percentage of managers in their firms with international experience. 8.5% of firms had managers with no international experience. Nearly 40% of firms by contrast had over 50% of their managers with international experience and over 20% of participating organisations had 100% of their managers with international experience.

4.0 GATHERING INFORMATION ON OVERSEAS MARKETS

The level of investment in market research by New Zealand service providers in overseas markets is worryingly low. The majority of firms (56.9%) undertake market research on an ad hoc basis. A further 23.3% admit to never conducting any formal market research in international markets. Only 39.3% of the participating firms admit to using government or commercial agencies to assist them with their international operations. Of those that do use an agency, 75% use Tradenz.

4.1 Reasons for not using external agencies

Respondents not using any form of external assistance were asked why they did not avail themselves of the services on offer. A total of 65 different comments were recorded and, using content analysis, have been categorised into six different factors (see Table 7). The main reasons why New Zealand service providers do not use external agencies to assist them with their international business is that many of them prefer to rely on their own experience or personal contacts. There is also a view amongst some respondents that the agencies available do not have the specialist knowledge in order to be able to offer them assistance. Other managers do not feel the need to use an agency and have therefore never even tried. Yet others have tried and found external agencies to be ineffective or too expensive. The focus on manager's own experience and contacts may be a reflection of the service sector in which a high degree of personal contact is important in order to develop long term business relationships.

Table 7: Reasons for not using commercial or government agencies for international

business

Reason	No. of comments	% of comments
We rely on experience and personal contacts	16	24.6
They do not have the specialist knowledge we need	15	23.1
We have found them to be ineffective and/or expensive	14	21.5
We have not tried using an agency/we don't need to	13	20.0
We are not aware of the information available	4	6.2
We are not that active internationally	3	4.6
Total	65	

4.2 Informal information sources used

Respondents were asked to identify the informal sources they used for gathering information on existing and potential new overseas markets. A total of 203 different sources were identified which have been collapsed, using content analysis, into nine different factors. There is again a strong emphasis on the use of personal contacts and experience by New Zealand services exporters (see Table 8). The Internet is also an important source of information for managers as well as the trade press. Official sources, such as banks and government agencies and statistics are used by fewer managers, confirming the earlier finding that not many New Zealand service providers make use of commercial or government agencies to assist them in their export efforts. Partners and agents are not used much either, which is likely to be a reflection of the observation that most New Zealand service providers are selling directly to their overseas customers rather than engaging in joint ventures or using agents. The use of country visits and trade shows to collect information is also low which probably stems from the cost of visiting overseas markets.

Although only four companies admitted that they did not use any information sources a further 17 respondents provided no response to this question. Given the low levels of investment in market research already recorded it is probably not unreasonable to assume that these 17 companies do not collect any information on their overseas markets at all.

Table 8: Informal information sources used

Information source	No. of comments	% of comments
Personal contacts/networking	67	33.0
Internet	40	19.7
Trade press	37	18.2
Official Sources	20	9.9
Publicly available sources	13	6.4
Partners/agents	11	5.4
Country visits	8	3.9
Tradeshows	3	1.5
No sources are used	4	2.0
Total	203	

5.0 MEASURING THE INTERNATIONAL PERFORMANCE OF NEW ZEALAND SERVICE PROVIDERS

5.1 Performance compared with objectives

The success of New Zealand service providers in overseas markets was measured in four different ways. First, respondents were asked to rate, on a five point scale, the performance of their international operations against their objectives in the last three years. A total of nine different success dimensions were used (see Table 9).

Table 9: Measures of performance in international markets

Performance in achieving objective	Mean for all respondents	Standard deviation
Export sales growth	3.1	1.3
Market share growth	2.8	1.2
Turnover	3.2	1.3
Profitability growth	3.0	1.2
Return on investment	3.1	1.2
Customer satisfaction	3.8	1.1
Cost reduction	2.8	1.0
Building awareness/reputation overseas	3.4	1.2
New service development	2.9	1.2
Overall international performance compared to New Zealand*	3.1	1.0

Measured on a five point scale 1 = very poorly; 5 = very well; * measured on a five point scale 1 = not at all good; 5 = outstanding

To obtain the overall performance measure of individual companies the mean value of the respondent's self assessment for each of the nine performance measures was computed. Those companies with a mean success rating over 3.5 were classified as 'successful' and those

scoring below this were labelled 'less successful'. This resulted in 39.3% of the participating firms being rated as successful and 60.7% as less successful.

5.2 Performance compared with competitors

Second, respondents were asked, using the same dimensions presented in Table 9, to rate the success of their international operations compared to their competitors. Nearly one quarter of all respondents had some difficulty comparing their performance with that of their competitors. This has resulted in quite a lot of missing data for this question making comparisons between successful and less successful international service providers difficult. It is interesting that so many firms could not compare their performance with their competitors and suggests that they are not as knowledgeable about the competitive situation in their international markets as they should be. Given the earlier observation on the low levels of market research being undertaken by New Zealand service providers in their international markets perhaps this result is to be expected. This success measure has not been used for subsequent analysis.

5.3 International competitiveness

A third measure of success was used. This required respondents to rate the international competitiveness of their firm along 14 dimensions relating to different aspect of their service offering. As Tables 9 and 10 show there does appear to be a gap between the perceived competitiveness of New Zealand companies offering their services in international markets and the perception of their performance. Whilst respondents rate themselves highly in terms of their international competitiveness with regard to service quality, uniqueness and speed of delivery, cost and price competitiveness, reputation and technology orientation, their performance in areas such as new service development and cost reduction do not seem to match their perceived levels of international competitiveness. It is possible that the higher level of international competitiveness has not yet fed through into actual performance in overseas markets. Alternatively, New Zealand service providers may be over estimating their international competitiveness as they do not have as good an understanding as they should of their competitors in the international markets they serve . The latter view is supported by the earlier observation that many respondents noted that they were not able to compare their performance with that of their competitors.

Table 10: The international competitiveness of New Zealand service providers

Performance measure	Mean for all respondents	Standard deviation
Technology orientation	3.6	1.2
Price competitiveness	3.7	0.9
Service quality	4.0	0.8
Service uniqueness	3.7	1.1
Company reputation	3.7	1.0
Range of services offered	3.2	1.0
Service innovations	3.3	1.0
Speed of service delivery	3.6	0.9
Promotion of services	2.7	1.1
Personnel experience and training	3.4	1.1
International experience	3.3	1.2
Management capabilities	3.5	1.0
Cost competitiveness	3.6	0.9
Financial resources	2.9	1.1

Measured on a five point scale 1 = not at all competitive; 5 = very competitive

A factor analysis loaded the international competitiveness dimensions of performance on three factors - innovation competitiveness, cost/quality competitiveness and international capability competitiveness - which will be used in subsequent analysis.

