

**GAINING COMPETITIVE ADVANTAGE IN EDUCATION SERVICES
EXPORTS: FORWARD INTEGRATION AND STRATEGIC ALLIANCES IN
A MATURING MARKET**

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Soutar, G. and Mazzarol, T. (1995) "Gaining Competitive Advantage in Education Services Exports: Forward Integration and Strategic Alliances in a Maturing Market", in G. Tower (ed), *Asia Pacific International Business: Regional Integration and Global Competitiveness*, Proceedings of the Academy of International Business Southeast Asia Regional Conference, June 20-23, 1995, Perth: 87-92. ISBN 0-646-24479-5.

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Abstract

The international education service industry is now one of Australia's largest export industries generating \$1.4 billion in overseas income in 1993. Despite this progress the world market for international education is becoming increasingly competitive and evidence exists to suggest that the industry may have reached a period of maturity. Under these circumstances institutions will need to adopt differentiation strategies in order seek a competitive advantage. This paper examines the use of forward integration strategies and strategic alliances by educational service providers to gain competitive advantage in international markets. It draws upon research currently being undertaken as part of a PhD program into the sustainable competitive advantage for education exporters.

The International Education Market

In 1990 there were slightly in excess of 1.2 million international students studying outside their countries of origin in post-secondary education (Unesco, 1992). Almost half these students (48%) were from Asia (including the Middle East), with Europeans (22.2%) and Africans (18.2%) making up the second and third largest groups (Zikopolous, 1994:2). The majority of these students (90%) were studying in one of 50 leading host countries of whom five: (the United States, France, Germany, the United Kingdom and Canada) absorbed around 63 per cent of the total (Unesco, 1992:390-415).

Table 1 details the top ten source countries for the five leading host nations. It can be seen that France is host to a large number of North African students, while Germany is favoured by students from Turkey and Iran. Asian students have a preference for the United States as well as the UK and Canada.

Table 1: Top ten source countries of five leading host countries

United States		France		Germany		United Kingdom		Canada	
1. China	45,130	1. Morocco	24,036	1. Turkey	11,654	1. Malaysia	7,768	1. HK	9,206
2. Japan	42,840	2. Algeria	16,311	2. Iran	9,958	2. HK	7,527	2. Philippine	4,651
3. Taiwan	37,430	3. Tunisia	6,753	3. Greece	6,190	3. Germany	6,021	3. China	4,119
4. India	35,950	4. Germany	5,682	4. Austria	4,963	4. France	5,963	4. USA	3,682
5. Korea	28,520	5. Lebanon	5,187	5. USA	4,123	5. Greece	5,359	5. Japan	2,787
6. Canada	20,970	6. Cameroon	5,027	6. Korea	3,863	6. USA	5,092	6. France	2,005
7. HK	14,020	7. USA	3,482	7. China	3,275	7. Ireland	3,834	7. Malaysia	1,836
8. Malaysia	12,660	8. Madgsr	2,927	8. France	3,273	8. Singapore	2,851	8. Sri Lanka	1,785
9. Indonesia	10,920	9. Iran	2,831	9. Italy	3,843	9. Spain	2,760	9. UK	1,734
10. Thailand	8,630	10. Syria	2,825	10. Yugoslv	2,816	10. Japan	2,237	10. Taiwan	1,322
Total	438,620	Total	136,015	Total	91,712	Total	92,135	Total	59,107

(Source: Zikoplous, 1994:7)

Although historical, cultural and language patterns have traditionally determined the study destinations of international students, many appear to select supplier countries on the basis of reputation and perceived quality. During 1990, for example, Malaysian students preferences for overseas study were divided: 39 per cent to the United States; 22 per cent to the United Kingdom and 22 per cent to Australia (Zikopolous, 1994:6). In the same period, 78 per cent of Indian students chose the United States, while only 3 per cent studied in the UK (Zikopolous, 1994:5).

