



EMERGING TRADE TRENDS

Professional Services Going Global.

Snapshot

- Selling their professional services abroad is a key way for Canadian firms to grow their global footprint. Important growth areas in recent years have been research and development services, computer services, and architectural and engineering services.
- Selling services is all about people. Therefore, to tap into these global opportunities, firms need a local presence in foreign markets, either by setting up foreign offices or finding affiliates or local partners. They also need to be constantly looking for new talent with the skills and expertise to unlock new markets.
- The Canada-European Union Comprehensive Economic and Trade Agreement (CETA) could be a boon for Canadian professional services firms, with Canada now having a key advantage over other G20 countries—a privileged access to the EU government procurement sector, worth \$3.3 trillion.

Background

When thinking of international opportunities for Canadian businesses, attention is often directed toward goods trade, especially with the renegotiation of the North American Free Trade Agreement (NAFTA) being highly focused on traditional sectors, such as the automobile sector. However, international opportunities for Canadian firms increasingly lay in the services sector, particularly in **professional services**, which include advertising, architectural, engineering, computer and information, research and development, legal, accounting, and other technical services.

Between 2012 and 2015, global trade in professional services rose by almost 50 per cent, with research and development services being the fastest-growing segment. (See Chart 1.) Not surprisingly, the largest markets for professional services are the United States and Europe. Together, these account for over 70 per cent of trade in professional services worldwide.¹

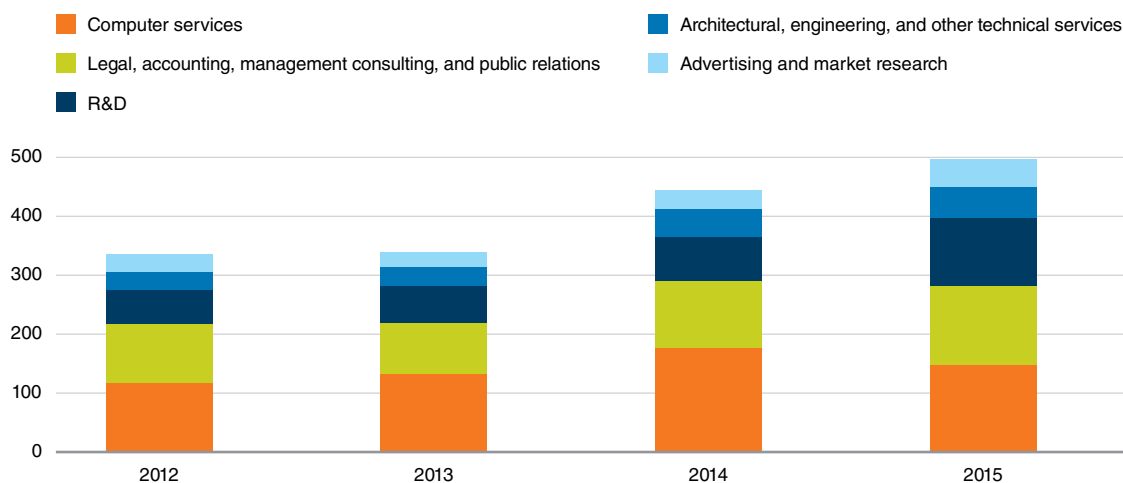
The way professional services are delivered internationally is different to traditional goods exports, as they require a lot of interaction among people. For this reason, the standard export channel alone is not sufficient for Canadian firms to tap into these global opportunities. To serve their international clients, Canadian professional services firms have been highly active in setting up foreign offices—a pathway to global markets that can complement the standard exporting channel.

As such, there has been a boom in **foreign direct investment** by Canadian professional services firms in the U.S. and Europe in recent years. (See Chart 2.) Thanks to these investments, the sales of **foreign affiliates** of Canadian professional services firms have more than tripled since 2011, from \$13.5 to nearly \$50 billion today. These firms also employ over 100,000 workers worldwide. With the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the recently signed Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), new opportunities will open to Canadian professional services firms.