6.0 COMPARING SUCCESSFUL AND LESS SUCCESSFUL NEW ZEALAND SERVICE PROVIDERS

Comparing the performance of New Zealand service providers against their own objectives 39.3% of the firms participating in this study were rated as successful across the nine performance dimensions measured. By contrast 60.7% rated themselves as being less successful. It is disappointing that more firms appear not to be successful in international markets, however, the relatively low numbers of top performers suggests that respondents are not over estimating their international performance.

6.1 Markets served and entry mode

No significant differences were observed between successful and less successful exporters with regard to the length of time they had been engaged in marketing their services overseas. Successful exporters were, however, found to serve a significantly higher number of overseas

markets than poorer performers. No successful firms served only one country compared with nearly 20% of less successful firms. Nearly 65% of the top performers, however, served more than five countries compared with 43% of the poorer performers. Not only do successful exporters serve more countries, but they are significantly more likely than their less successful counterparts to target Asian markets such as Japan, China, Hong Kong, South Korea, Taiwan and Singapore. Successful exporters, therefore, are not simply concentrating on the markets which are culturally most similar to New Zealand. By contrast less successful exporters concentrate predominantly on Australia, North America and the markets of the South Pacific - markets which might be perceived as being lower risk because of the cultural similarity and the relatively close proximity to New Zealand.

No significant differences were observed between the two groups of firms with regard to their mode of operation in overseas markets with the majority of participating firms choosing to serve their customers via direct sales from New Zealand. Slightly more successful firms (28.9%) had sales offices in overseas markets than less successful exporters (16.9%),

but the difference was not significant. More of the top performers (34.8%) had an export department than the less successful firms (12.9%), which can again be seen as a sign of the stronger commitment by successful exporters to their international operations. Over three quarters of the firms in this study, however, do not have an export department which is largely a function of their relatively small size.

6.2 Perspectives on international business

Respondents were asked to agree or disagree with a series of statements on doing business overseas. Table 11 compares successful New Zealand service exporters with their less successful counterparts and, of the 19 dimensions measured, 11 displayed significant differences between the two groups. Whilst there appears to be no differences between successful and less successful exporters in terms of their views on regulations, the paperwork associated with exporting, the financing of exporting and the cost of serving and receiving payments from overseas markets, there are major differences relating to their commitment to international markets.

Successful New Zealand services exporters have a significantly stronger international orientation with export business being a significantly higher priority for them. They consider overseas customers to be more demanding, but at the same time recognise that operating overseas and serving more demanding customers makes them more competitive both at home and overseas. Furthermore, they believe that higher prices can be charged in export markets than in New Zealand which appears to translate into more profit from overseas markets compared to the domestic market. Although both groups of firms recognise the importance of persistence as a way of achieving international market success, the successful exporters appear to be more persistent than their less successful counterparts. By contrast, less successful firms are significantly more likely to view New Zealand as their most important market and as a consequence are more likely to develop strategies primarily for their home market. The focus of the less successful exporters appears to be largely on the New Zealand market compared with the stronger international focus of the successful firms.

Table 11: Perspectives on international business

Statement	Mean for less successful firms	Mean for successful firms	Significance level
The cost of serving overseas markets is high relative to the returns	3.1	3.0	NS
Regulations for our services vary significantly from country to country	3.3	3.4	NS
Obtaining finance for exporting is straightforward	2.7	2.5	NS
Business practices are the same in most countries	2.2	2.3	NS
Obtaining payment of services rendered overseas is difficult	3.0	3.0	NS
Overseas business is just incidental to our company	2.5	1.9	.033
The paperwork necessary for exporting is overwhelming	2.4	2.7	NS
There is still a lot to do in the domestic market before we can turn our major efforts to international markets	2.9	2.3	.011
NZ is our most important market	3.8	2.6	.000
Strategies are developed primarily for the home market	3.4	2.3	.000
Export markets are more profitable than the NZ market	3.0	3.7	.001
Operating in international markets make our company more competitive	3.2	4.0	.000
Maintaining relationships with overseas customers is hard	3.2	3.0	NS
We have a strong international orientation	2.8	4.0	.000
Higher prices can be charged in overseas markets than in NZ	3.0	3.7	.003
Overseas customers are more demanding than NZ customers	2.9	3.3	.035
Our export business is a high priority for us	3.0	4.3	.000
NZ's geographic location is a major disadvantage when selling our services overseas	3.0	2.8	NS
Persistence is important to international market success	4.1	4.6	.001

Measured on a five point scale: 1 = totally disagree; 5 = totally agree

6.3 International marketing strategies

Respondents were asked a series of questions regarding their international marketing strategies and some of the factors which influence the choice of strategies. A total of 22 dimensions were measured of which 15 showed a significant difference between successful

Table 12: International marketing strategies

Statement	Mean for less successful firms	Mean for successful firms	Significance level
We develop global strategies with no special priority for the NZ market	2.2	3.2	.000
We concentrate only on a small number of overseas markets	3.6	3.6	NS
Our company markets a standardised service throughout the world	2.6	3.2	.030
We offer a full range of services to all our overseas markets	2.8	3.7	.000
Promotional campaigns are standardised throughout the world	2.0	2.4	NS
Prices are standardised throughout the world	1.9	2.1	NS
We use the same sales techniques overseas as in NZ	2.6	2.3	NS
We have made a clear decision to expand the international operations of our business	3.2	4.2	.000
We collect a lot of information on new overseas markets	2.6	3.5	.000
We do not actively go after overseas business	2.7	2.1	.039
We respond to all inquiries from potential foreign buyers	3.8	4.3	.033
Overseas markets offer better opportunities for us than NZ	2.9	3.9	.000
We serve mainly markets that are culturally similar to NZ	2.8	2.4	NS
We serve mainly markets that are politically similar to NZ	2.5	2.0	.020
We serve mainly markets that are economically similar to NZ	2.5	2.2	NS
We are good at identifying new opportunities overseas	2.5	3.6	.000
We invest significant resources in our international operations	2.4	3.5	.000
We enjoy a strong market position in NZ	3.8	3.7	NS
We have a clearly defined strategy for international markets	2.7	3.8	.000
The financial returns to our company are greater from NZ than overseas markets	3.4	2.3	.000
We have a clear competitive advantage in the international markets we serve	2.6	3.5	.000
We develop partnerships with other NZ firms to serve overseas markets more efficiently	2.2	3.1	.000