In 1993 International education generated an estimated \$1.4 billion in foreign revenues for the Australian economy, placing it just after Wheat as an export industry (Crean, 1994). During that year Australia was host to 63,013 international students, of whom 86 per cent came from Asia, particularly Hong Kong and Malaysia (DEET, 1994). Australia's international education industry has grown strongly during the past two decades. From 1970 to 1980 the average annual growth rate was 2.3 per cent, which increased to 10.7 per cent during the period 1980 to 1987 (Kemp, 1990:3). Between 1987 and 1993 this growth rate has averaged 33 per cent per annum, although it has slowed in the past three years (DEET, 1994).

An examination of Unesco statistics over the past four decades suggests a slowing down of international student flows (Kemp, 1990). While the number of international students entering the world market doubled each decade from 1950 to 1980, this declined to a 6.9 per cent growth

between 1970-1980, and a mere 0.3 per cent growth during the 1980-1987 period. (Kemp, 1990; Unesco, 1992).

The slowing down in student flows is explained in part by the introduction of differential fees within a number of supplier countries. In the United Kingdom, for example, the introduction of “full-cost” tuition fees for international students in 1980, saw the number of foreign students fall from its peak of 90,000 in 1978 (Williams, 1987), to 55,000 by 1984 (Kinnell, 1989). Enrolments in Canada also declined during the 1980’s following the introduction of fees by most Provincial governments (Woodhall, 1987). However, this does not fully explain the decline, as the growth rates in international student enrolments in France, Australia, and Japan during the 1980’s were significant (Zikopolous, 1994; Unesco, 1992).

It will require a further monitoring of international student flow statistics over the 1990’s before the decline in numbers can be confirmed. If the decline is permanent it suggests the world international education industry has entered a period of maturity in its life cycle. Under these circumstances it will be important for education service providers and supplier countries to adapt their marketing strategies. In a general sense this requires a degree of differentiation of service offerings, in conjunction with enhanced market segmentation.

Marketing International Education for Competitive Advantage

The possible maturing of the international education market increases the need for Australia to take steps to protect its education services industry and seek ways to enhance its competitiveness. In seeking to develop effective marketing strategies for education services it is important to understand the unique characteristics of services which distinguish them from tangible goods. In a comprehensive examination of the services marketing literature, Zeithaml, Parasuraman and Berry (1985), identified the four primary characteristics of services:

- *intangibility* - services cannot be examined prior to purchase;
- *inseparability of production and consumption* - due to their intangibility services are generally produced and consumed simultaneously;
- *heterogeneity* - it is often more difficult to control the quality of services which also vary considerably from producer to producer, and;
- *perishability* - unlike tangibles services are difficult to store leading to problems of matching supply with demand.

Each of these unique characteristics influences the strategic decisions an education institution might adopt in seeking to successfully market its services internationally. Education is one of the most intangible of all services (Shostack, 1977). This high intangibility increases the difficulty prospective students have in evaluating the quality and value of the education service prior to purchase. Professional services have a greater perceived risk when consumers make a purchase than do generic services (Hill & Neeley, 1988). This is particularly relevant to international education, where a student is outlaying not only large sums of money and years of time, but is also expecting to receive a return on this investment in the form of improved employment prospects and higher income after graduation.

In a study of senior managers of service enterprises, Aaker (1989) found that “*reputation for quality*” and “*name recognition/high profile*” ranked as the most significant sources of competitive advantage. Many education institutions seeking to market themselves internationally would agree about the importance of possessing both a reputation for quality and a high market profile

(Mazzarol, 1994). Unless an institution already possesses these attributes it will experience some difficulty in developing strategies to achieve them. Traditional sources of promotion which enhance name recognition or profile, may reduce the image of quality. A recently conducted survey of prospective students found that most viewed institutions which advertised as being of poor quality because they were “desperate for students” (AGB Australia, 1992).