Chart 1

Global Trade in Professional Services Up Almost 50 Per Cent Since 2012

(global imports of professional services, US\$ billions)



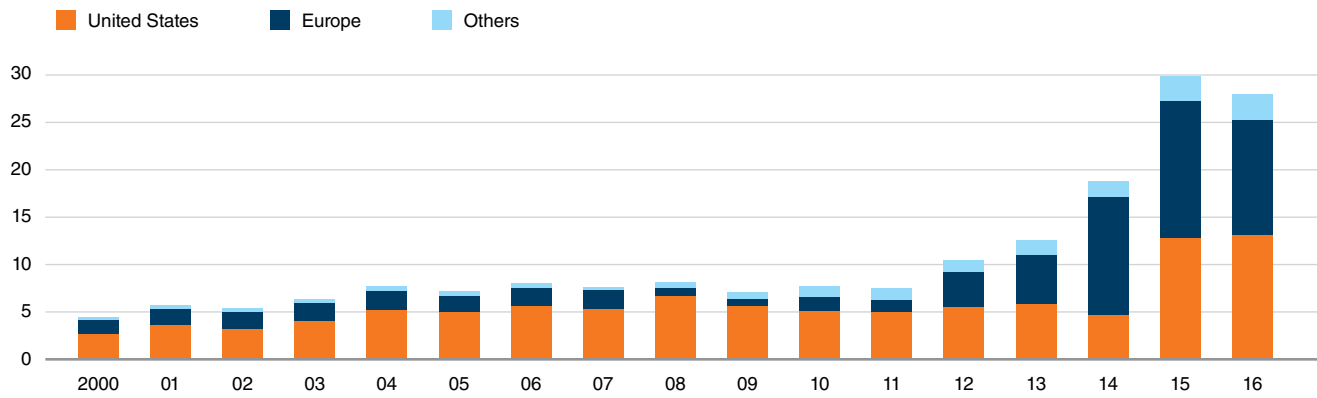
Sources: The Conference Board of Canada; UN Comtrade.

¹ Based on services trade data from UN Comtrade, <https://comtrade.un.org>.

Chart 2

Professional Services Firms Tapping Into Global Opportunities Through Foreign Direct Investment

(Canadian direct investment abroad, book value, \$ billions)



Sources: The Conference Board of Canada; Statistics Canada.

Challenges and Opportunities

The United States accounts for two-thirds of Canada’s professional services exports and close to half of international investment by Canadian professional services firms. However, given the protectionist values of the current Administration, it will be difficult to secure greater access to the U.S. market for professional services in the short term. Therefore, professional services firms should look for new opportunities abroad, including in the EU’s huge government procurement sector to which Canadian firms now have access under CETA.

Challenge: Cross-Border Mobility of Services Professionals Between Canada and the U.S.

Further liberalization in services trade in North America has not been a top priority of the NAFTA renegotiation. This is unfortunate, as this is precisely where further gains from trade between the three nations are possible. In particular, the list of professionals covered by NAFTA has not been updated in over two decades; over time, this has become a barrier to trade in professional services. The current list of professionals covered by NAFTA excludes a wide range of occupations that have emerged since the agreement was first negotiated, especially in the IT sector, such as software developers, data scientists, analysts, and project managers.

The Conference Board of Canada recommends that the list of professionals covered by NAFTA be reviewed to include new occupations and allow some flexibility for future occupations that may not yet exist.² However, the slow progress so far in the renegotiation does not bode well for advances to be made in the services sector. It is unlikely the list of services professionals covered by NAFTA will be updated in the short term, and this will continue to present issues for Canadian professional services firms doing business south of the border. One way to help Canadian firms overcome the cross-border mobility barriers is to set up offices in the U.S. to serve customers or to partner with local firms.