Measured on a five point scale: 1 = not at all; 5 = very well

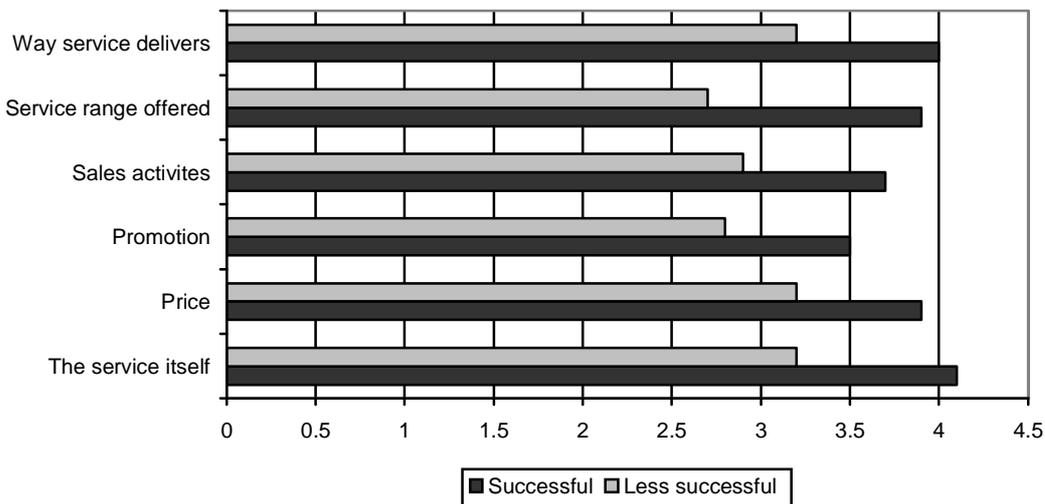
and less successful New Zealand service exporters (see Table 12). Successful firms are significantly more likely to pursue global strategies with no special priority for the New Zealand market. In keeping with this observation, successful exporters are more likely to offer a standard service overseas. Although this is a significant difference compared with the less successful exporters, it should be noted that the extent to which global strategies and a standardised service are pursued is not particularly high. This suggests that successful services exporters recognise better than their less successful counterparts that some elements of their service offering can be standardised and that they know when to employ such a strategy and when not to. It also shows quite clearly that, in contrast to less successful firms, the successful exporters, do not regard New Zealand to be their principle market and, therefore, do not develop services just with New Zealand customers in mind. This observation matches well with earlier findings showing that successful exporters do not consider New Zealand to be their most important market and that the ability to serve demanding overseas customers can impact positively on their performance.

The commitment of the successful exporters to their overseas markets is strongly in evidence as the top performers are significantly more likely to have made a clear decision to expand their international operations and to have developed a clearly defined strategy for their chosen markets. It is not, however, just about a clear commitment and a deliberate international strategy, successful exporters also claim to have a clear competitive advantage in the international markets they serve. They are more likely to recognise the opportunities that overseas markets can offer. This can also be attributed to the observation that they are also significantly more likely to collect information on new overseas markets than their poorer performing counterparts. Although successful firms collect more information on their overseas markets, it is disappointing to observe that the majority of firms in this study do not undertake regular market research. Successful firms also claim to be more responsive to enquires from overseas and to invest significant resources in their international operations. By contrast less successful exporters are significantly less likely to actively go after overseas business. They still have a largely domestic focus to their business with significantly more poorer performers receiving greater financial returns from the New Zealand market compared with overseas markets.

6.3.1 Standardisation versus adaptation

Respondents were asked to assess the extent to which they adapt their services to meet the needs of their overseas customers. As Figure 1 shows successful exporters adapt their marketing mix significantly more than the poorer performers. With the exception of the way in which the service is delivered successful firms were more likely to adapt all elements of their marketing mix than their less successful counterparts. This again provides support for the notion that the successful firms are more committed to their overseas markets as they recognise the need to adapt to meet the needs of overseas customers and are willing to do so.

Figure 1: Extent to which New Zealand service providers adapt their marketing mix



Means measured on a five point scale: 1 = no adaptation at all; 5 = high level of adaptation.
 All measures significant at the .002 level

6.4 Commitment to international markets

One of the major differences between successful and less successful New Zealand services exporters is very clearly their perspective on the domestic market compared to their overseas markets. Successful firms, whilst enjoying a strong position in New Zealand, have a much stronger commitment to international markets. They are prepared to invest the necessary resources and are prepared to persist in order to become successful in their chosen markets. Less successful exporters, meanwhile, have a stronger domestic focus with international markets being less important to them.

This difference in commitment to overseas markets is further in evidence when the level of investment in international operations is considered. As Table 13 shows successful firms invest significantly more than less successful exporters in their human resources, relationships with customers and market research. Although the overall levels of investment (with the exception of building customer relationships) are not that high, successful exporters do recognise and show stronger commitment to overseas markets than poorer performers. The commitment to and investment in overseas markets represent the major differences between successful and less successful New Zealand services exporters. This higher level of importance translates into the managers of successful exporters having a higher level of commitment to overseas operations.

Table 13: Investment in international markets

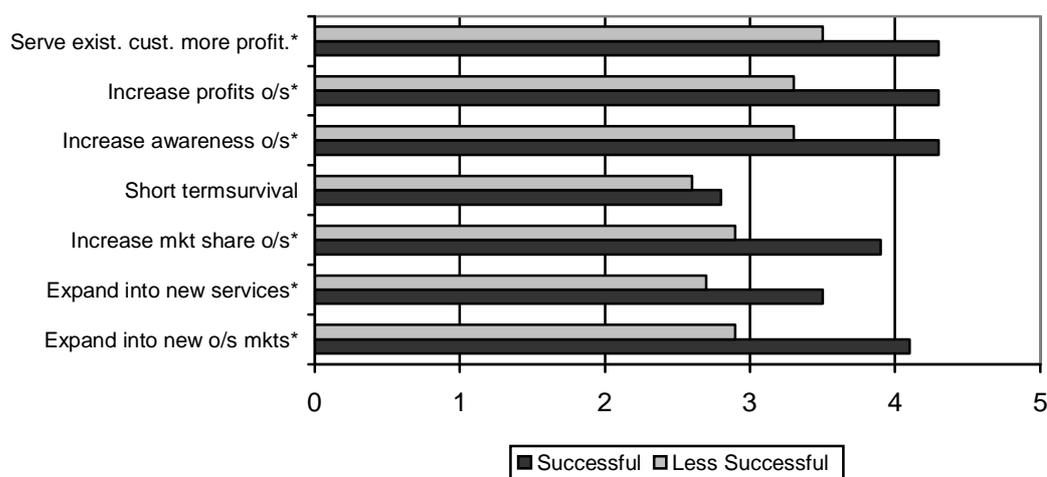
Investment in:	Mean for less successful firms	Mean for successful firms	Significance Level
Human resources	2.2	3.2	.000
Financial investment	2.4	3.2	.002
Relationships with customers	3.1	4.1	.000
Market research	2.1	3.0	.000

Measured on a five point scale 1 = very little investment; 5 = substantial investment

6.5 Objectives for international operations

Respondents were asked to rate the importance of seven objectives for their international operations. As Figure 2 shows significant differences were observed across six of the objectives, with successful exporters rating expansion into new markets, expansion into new services, increasing market share, awareness and overseas profitability as being more important than their less successful counterparts. This again links back to the commitment of New Zealand service providers to their international operations as it is apparent that successful exporters are not just content with their current activities and performance. They have set clearly defined objectives to further expand their international business in the future.