For many professional services (education, law, medicine), heavy promotion through main stream media is considered undesirable and, possibly, counter productive. The higher the level of intangibility, the higher the level of perceived risk of a poor purchase decision, and the greater the reliance by the customer on word of mouth referrals (Hill & Neeley, 1988). In seeking to promote professional services, such as education, it is important to *‘increase the available external information’* and *‘increase the consumer’s control of the decision process’* (Hill & Neeley, 1988). This requires a more subtle approach than is possible with the conventional forms of promotion. Improving the level of information flowing to prospective international students, while avoiding the manipulative aspects of advertising or selling, is a challenge for the international promotion of education.

Of all promotional tools, student word of mouth referrals are considered the most important by most education service providers (Mazzarol, 1994). A strong link also exists between students’ perceptions of the quality of the institution and their willingness to provide referrals (Allen & Davis, 1991). This suggests that effort should be put into post-recruitment retention programs, Alumni organisations and promotional material using student testimonials (Danko, 1986). Unfortunately, while the value of Alumni organisations as a recruitment tool is recognised (Blake, 1991), the level of funding and effort put into Alumni remains low among many Australian institutions (Mazzarol, 1994).

Erramilli (1990) identifies two broad types of service enterprise - '*hard*' and '*soft*'. The former have the ability to separate the production and consumption of their service, while the latter cannot. Some '*hard*' services may be exported directly. For example, architectural designs can be prepared in one country and sent to another. By contrast, '*soft*' services of which education is one, cannot be easily separated in terms of production and consumption and cannot be directly exported. These services require the customer to move to the service provider or the latter to move to the customer.

The traditional approach to the "export" of education is for the student to come to the supplier country and complete their courses. This movement of the customer to the supplier overcomes the problems associated with the inseparability of production and consumption. It also assists in alleviating some of the problems caused by heterogeneity by ensuring that students attend the same institution and receive a similar learning experience. Despite these positive aspects of bringing the student to the learning institution, the problems of over capacity and accessibility remain unresolved.

In order to make their services more accessible, overcome capacity problems and gain a competitive advantage, many education institutions have established offshore teaching programs through strategic alliances. Known commonly in Australia as "*twinning*", this process involves the formation of an alliance with an overseas institution that serves as a distribution channel for the primary service provider. International students undertake the Australian qualification in their own country frequently completing the last year abroad. In 1993 there were approximately fourteen Australian universities with "*twinning*" arrangements (Griggs, 1993).

As a marketing tool, *twinning* offers many advantages. It provides greater accessibility to the education service, secures a regular supply of prospective students from the sister institution, and frequently lowers the overall cost of the education to the student (Smart, 1988:28). However, a

major problem with offering courses through such strategic alliances is the maintenance of the quality of the service. Locally hired teaching staff must possess the same qualifications and skills as the Australian academics, and course content and teaching materials should be of equivalent standard (Nicholls, 1987), which can be difficult to assure.

The formation of strategic alliances and forward integration into the export channel by the establishment of offshore teaching programs may be viewed as potential sources of competitive advantage. This view is supported by other services marketing research, which highlights the critical importance of location of service delivery outlets (Allen, 1988), and being able to make services more accessible by the '*preemption*' of strategic locations (Bharadwaj, Varadarajan & Fahy, 1993). Within international markets, spatial preemption is associated with foreign market entry strategies, and, in turn, the channel structure adopted.

The difficulties associated with maintaining service quality, due to the heterogeneity of services, make exporting services a more complex issue than exporting goods. Due to the high degree of producer/consumer interaction in services such as education, there is a strong desire for direct control and presence by the producer during the early phases of export development (Vanermerwe & Chadwick, 1989). Many service exporters prefer to retain control over the export channel until their experience within the overseas market increases (Erramilli, 1991). This has involved sending Australian academic staff overseas to teach on offshore programs, ensuring greater control over the operation.

