

Attracting FDI – an Introductory Guide

The purpose of this document is to provide the economic development agency (EDA) with insight into the challenges as viewed by a company when contemplating foreign direct investment (FDI) and to highlight the pivotal aspects of the process.

Generally the EDA has a team of experts willing and able to support the potential investor with all aspects of the investment and provide a one-stop-shop.

Together with the government it will likely offer a highly competitive taxation system or access to funding to ensure that the financial aspects will be equally attractive.

It usually also coordinates with local support organisations and evaluates which sectors are to be promoted for the region as a whole. In some cases there are obvious advantages for certain industries; in other cases simply a wish to develop a cluster.

Audit – Assessment of the Status Quo

First of all, the EDA needs to determine which foreign investors are currently in the territory and how long they have been there. Simply put: how much FDI do they have already?

Once those present have been identified, the next step is to ascertain how they originally invested, be it FDI or acquisition, and which specific subsectors they represent.

Serving Existing Investors

Winning new investors is always well received and many EDAs are measured on this basis; but the effort and resources required are often considerable. Additional jobs can also be obtained by developing existing clients, especially in today's environment.

If account managers are in regular contact with their clients, they will become aware of further activities the subsidiary could perform. In addition to manufacturing one could consider R&D, logistics and assorted back-office functions.

Which additional functions could the foreign subsidiaries undertake?

It is not just about expansion projects: companies downsizing or closing their operations completely could have disastrous consequences for the local economy and employment. Just because the local management speaks highly of the local venture does not mean that the foreign HQ shares the same opinion. Differing messages may be obtained from separate offices of the same concern.

Being close to the management teams in both the headquarters and the subsidiary and appreciating differences are essential for maintaining and developing existing investors. Deficits may be addressed, new opportunities found and – perish the thought – existing jobs safeguarded.

How effective is EDA account management with foreign subsidiaries and existing investors?

Attracting New Investments

Awareness of opportunities for existing investors will also aid in attracting new investors. Complementary industries spring to mind, leading universities may be targeted to become a hub for knowledge transfer into companies, clusters may be developed, government schemes may be implemented to strengthen regions.

What is the overall assessment for increasing and maintaining FDI?

Proposition

EDAs believe their locations to be the best in the world and often seem surprised when potential investors do not immediately share the same opinion.

Developing and refining the unique selling proposition of the location is paramount for success. Virtually every EDA promotes quality of life, an educated workforce and competitive costs, the equivalent of a company citing quality, service and price.

The successful EDA needs to be more objective. An experienced marketer might say: more benefits; fewer features. What is decisive for one company may be grounds for exclusion for another. The reasoning differs for each and every investor.

Which are the deciding factors for each potential investor and how will the EDA glean more information?

Rarely is there one perfect location and compromise is often necessary. As often as not it is a mixture of factors.

- Ease of access and being up to an hour's drive from a major airport is often preferred; but slightly farther away the costs may reduce greatly and the location may be even more attractive for a particular investment.
- E-commerce may gain an even greater market share in the future; nevertheless the physical distribution of the goods will still be needed and logistical factors should not be overlooked.
- Locate where there are competitive industries and poach highly skilled employees; or move to a region of higher unemployment and train staff yourself.

Promotion

Long gone are the days when EDAs could, metaphorically speaking, simply blast off with a shotgun and potential investors would fall out of the sky. Today they must surely adopt a rifle approach, not just targeting specific sectors, but individual companies complementing the region. Moreover, if several EDAs focus on a particular sector, they are likely to target much the same client base.

To gain insight into what a particular investor might want, the EDA should consider linkages with foreign target companies and the region itself. Indigenous companies may well be trading with some of the target investors and help introduce the EDA. These companies can also advise on the appropriate events to attend covering specific sectors. University academics may also know senior R&D scientists in industry who would gladly assist in opening doors.

Some EDAs rely on an integrated trade and investment function, reaping the rewards of a combined approach; whereas others split the tasks into two organisations. Either way, good communication is the key, otherwise vital market intelligence may be overlooked.

What is the EDA actively doing to attract foreign investors?

The competition is active and so must other EDAs if they wish to generate FDI. Waiting for the telephone to ring is not enough.

Consider events in your home country which may be attended by potential investors. They afford a relatively inexpensive method for meeting new clients. Without a professional and trusted representative in the market, however, establishing strong linkages, all other efforts are unlikely to achieve the desired results. Attending events, such as conferences and trade shows, in the target country may be costly if the EDA does not have local representation.

- Local contact for clients
- Market-based representative office for EDA
- Fast response to clients' requests
- Linguistic and cultural barriers removed
- Attendance at events in market

The customer is king is an old adage, and that is how the investor should be treated. However, the customer may only be right after he has been properly advised. This is an aspect which affords an excellent opportunity for the EDA to add value in the eyes of the client. By developing empathy and trust clients are more likely to confide in the EDA and explain the inner workings of their ventures. Only then can the EDA support the client fully.

How is the advice and support of the EDA valued by prospective clients?

Lead Generation

Once potential clients have been identified, EDAs often feel they need to smother them with data. Wrong: less is often more. Provide the clients with the relevant information, that which they request and that which you know they will need. Demonstrate that you are thinking ahead.

Which information and support does the client require?

Even a good product does not sell itself. To be effective the EDA needs not just to understand its own territory and why certain companies would prefer this over neighbouring locations, it needs to be fully aware of how the industry and, in particular, the individual foreign company ticks.

One major criticism often cited by potential investors is that the EDA lets itself down by not appreciating how the customers' business functions and what is actually required and when. Their staff come across as mere salespeople, not trusted advisers. Rather than sell, the EDA needs to demonstrate that its service and support are part of the solution. Then the clients are more likely to disclose information.



Good salespeople do not sell: their customers buy from them!

Generating leads which subsequently find homes in neighbouring locations is not the best use of taxpayers' money. We need to look beyond getting the location on the short-list. The difference between coming in first and second place may be more subjective. Learning more about the management and the persons earmarked to run the subsidiary can pay dividends.

The business world may speak English, certainly in the boardrooms of large companies, but this does not automatically mean that they always wish to converse in this language or adhere to an Anglo-Saxon business culture. At least, not at the beginning.

Is the EDA prepared to work with the customer's business culture and language?

The EDA needs to get much closer to the prospective client in order to break down potential barriers and avoid any pitfalls. Even if at an early stage and not all the factors have been ironed out by the client, the EDA needs to glean as much information about the project as possible.

What is the purpose of the subsidiary?

What are the timelines of the investment?

How much capital, and from which source, is to be invested?

How many jobs (and of what value) are to be created?

How much space, both covered and open, will be required? Building heights and cranes?

Which other locations are being considered?

The above is by no means an exhaustive list of questions which need to be answered. But this should be sufficient in the early days to prepare an introductory document.

Even if there are no immediate projects, a document containing the most important aspects of the support should be available at short notice.

add2biz Methodology

add2biz supports companies across the entire internationalisation process, from exporting to establishing foreign subsidiaries.

Over the years we have worked with numerous EDAs focusing not just on actual lead generation, but also supporting throughout the whole process – from audit to lead generation to completion.

As business is diverse and requirements differ we offer bespoke solutions for each of the various stages, assisting EDAs on attracting FDI as well as their companies in establishing trade links with partners that might well become future investors.