Figure 2: International objectives of New Zealand service exporters



Means measured on a five point scale: 1 = not at all important; 5 = very important.

* indicates significant difference at .000 level

6.6 Turnover and profits from overseas markets

High levels of commitment and investment have been clearly shown to lead to success in international markets. A further demonstration of this success can be observed by examining the percentage of a firm's turnover and profitability generated from international activities.

Table 14: Percentage of turnover and profit generated from international markets

Percentage turnover from overseas*	% of less successful firms	% of successful firms
Less than 10%	42.3	4.3
11 - 30%	26.8	23.9
31 - 50%	12.7	17.4
Over 50%	18.3	54.3
Percentage profits from overseas*		
Less than 10%	50.0	6.5
11 - 30%	15.7	21.7
31 - 50%	18.6	19.6
Over 50%	15.7	52.2

* Significant at the .005 level

As Table 14 shows, top performing firms generate significantly more of their turnover and profits from international activities than their less successful counterparts. Over one half of the successful companies generate more than 50% of both their turnover and profits from

overseas activities. By contrast just over 40% of the less successful exporters generate less than 10% of their turnover from overseas markets and 50% less than 10% of their profits from international activities. A lack of commitment and investment is likely to be hindering the poorer performers from obtaining more of their turnover and profits from overseas operations.

The strong emphasis by successful exporters on their overseas markets can also be seen in Table 15. When the increase in turnover from international markets in the last three years is compared across top and poorer performers, the successful exporters have achieved significantly bigger increases in turnover than their less successful counterparts. Over a fifth of the successful New Zealand services exporters have seen their turnover more than double in the last three years. By comparison a third of the less successful exporters have seen their turnover from overseas markets either decrease or remain static.

Table 15: Increase in turnover from international markets in the last three years

Increase in turnover from overseas	% of less successful firms	% of successful firms
Reduced or stayed the same	33.8	4.8
Increased between 1 - 20%	22.1	26.2
Increased between 21 - 50%	19.1	26.2
Increased between 51 - 100%	20.6	21.4
Increase more than 100%	4.4	21.4

Note: A small number of respondents indicated the increase in turnover in dollar terms rather than in percentage terms and are not included in this table. Significant at .002 level

However, examining the anticipated increase in turnover from international operations in the next three years, it is interesting to note that no significant difference emerge between successful and less successful exporters (Table 16). Overall 86.3% of successful firms expect their turnover from overseas markets to increase in the next three years compared with 82.5% of less successful exporters. Approximately 13% of all exporters expect their turnover from overseas markets to at least double in the next three years. It is encouraging that so many of the less successful exporters anticipate an increase in their turnover from overseas markets. The key issue for these companies is to develop clear, deliberate international strategies backed up by the commitment of the senior managers within the firms in order to make the anticipated increases in turnover profitable.

Table 16: Anticipated increase in turnover from international markets in the next three years

Increase in turnover from overseas	% of less successful firms	% of successful firms
Reduce or stay the same	17.4	13.6
1 - 20%	30.4	15.9
21 - 50%	20.3	34.1
51 - 100%	18.8	22.7
More than 100%	13.0	13.6

Note: A small number of respondents indicated the anticipated increase in turnover in dollar terms rather than in percentage terms and are not included in this table

No significant difference observed

6.7 International competitiveness of New Zealand service providers

Top performers rate their international competitiveness on all three components significantly more highly than their less successful counterparts (Table 17). Clearly the majority of respondents perceive their companies to be reasonably competitive but competitiveness alone does not guarantee a good performance in international markets. It is interesting to note that in overall terms 43% of the companies participating in this study considered themselves to be competitive or very competitive in terms of innovation. This compares with 77.9% who consider their firms to enjoy a cost/quality competitiveness and 47.9% who perceive that their international capabilities are competitive. This finding shows that it is important to measure international performance as well as perceptions of firm competitiveness. It is also interesting to note that the innovation competitiveness factor has the lowest scores for both successful and less successful firms suggesting that New Zealand service providers are trading more on the basis of their relative cost advantage than on their technological expertise. The earlier observations which showed that expansion into new services was a less important objective for most participating firms suggests that innovation in services is not a priority for many New Zealand services exporters.

Table 17: International competitiveness of New Zealand service providers

Competitiveness factor	Mean for less successful firms	Mean for successful firms	Significance level
Innovation	3.0	3.7	.000
Cost/quality	3.5	4.1	.000
International capabilities	3.1	4.0	.000

6.8 Frequency of customer visits and market research

Respondents were asked how frequently they visited their overseas customers. Successful exporters were significantly more likely to visit their overseas customers more frequently than their less successful counterparts with nearly 75% of them visiting their customers on a regular basis (either monthly, quarterly or annually). This compared with less than 50% of the successful exporters who visited their overseas customers on a regular basis. Over 35% of the poorer performers visited their customers on an ad hoc basis and 17% never visited their customers at all. Because of New Zealand's geographic location firms based here cannot be expected to visit their overseas customers as often as European firms might do, however neither successful nor less successful exporters perceived New Zealand's geographic location to be a particularly major disadvantage when operating overseas (see Table 11). Interestingly, no significant differences were found in the frequency with which market research into international markets was undertaken with both successful (62.2%) and less successful firms (54.3%) opting to conduct market research on an ad hoc basis.

6.9 Impact of firm size and service sector

No significant differences were found with regard to company size or the industry sector in which the participating firms were operating. This is encouraging as it shows that small firms can be just as successful in achieving their objectives in international markets as larger organisations.

7.0 STRATEGIC CLUSTERS OF NEW ZEALAND SERVICE EXPORTERS

A number of very distinct differences were found to exist between successful and less successful New Zealand services exporters. In order to determine whether there are different strategic groups of services exporters within New Zealand a cluster analysis was undertaken. The identification of strategic clusters makes it easier to identify potential strategies for future success for each group.

7.1 Cluster profiles

Based on the international marketing strategies pursued by New Zealand exporters six distinct exporter types were identified: *Committed Internationalisers*, *Risk-averse Internationalisers*, *Ambitious Internationalisers*, *Adaptors*, *Disinterested Internationalisers* and *Reluctant Internationalisers*. Differences between the six clusters are observed not just in terms of the marketing strategies pursued, but also in terms of their perspectives on international business, the objectives they pursue, their demographic profiles and more importantly their performance in international markets. Each cluster is profiled below with regard to the marketing strategies they pursue. Differences between the clusters are then discussed in Section 7.2.