Opportunities

Tap Into the EU's Government Procurement Market. Europe is by far the largest importer of professional services, accounting for almost half of global trade in these services.³ With the signing of CETA, Canadian firms now have one key advantage over their G20 competitors: a privileged access to the EU government procurement market, worth \$3.3 trillion.⁴ As such, Canadian companies now get almost the same access that other EU member states grant each other, with coverage spanning all EU government levels:

- 3 institutions (European Commission, Council of the EU, European External Action Service);
- all 28 member state governments;
- all sub-central government bodies (local government, hospitals, etc.);
- a wide range of utilities, including water, electricity, and gas.

To help Canadian firms navigate these wide-ranging opportunities, Global Affairs developed a procurement guide for Canadian businesses.⁵ The guide includes step-by-step instructions on how to use TED, the EU's centralized platform for government procurement.

Feeling Adventurous? Consider Doing Business in Developing and Emerging Economies.

The international activities of Canadian professional services firms are heavily concentrated in the U.S. and Europe. However, the need for professional expertise—engineering services to support infrastructure projects, project management services, capacity building and training, gender expertise, or consulting services to national governments about best practices in terms of governance, environmental protection, and so on—is greatest in developing and emerging economies.

Canadian firms have a wealth of knowledge in these areas that could contribute to the economic development of nations in Asia, South America, and Africa. One way Canadian professional services can tap into these opportunities is by bidding on projects financed by multilateral development banks, such as the World Bank⁶ or the African Development Bank,⁷ or by partnering with other firms—Canadian or foreign—that have existing operations in these countries.

2 The Conference Board of Canada, *NAFTA 2.0 and Canada: Upgrading a 20th-Century Deal for a 21st-Century World* (Ottawa: The Conference Board of Canada, 2017).

3 Based on data from UN Comtrade, <https://comtrade.un.org>.

4 CETA, "Agreement Overview," accessed February 5, 2018, www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/overview-apercu.aspx?lang=eng.

5 Global Affairs, European Union Government Procurement Guide for Canadian Businesses, accessed February 6, 2018, www.international.gc.ca/gac-amc/assets/pdfs/publications/European-Union-Government-Procurement-Guide-ENG.pdf.

6 The World Bank, "Projects & Operations," accessed February 6, 2018, <http://projects.worldbank.org/>.

7 African Development Bank Group, "Invitation for Bids," accessed February 6, 2018, <https://www.afdb.org/en/projects-and-operations/procurement/resources-for-businesses/invitation-for-bids/>.

Navigating the Trend

To successfully tap into global opportunities in professional services, Canadian companies need an in-depth understanding of their market and a strong international network. These core strengths will help them prioritize which foreign markets to pursue, select the best approach to serve their international customers, and adapt their product offering to local needs.⁸ In particular, firms should:

Build a Local Presence to Serve International Markets

- The distance to customers is the highest obstacle to selling abroad for Canadian professional services firms, followed by meeting customers' costs and quality requirements.⁹ It is, therefore, no surprise that establishing a local presence in foreign markets is crucial for Canadian professional services firms to successfully expand internationally.¹⁰ In fact, this core impetus is likely a driving factor behind the surge in investment abroad by Canadian professional services firms in recent years.
- Smaller firms may not have the means to open foreign offices and affiliates. However, market intelligence and key contacts on the ground can also be gained through regular travel to foreign markets and by hiring local staff, representatives, and consultants. Also, with over 70 per cent of the demand for high-value services in the U.S. and Europe coming from other businesses, smaller firms can tap into international opportunities and build their local knowledge by doing business with multinationals and leveraging their global supply chains.

Tap Into the Global Talent Pool

- The ability of professional services firms to compete internationally rests on their talent base. And, competition for talent is now global. Thanks to digital tools, it is easier than ever for firms to connect with experts and consultants from around the world and build highly competitive teams to tackle complex projects. As one of the business executives interviewed for this series put it, "The quicker you can spin a team up and down and improve the collaborative process, the more competitive you are."
- Canadian professional services firms should be constantly on the look-out for new talent with in-depth expertise, notably by attending industry conferences and trade shows. In turn, an international network of external consultants can open doors to new markets and expand a firm's core capabilities and chances of successfully competing on international projects.