Forward Integration and Strategic Alliance Activity Among Education Exporters

In a recent survey undertaken by the authors a questionnaire was mailed to 878 education institutions listed on the Commonwealth Register of International Courses for Overseas Students (CRICOS). This included universities, TAFE colleges, private business colleges, secondary schools

and a range of other international education service providers. A further survey was mailed to an additional 377 institutions in Canada, New Zealand, the United States, and Britain. At this stage a total of 258 Australian and 56 overseas institutions have responded, giving a response rate of 29 and 15 per cent respectively. Table 2 details the nature of the sample.

Table 2: Sample by Institution type and origin

Institution type	Australia	Overseas
Universities/University Colleges	21	45
TAFE Colleges/Polytechnics	13	6
Private Business Colleges	15	1
Private Schools	149	3
Government Schools	10	
ELICOS Centres	24	1
Air Training Schools	9	
Other (eg. Bible Colleges etc)	17	
Total	258	56

The survey was targeted at the international student officers, or those engaged regularly in international student recruitment. Just over half (52%) of respondents listed their function as administration, and 34 per cent as marketing. The remainder were either finance/accounting, academic or other staff. Most of these respondents (76%) reported being frequently involved in strategic planning decisions about their institution's international marketing. The majority (75%) had been involved with education for over 10 years and 16 per cent between 5 and 10 years. The average length of time they had spent in their current positions was six years.

An examination of the degree of forward integration among the sample was measured by the presence of offshore teaching programs. Table 3 details, the results showing the dominance of the university sector. As can be seen, the most common form of off shore teaching arrangement was the joint venture or *twinning* arrangement.

Table 3: Offshore Teaching Programs by Type and Organisation*

Institution Type	Type of Offshore Teaching Program				
	Solely Owned	Joint Venture	Licensed	Other	Total
University	2	20	8	2	32
TAFE/Polytechnic		4	1	1	6
Private Business College	1	1	2	1	5
Private School	1		1		2
Government School			1		1
ELICOS Centre		3			3
Air Training School				1	1
Other					
Total	4	28	13	5	50

(*Total Sample size n=314; some multiple responses counted)

Of the 56 overseas institutions fourteen (25%) had offshore programs. Just under half the overseas sample were institutions with over 10,000 students enrolled, and 28 per cent comprised institutions with more than 15,000 students. The Australian sample (which encompassed 60 per cent of universities) suggested that 17 out of 21 universities (81%) had offshore programs. Apart from the universities, five TAFE Colleges had such programs as did two private business colleges, two private schools, four ELICOS centres, and one Air Training School. Table 4 provides the comparison between Australian and Overseas universities in terms of offshore programs.

Table 4: Offshore Teaching Programs Australian and Overseas Universities

Country Type	Type of Offshore Teaching Program			
	Solely Owned	Joint Venture	Licensed	Other
Australian universities*	1	14	6	1
Overseas universities**	2	8	5	1

(* Australian institutions (n=17), **Overseas institutions (n=13); some multiple responses.)

These figures suggest a high degree of forward integration through offshore programs, especially among Australian universities. Furthermore, a predominant use of joint ventures as a means of

achieving forward integration is evidence of international strategic alliances. Coalition formation by strategic alliances has been suggested by a number of writers as a potential source of competitive advantage (Porter & Fuller, 1986; Dunning & Pearce, 1985; Ohmae, 1985), and universities seen to understand this point.

Conclusions

Despite the success Australia has enjoyed in developing its international education industry, the possible maturation of the market will necessitate a more sophisticated marketing approach in the future. The unique differences of services, particularly professional services, need to be recognised in any future marketing strategies. For those institutions which already enjoy both a high reputation for quality and high market recognition the marketing task will be easy. However, for the majority of Australian institutions, the challenge will be developing recognition and making services more accessible, while maintaining or improving reputation.

The use of strategic alliances and forward integration offer a partial solution to these issues. Alliances can enhance reputation and recognition, and forward integration will make services more accessible. The research undertaken indicates that Australian institutions are already well advanced on this process. Further research is needed to determine the experiences of these alliances and forward integration strategies and the impact they have had on market success.

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