7.1.1 Committed Internationalisers

This is a group of 14 New Zealand firms which invest significant resources in their international operations. They have made a clear decision to expand their overseas operations and have a clearly defined international strategy. They are good at identifying opportunities overseas and have a clear competitive advantage in the markets they serve. They develop global strategies with no special priority for the New Zealand market and serve a wide range of markets throughout the world. This is a set of highly committed exporters who have achieved a high degree of international success as over 70% of these exporters are top performers.

7.1.2 Risk-averse Internationalisers

This cluster comprises 34 firms which serve only a small number of overseas markets. They have made a clear decision to expand their international operations. However, they focus their attention almost exclusively on markets that are culturally, politically and economically similar to New Zealand. No other aspects of their international marketing strategies stand these firms out from the other clusters. Risk-averse exporters are enjoying some international success as just over 30% of them are rated as top performers.

7.1.3 Ambitious Internationalisers

This is a group of 25 firms which tends to focus on a relatively small number of overseas markets. However, unlike the risk-averse exporters they do not serve markets which are

culturally, politically and economically similar to New Zealand. Instead these firms have opted to serve a wide range of markets throughout the world. These firms believe most strongly that overseas markets offer better opportunities for them than the New Zealand market and as a result have made a clear decision to expand overseas. They invest significant resources and collect a lot of information on overseas markets in order to help them benefit from those opportunities. Financial returns to these firms are greater from overseas than they are from New Zealand. These firms are the most active internationalisers of the six clusters and they respond to all enquiries from potential overseas customers. This is also the only cluster which really develops partnerships with other New Zealand firms in order to serve overseas markets more efficiently. The commitment and active nature of this group of exporters appears to be paying off as 60% of the *Ambitious Internationalisers* are rated as being successful.

7.1.4 Adaptors

This cluster comprises 20 firms which focus on a relatively small number of overseas markets. Their decision to expand internationally is not as clear cut as for the *Risk-averse*, *Ambitious* and *Committed Internationalisers* and they have a less clearly defined strategy for international markets. This group of exporters, however differ from the *Risk-averse Internationalisers* in that they typically do not just focus on countries which are culturally, politically and economically similar to New Zealand. New Zealand is still an important market for these firms, however, when serving international markets they do tend to adapt their service, price, promotion and sales techniques to meet the needs of their overseas customers. The higher levels of adaptation of the services and marketing mix of these firms appears to be resulting in some international success as just under 40% of *Adaptors* are top performers.

7.1.5 Disinterested Internationalisers

This is a group of just six companies which acknowledge that they are not good at identifying opportunities overseas, that they do not collect information on overseas markets and that they do not invest many resources in their international operations. They have not made a clear decision to expand internationally and do not have a clear international strategy. Typically they serve markets which are culturally similar to New Zealand and offer customers in those

markets a standardised service. This group of firms adapt their service and marketing mix the least of all of the six clusters. As a result they are quite open that they have no clear competitive advantage in the international markets they serve. It appears that this group of firms is simply responding to orders from overseas provided they come from markets which they perceive to be similar to New Zealand. Not surprisingly these *Disinterested Internationalisers* have not met with much international success as all six companies are poor performers.

7.1.6 Reluctant Internationalisers

Nineteen firms belong to this cluster. These firms have a strong New Zealand focus and appear to be only *Reluctant Internationalisers*. They do not actively go after overseas business, have not made a clear decision to internationalise and have no clear strategy for doing so. They do, however, appear to be selective in terms of the overseas business they do undertake as they do not respond to all enquiries from potential overseas buyers and when they do respond they tend to adapt their service, prices and promotions to meet the needs of overseas customers. They do not collect much information on overseas markets and do not invest significant resources in their international operations, largely because they do not seem to believe that overseas markets offer them better opportunities than the New Zealand market. It appears that this groups of firms will respond to overseas customers, but only if approached to do so. The lack of commitment on the part of these firms to their international operations is reflected in their success in overseas markets as only 5% of *Reluctant Internationalisers* are in the top performer category.

Table 18: Demographic profile of the six clusters

Demographic profile	Adapters	Risk-averse Internationalisers	Committed internationalisers	Ambitious Internationalisers	Disinterested Internationalisers	Reluctant Internationalisers
Ownership	95% NZ-owned	85.7% NZ-owned	64.3% NZ-owned	96% NZ-owned	100% NZ-owned	100% NZ-owned
Company size	split evenly across size range	split evenly across size range	57.1% of firms have 11-20 employees	52% of firms employ less than 10	80% of firms employ less than 10	47.4% of firms employ less than 10
No. of countries served	70% serve between 2-10 countries	57.6% serve less than 4 countries	38.5% serve more than 10 countries	38.1% serve less than 10 countries	100% firms serve less than 4 markets	75% serve less than 4 countries
Main countries currently served	Australia North America Hong Kong S. Pacific China Malaysia Singapore	Australia UK North America S. Pacific	UK Australia North America Germany W. Europe Singapore Japan China Malaysia Hong Kong S. Korea S. Pacific Africa	North America China Australia UK Singapore S. Pacific S. Korea Hong Kong Malaysia	Australia North America	Australia S. Pacific
Countries likely to be the most important in the next five years*	North America S. Pacific China Australia UK	Australia UK North America	North America Australia UK W. Europe Germany	China Australia Hong Kong North America S. Korea	North America	Australia

* only markets which have been rated higher than 3 (on a five point scale) have been included in the list of countries most likely to be targeted in the next five years

Table 19: Perspectives on international business by cluster

Statement	Adapters	Risk-averse Internationalisers	Committed Internationalisers	Ambitious Internationalisers	Disinterested Internationalisers	Reluctant Internationalisers	Significance Level
Business practices are the same in most countries	1.7	2.4	3.1	2.2	2.5	2.2	.033
Obtaining payment for services rendered overseas is difficult	2.9	3.0	2.4	3.2	1.8	3.5	.007
Overseas business is just incidental to our firm	2.4	2.1	1.7	1.6	3.7	3.7	.000
New Zealand is our most important market	3.7	3.4	2.8	2.5	4.3	4.5	.000
Strategies are developed for the home market	3.1	2.9	2.1	2.1	4.0	4.2	.000
Export markets more profitable than NZ	3.5	3.1	3.9	3.6	2.3	2.6	.005
Operating in international markets makes us more competitive	3.5	3.7	3.9	4.1	1.8	2.5	.000
Maintaining relationships with overseas customers is hard	3.1	3.3	2.4	3.0	2.5	3.5	.046
We have a strong international orientation	3.0	3.2	4.6	4.1	2.0	1.8	.000
Higher prices can be charged in overseas markets	3.5	3.2	3.6	3.7	2.5	2.7	.039
Our export business is a high priority for us	3.6	3.5	4.1	4.6	1.7	1.9	.000
NZ's geographic location is a major disadvantage	2.6	2.9	2.7	2.9	1.7	3.4	.023
Persistence is important to international success	4.4	4.5	4.4	4.6	3.0	3.7	.000