8 Kristelle Audet, *Selling to the World: The Keys to International Business Success* (Ottawa: The Conference Board of Canada, 2015), <http://cmbinsight.hsbc.com/LP=352?src=pws&medium=DI&campaign=cfg>.

9 Statistics Canada, CANSIM table 358-0225, Survey of Innovation and Business Strategy, Obstacles to Exporting Goods or Providing Services Outside Canada, by North American Industry Classification System (NAICS), Enterprise Size and Degree of Importance, accessed February 6, 2018, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=2710012401>.

10 Based on interviews with carefully selected globally successful Canadian professional services and computer software firms. Kristelle Audet, *Selling to the World: The Keys to International Business Success*, (Ottawa: The Conference Board of Canada, 2015), accessed February 6, 2018 <http://cmbinsight.hsbc.com/LP=352?src=pws&medium=DI&campaign=cfg>.

Canadian Exporter Experience

Company Name: Speakers' Spotlight

Location: Toronto, Ontario, and Calgary, Alberta

Website: speakers.ca

Service: Speaker provider

Year Established / Started Exporting: 1995 / 1998

Employees: 30

Total Revenues: \$25–\$30 million

Export Share of Sales: 25%

Export Markets: U.S., Europe, Latin America, South America, Australia, New Zealand, Asia

Description

Speakers' Spotlight is one of the largest speaker agencies in the world, representing popular speakers like Canadian astronaut Chris Hadfield. It has booked more than 20,000 speaking events in over 30 countries from its roster of speakers—half Canadian and half from the U.S. and Europe—who are experts in a wide range of topics, from business and politics to sports and entertainment.

Competitive Advantage

The company's access to speakers in high demand worldwide is its key differentiator. Moreover, international demand has been driven by specific speakers such as Chris Hadfield, who have helped the company open up new markets. In addition to offering exclusive speakers, Speakers' Spotlight differentiates itself through its exceptional service. "Being responsive and proactive is in our corporate DNA," says **Martin Perelmuter**, President. "The team we have in place after 22 years is by far the most experienced in the industry in Canada. We're not selling a widget; it takes experience, knowledge, and passion to help clients find the right match."

Navigating the Challenges Associated With a Trade in Services

Cross-border requirements for speakers

"It's not easy to manage various border issues, such as visas and transfer taxes," explains Perelmuter. Speakers' Spotlight consults with an immigration lawyer to pre-plan and tackle challenges related to the flow of speakers across borders.

Language and cultural differences

With information gleaned from web searches, Speakers' Spotlight provides speakers with insights related to cultural issues to help them adapt accordingly. "This kind of planning and preparation avoids potential pitfalls," says Perelmuter. "For example, a military person speaking on leadership could turn off audiences in some countries; and references to hockey in presentations do not necessarily resonate with many multicultural groups."

Future Growth Plan

In five years, international sales have jumped from 10 per cent of total sales to close to 25 per cent, and Speakers' Spotlight is aiming for continued growth, particularly in the U.S., South America, and Europe. "We love getting Canadian speakers in front of international audiences," notes Perelmuter. Speakers' Spotlight is now striving for 50 per cent of its business outside of Canada. "We want to create more of a presence in the U.S., since our growth up to this point has been organic. We also have to look at places like India because it is such a huge English-speaking market."

Export Tips

1. Develop cultural awareness. "As Canadians, we are uniquely suited for international work because we are so multicultural," says Perelmuter.
2. Attend industry conferences and trade shows. This is a key way to become more culturally savvy and to build relationships with valuable global contacts.
3. Seek out international partners. "Some agencies have exclusive rights to speakers, so one of our strategies is co-brokering with agencies like ours around the world, and this helps us extend our reach," says Perelmuter.

Acknowledgements

This research series is funded by HSBC Bank Canada, and is researched and written by The Conference Board of Canada.

Insights. Understanding. Impact.



The Conference Board
of Canada

255 Smyth Road, Ottawa ON

K1H 8M7 Canada

Tel. 613-526-3280

Fax 613-526-4857

Inquiries 1-866-711-2262

conferenceboard.ca