Measured on a five point scale: 1 = totally disagree; 5 = totally agree

Table 20: Investment in international markets by cluster

Investment in:	Adaptors	Risk-averse Internationalisers	Committed Internationalisers	Ambitious Internationalisers	Disinterested Internationalisers	Reluctant Internationalisers	Significance Level
Human resources	2.5	2.8	3.2	3.4	1.0	1.5	.000
Financial investment	2.5	2.9	3.5	3.2	1.2	1.6	.000
Relationship building	3.4	3.6	4.0	4.4	1.3	2.0	.000
Market research	2.1	2.7	2.8	3.2	1.0	1.5	.000

Measured on a five point scale: 1 = very little; 5 = substantial

Table 21: Importance of international business objectives by cluster

Objective	Adaptors	Risk-averse Internationalisers	Committed Internationalisers	Ambitious Internationalisers	Disinterested Internationalisers	Reluctant Internationalisers	Significance Level
Expansion into new overseas markets	3.4	3.7	3.9	4.2	1.8	1.7	.000
Expansion into new services	2.8	2.9	3.8	3.6	2.0	2.2	.000
Increase markets share in international markets	3.5	3.5	3.6	4.0	1.3	1.9	.000
Increase awareness of company overseas	3.8	3.7	4.2	4.4	2.5	2.2	.000
Increase profitability overseas	3.8	3.9	4.0	4.3	1.8	2.4	.000
Serve existing customers more profitably	3.8	3.7	4.4	4.3	2.0	3.5	.000

Measured on a five point scale: 1 = not at all important; 5 = very important

Table 22: International competitiveness of the six clusters

Competitiveness factor	Adaptors	Risk-averse Internationalisers	Committed Internationalisers	Ambitious Internationalisers	Disinterested Internationalisers	Reluctant Internationalisers	Significance Level
Innovation	3.1	3.4	3.9	3.4	1.8	2.7	.000
Cost/quality	3.6	3.9	3.9	3.9	2.9	3.3	.000
International capabilities	3.6	3.4	4.0	3.6	2.0	2.9	.000

Measured on a five point scale: 1 = not at all competitive; 5 = very competitive

7.2 Differences across the six clusters

Having profiled the clusters it is interesting to compare the six clusters according to their demographic profiles (see Table 18), their perspectives on international business (see Table 19), their investment in international operations (see Table 20) and their international objectives (see Table 21). Only results which show a significant difference across the six clusters are reported.

7.2.1 Committed Internationalisers

Committed internationalisers target the widest range of countries of all the clusters. Whilst the three main markets served (UK, Australia and North America) are culturally similar to New Zealand, firms in this cluster also have a strong presence in European, Asian and South Pacific markets. The *Committed Internationalisers* are also the main exporters to target African markets in particular South Africa. Interestingly, Australia is also not the number one market for the *Committed Internationalisers* - the UK is. The only other cluster for which Australia is not the key market is the *Ambitious Internationalisers*. In the future, however, the *Committed Internationalisers* perceive the Australian market to be increasing in importance for them. Whilst North America is likely to be the most important market in the next five years, the *Committed Internationalisers* want to consolidate their positions in the Australian, UK, German and other Western European markets.

Committed Internationalisers believe more than any other cluster that export markets are more profitable than New Zealand. They also have the strongest international orientation and believe that their export business is a high priority for them. Given the diverse range of countries these firms target, it is interesting that more than any other cluster the *Committed Internationalisers* take the view (although not too strongly) that business practices are similar in most countries. This is likely to be linked with their extensive experience of doing business overseas.

The levels of investment in international operations is relatively high for the *Committed Internationalisers*. The level of financial investment is the highest of all of the clusters which is again a clear indication of their commitment to overseas markets. They also invest a lot in

building relationships with overseas clients. It is disappointing, however, to observe that the level of investment in market research is relatively low. This suggests that either they are already very knowledgeable about the overseas markets they serve or that they are a little complacent. In spite of being *Committed Internationalisers* these firms do not visit their overseas customers as often as the *Risk-averse internationalisers* with 57% making at least annual visits.

The most important goal for the *Committed Internationalisers* is to serve their existing customers more profitably. Given the large numbers of markets already served by this cluster this seems quite reasonable. These exporters also want to increase the awareness of their firm overseas and to increase their overall profitability from overseas markets. Expansion into new services and new markets and increasing market share are also of above average importance to the *Committed Internationalisers*. The signs are good that their level of commitment to international markets looks will remain high into the future.

7.2.2 Risk-averse Internationalisers

In comparison to the *Adaptors* the *Risk-averse Internationalisers* are very focused internationally with the majority of firms serving less than four overseas markets. The strategy identified earlier of concentrating on markets similar to New Zealand is borne out by the observation that firms in this cluster almost exclusively target Australia, the UK, North America and South Pacific markets - all countries which have similarities to New Zealand. In the future the *Risk-averse Internationalisers* appear to be maintaining their conservative approach to international markets with their current main target markets being the most important countries for them in the next five years.

Whilst the New Zealand market is relatively important to *Risk-averse Internationalisers*, they do acknowledge that operating internationally can make them more competitive. However, they are more concerned than most clusters, with the exception of the *Reluctant Internationalisers*, that maintaining relationships with overseas customers is hard. In spite of this these firms place quite a strong level of importance on building customer relationships which is evidenced by the observation that nearly 75% of them visit their overseas customers at least once a year. Just over 45% of these firms visit their customers on a quarterly basis. This high level of customer contact is probably made possible because the *Risk-averse*

Internationalisers are focused on a small number of markets which are in relative close proximity to New Zealand. Market research, as with most other clusters, is, however, undertaken on an ad hoc basis.

These exporters recognise the importance of persistence in achieving success overseas. However, they also perceive more difficulties than other clusters, with the exception of the *Ambitious Internationalisers*, in obtaining payment for services rendered overseas. This is likely to be a concern for firms which are risk-averse.

The levels of investment in international operations by the *Risk-averse Internationalisers* is relatively low, albeit higher than that of the *Adaptors*, *Disinterested* and *Reluctant Internationalisers*. They do, however, put relatively higher levels of investment into building relationships with overseas customers with, as observed earlier, frequent overseas visits. In terms of the objectives pursued the risk averse internationalisers place the highest level of importance on increasing profitability from overseas markets and expanding into new countries. Increasing the awareness of the firm and serving existing customers more profitably as well as increasing market share in international markets are also important objective for these exporters. Expansion into new services is seen to be less important.

7.2.3 Ambitious Internationalisers

This group of firms does not follow the usual trend of New Zealand exporters which traditionally concentrate on the Australian market. The North American market followed by China are the two markets served by the majority of the *Ambitious Internationalisers*. They, like the *Adaptors* have a strong regional focus with Asian markets being very important to them. Most of these firms have clearly gained a good understanding of these markets which is reflected in their relatively high levels of performance. China appears to be set to be the most important market for the *Ambitious Internationalisers* in the future followed by Australia, Hong Kong and North America. South Korea also appears to be set to become more important for these firms.

Ambitious Internationalisers agree most strongly of all clusters with the statement that 'our export business is a high priority for us'. In keeping with the high priority given to export

markets these firms also have a strong international orientation and believe more than any other cluster that operating internationally makes them more competitive. They also agree more strongly with the notion that higher prices can be charged in overseas markets which may help to explain their relatively higher levels of profitability from international markets. The *Ambitious Internationalisers* are the cluster least likely to subscribe to the view that New Zealand is their most important market and they definitely do not appear to be developing strategies for the home market. Although these firms appear to be truly international operators, they have some concerns about obtaining payment for services rendered overseas. This may be related to the observation that they are not targeting the traditional markets associated with New Zealand exporters, but have a significant share of their business coming from higher risk countries such as China. The *Ambitious Internationalisers*, in keeping with their name, appear to be the most persistent of all the clusters in pursuing international success. Three quarters of these firms to visit their overseas customers at least once a year with nearly half of them doing so on a quarterly basis. All of these exporters visit all of their overseas customers at some stage in their relationship. Market research is, again, not a major strength of these firms with three quarters of them conducting research at best on an ad hoc basis.

The *Ambitious Internationalisers* have some of the highest levels of investment in international operations across the six clusters. They invest the most in human resources, relationship building and market research. These companies are already largely successful in overseas markets, but they appear to want to become more successful. These exporters are the most ambitious of all of the clusters in wanting to expand into new overseas markets. They also want to increase their profitability levels, which in some cases are already relatively high. They are also keen to increase the level of awareness of their companies overseas and have expansion into new services as a relatively important objective.

7.2.4 Adaptors

As noted earlier the *Adaptors* focus on a relatively small number of countries which are not necessarily similar to New Zealand. They appear to have a strong regional focus with their major markets, after Australia being North America and Asia. In the next five years there does appear to be potential change in the importance attached to the overseas these exporters are likely to target with North America and the South Pacific assuming greater importance and

Australia becoming slightly less important. The UK is also featured as a market that is likely to be of some importance to the *Adaptors* in the future.

New Zealand is an important market for these exporters, although not as important as for the *Disinterested* and *Reluctant Internationalisers*. Nevertheless their export business is of above average importance to these firms and they understand the importance of persistence in being successful in international markets. Market research is undertaken typically by these firms only on an ad hoc basis and only one fifth of these firms visit their customers at least once a year. Of particular note is that 40% of *Adaptors* never visit their overseas customers. In spite of this they claim to place their highest levels of investment in building relationships with overseas clients. They must, therefore, be using means other than personal visits to develop their client relationships. Their main international objectives appear to be to increase awareness of their company overseas, to serve existing customers more profitably and to increase profitability overseas. Expansion into new overseas markets is a reasonably important objective, but introducing new services is not.

7.2.5 Disinterested Internationalisers

The *Disinterested Internationalisers* serve less than four overseas markets with their main focus being on Australia and North America. They are typically small firms who, as the discussion on international marketing strategies earlier suggested, have little or no real interest in serving international markets. This is further borne out by the low levels of importance attached to overseas market in the next five years. The only market in which these *Disinterested Internationalisers* appear to have any interest is North America. The level of interest in continuing to serve Australia is not even high.

The level of disinterest which these firms appear to have is further reinforced when their perspectives on international business are considered. New Zealand is clearly the most important market for these firms and any overseas business is incidental to them. They have a weak international orientation and their export business is not a high priority for them. In keeping with their strong domestic orientation they develop strategies primarily for the home market. This appears to be because they do not believe that export markets are more profitable for them than the New Zealand market. These firms were observed earlier to adopt a largely standardised approach to overseas markets which means that they do not understand the

benefits of differential pricing in overseas markets based on what the customer can afford - so if these firms are charging the same price as in the New Zealand market they are indeed selling their services at a very low price to their overseas customers.

Disinterested Internationalisers do not think that obtaining payment for services rendered overseas is difficult, probably because they are doing so little business that they are not aware of any difficulties. These firms do, however, seem to be realistic as they do not think that operating overseas makes them more competitive. In keeping with their cluster name, virtually all of these firms never conduct any market research into their international markets and virtually never visit their overseas customers.

The level of investment in international operations by the *Disinterested Internationalisers* further reinforces the lack of interest they appear to take in overseas markets. No investment is being made in any area which might help them to improve their international performance in the future. This again brings into question their commitment to international markets. Given that the *Disinterested Internationalisers* have such a low level of commitment to overseas markets and given their dismal performance it has to be questioned why they are even bothering trying to offer their services internationally. Their international objectives show almost no ambition for international operations at all. There is a slight interest in increasing the awareness of their company in overseas markets, but with little or no investment it is difficult to see how this can be achieved. These firms have no real desire to expand overseas or to try to increase their current level of international activity.

7.2.6 Reluctant Internationalisers

Firms in this cluster are also not natural exporters and typically serve less than four markets. Their main focus is on Australia and the markets of the South Pacific, especially Fiji and Samoa. These firms appear to be concentrating on markets which are geographically close to New Zealand perhaps as a way to minimise any risk from international business. The picture for the next five years looks unlikely to change with the only market which interests these firms being Australia. It should be noted however that the potential importance of the Australian market to these *Reluctant Internationalisers* is relatively high so perhaps there may be a higher level of commitment to this market in the future.

The New Zealand market is the most important market to this cluster and they are also the group most likely to develop strategies primarily for the home market. They are the cluster which subscribes the most to the idea that New Zealand's geographic location is a major disadvantage when selling services overseas. This attitude probably explains why these firms concentrate their limited international efforts almost exclusively on markets which are closest to home i.e. Australia and the South Pacific. *Reluctant Internationalisers* find it the hardest of all clusters to maintain relationships with overseas customers and also appear to have the greatest difficulties obtaining payments for services rendered overseas. They have the weakest international orientation of all the clusters (even the *Disinterested Internationalisers*), and do not consider their export business to be a high priority. The low level of commitment that the *Reluctant Internationalisers* display towards their international operations is further in evidence when it is noted that 80% of them never visit their overseas customers. Furthermore, over half of them never undertake any market research.

The level of investment by the *Reluctant Internationalisers* is low, albeit not quite as low as that of the *Disinterested Internationalisers*. The low level of investment appear to be commensurate with their lack of real clear objectives for international markets. With the exception of wanting to serve existing customers more profitably there is no evidence of any desire to grow the international operations of these firms. It is encouraging that the *Reluctant Internationalisers* want to serve their existing customers more profitably, but some level of investment is necessary in order for this to be achievable.

In the case of the *Disinterested* and the *Reluctant Internationalisers* it could be the case that they serve overseas customers in order to enhance their reputation in their home market. This is a phenomenon observed by other researchers who note that some firms continue to undertake assignments overseas 'even if not especially profitable, because it enhances their reputation among domestic clients' (O'Farrell et al, 1998: 31).

7.3 International competitiveness of the six clusters

Comparing the international competitiveness of the six clusters it can be seen that the *Committed Internationalisers* have the highest level of innovation, cost/quality and *international capabilities competitiveness* of all the clusters (Table 22). Meanwhile, the *Disinterested Internationalisers* have the lowest levels of *international competitiveness* across

the board. It is encouraging to note that the *Risk-averse Internationalisers* perceive themselves to be as competitive in cost/quality terms as the *Committed* and *Ambitious Internationalisers*. The *Adaptors*, however, seem to be less cost/quality competitive. This may be because they are undertaking a higher level of adaptation of their service, price and promotion than other clusters. This level of adaptation is likely to have an impact on a company's profitability. These firms, therefore, need to consider whether the extent to which they adapt their marketing mix is appropriate and if can they afford to charge higher prices in order to cover the costs of adaptation. There are opportunities for these firms to become more profitable in overseas markets. In overall terms it can be seen that the level of competitiveness has a direct link with the performance of the different groups of exporters, their objectives for overseas markets and the level of commitment they display towards their international markets.

7.4 Impact of demographic factors on the clusters

No significant differences were observed across the six clusters as far as service sector is concerned. This means that it is possible for a New Zealand firm in any industry to be successful in international markets. The characteristics of the service provided in international markets also showed no significant differences across the six clusters which means that whether a firm offers a people or a technology intensive service does not influence their ability to be successful. The degree of tangibility of the service also does not impact on performance in international markets. Although there was no significant difference across the clusters according to firm size, Table 18 shows that it is not necessarily the bigger firms which are in the more successful clusters. Size, therefore, is also not a factor which is likely to determine the international success of New Zealand service providers. Ownership does, however, have an impact on cluster membership. Although the numbers of non New Zealand owned firms is low, there are more foreign-owned firms in cluster 3 - the *Committed Internationalisers* - than in any other cluster. This is also the best performing of the six clusters.

8.0 IMPLICATIONS

There are a number of managerial implications emerging from this study. There is no single recipe for success in international markets. This research has, however, shown very clearly that firm size and service sector are not barriers to international success. The main barriers to success are a lack of commitment to and low levels of investment in international business.

In order to be successful in international markets managers of New Zealand service firms need to develop a clearly defined strategy for each overseas market targeted. They need to demonstrate a high level of commitment to their international business by investing both time and money to grow their export business. The levels of financial investment do not necessarily have to be high in absolute terms, but need to be targeted in order to get the maximum returns. Visiting customers overseas is also important - new technologies such as the Internet are not substitutes for personal visits, but can be beneficial for maintaining established relationships.

This study has identified six different groups of New Zealand services exporters and the managerial implications for each are also considered:

Committed and Ambitious Internationalisers need to maintain their high level of commitment to their export markets and continue to invest in their key overseas markets. They should consolidate their success in existing markets, before expanding into new overseas markets. These firms should serve as a good example of international success to other current and potential exporters and their importance to the New Zealand economy should be recognised.

The *Risk-averse Internationalisers* have shown that they can be successful in the international markets they serve. They have a good level of commitment to their overseas customers and should be encouraged to expand their operations into more markets which might help them improve their profitability. They need to set the specific aim of generating higher levels of turnover and profits from overseas markets and be prepared to take a little more risk in order to achieve higher returns in the future. Being less conservative and more ambitious in terms of the countries targeted might help *Risk-averse Internationalisers* to become more successful.

The *Adaptors* need to consider the extent to which they adapt their service to meet overseas customer needs and the relationship between cost, adaptation and profitability. They need to develop a clearer international strategy and make a stronger commitment to their overseas markets. Whilst New Zealand can remain an important market to these firms, a balance of the importance between the home and overseas markets needs to be achieved.

Disinterested Internationalisers really do need to examine their international operations very closely. If they are not willing to make any investment in international markets and make a commitment to their overseas customers, then they should question whether or not they continue to offer their services overseas.

Reluctant Internationalisers need to develop clearly defined strategies for their overseas markets. Adopting a focused approach concentrating initially on the Australian market might give these firms the impetus they need to continue to offer their services overseas. If they can make a strong commitment to one key market, in the first instance, and invest a reasonable amount in developing that market they could show higher levels of performance. Once a degree of success is achieved in one market then more countries can be targeted on a focused basis.

10.0 CONCLUSIONS

This study has shown that just under 40% of New Zealand service providers operating internationally are successful. Successful services exporters are found to have significantly higher levels of commitment to their overseas markets. This is demonstrated by their higher levels of investment in all aspects of their international business. Top performing international service providers have made a clear decision to internationalise and have put a deliberate strategy in place to achieve this. New Zealand is not their dominant market as they recognise the opportunities that overseas markets offer them. Successful companies perceive fewer barriers to doing business overseas and have a strong international orientation with a desire to continue growing their overseas business.

Less successful New Zealand services exporters by comparison have almost no commitment to their overseas customers. New Zealand is their most important market and they consider international markets to be just incidental to their business. The levels of invest they make

internationally are significantly lower than that of successful *international* service providers and in many cases there appears to be little or no real interest in developing their *international* operations further.

This study has shown that it is possible for companies of all sizes and in all service sectors to be successful in international markets. Small companies can be just as successful overseas as larger ones.

A cluster analysis identified six distinct groups of services internationalisers each with their own characteristics and levels of success. Two groups - the *Committed* and *Ambitious Internationalisers* - outperformed the other clusters. These companies stood out from the rest on the basis of their level of commitment to overseas markets and the level of ongoing investment they were committing to their international operations. These companies look set to remain internationally competitive in the future and should be encouraged to further expand their international operations. The *Disinterested Internationalisers* are a particularly worrying group of New Zealand service providers as there appears to be no interest at all in maintaining and developing their overseas business. It would appear that it would be best for these firms to concentrate solely on the New Zealand market where they do appear to have some leverage. The *Reluctant Internationalisers* are also of concern as their level of commitment is also low and their motives for internationalisation unclear. If these companies could be persuaded of the benefits of operating in international markets they may show a higher level of commitment and be able to grow their international business on a country by country basis. Meanwhile, *Risk-averse Internationalisers* need to build on what they have already achieved and be prepared to take a bolder approach to their international markets. *Adaptors* by comparison need to examine carefully the trade-off between adapting their services and the costs associated with serving overseas markets. They also need to place more emphasis on building better customer relationships.

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