

REVIEW OF INTERNATIONAL BUSINESS WALES

REPORT FOR THE ASSEMBLY GOVERNMENT

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August 2009

TERMS OF REFERENCE AND STUDY BRIEF

INTRODUCTION

International Business Wales is the Welsh Assembly Government's body charged with bringing new inward investment into Wales, including reinvestment, and facilitating trade by companies in Wales to overseas markets. This combined inward investment and trade body has been in existence since April 2006. Prior to that, the inward investment function was managed by the International Division of the Welsh Development Agency and the trade function was managed by the Welsh Assembly Government's WalesTrade International.

International Business Wales competes for inward investment with all other parts of the United Kingdom and with global competition. It has a number of offices overseas in Asia Pacific, Europe and the Middle East and North America. Wales' share of new jobs won by the United Kingdom in 2008/9 fell to 6.2%; we lagged behind London, the South East, the North West, Northern Ireland, the West Midlands and the North East. In respect of projects, Wales was in 12th position.

The organisation has 125 staff – five of whom are employed on a consultancy basis in India – with 34 of these based overseas. The Programme and DRC budget totals about £16.9 million.

REQUIREMENT

Given the challenging economic climate, increased budgetary pressures and the falling market share of projects and new jobs, an urgent review of the value for money that the people of Wales derive from International Business Wales in terms of inward investment is necessary. This review will be complete by 28 August, in concert with a separate review that is considering the expenditure and audit processes in International Business Wales, and it will help inform a separate alignment exercise being undertaken across the Economic Development Group.

The review will:-

- Be complete by 28 August 2009.
- On completion, be shared with the First Minister, the Deputy First Minister, the Permanent Secretary, Gareth Hall and Mark Powell on a 'Restricted' basis.
- Benchmark Wales' inward investment function and representation overseas with those of Scotland, Northern Ireland and the Regional Development Agencies in England, excluding London and the South East.

- Clearly show the value for money, or otherwise, that Wales derives compared with that achieved by the competition outlined above having regard to the resources deployed and outputs achieved, both currently and potentially in the future.
- Be a desk based review using publicly available information, information already collated by Mark Powell and the knowledge of the reviewer (it is preferable for the competition to not be aware that the review is taking place).
- The review and its findings will remain the property of the Welsh Assembly Government.

Approach

Given the tight time schedule and the instruction not to directly involve other agencies, the Review and this report have focused on providing:-

1. Context.

- An historical perspective of foreign direct investment (FDI) and performance trends.
- The changing nature of the FDI market as a result of globalisation and the rise of Eastern Europe leading to European Union enlargement.
- The impact of technology/knowledge based companies.

2. The role of International Business Wales (IBW) and its budget.

3. An analysis by:-

- Sector
- Overseas versus UK sourcing

4. IBW's recent performance compared to its UK competitors.

5. IBW's cost:-

- By office
- Direct Running Cost analysis
- Lead generation
- Marketing

6. A benchmarking analysis against key UK competitors.

7. Comparative position ranking.

8. Making sense of the findings.

9. Recommendation:-

- Staffing
- Management
- Product offering/proposition

The analysis has relied heavily upon published reports, internal IBW reports, the author's own knowledge of the inward investment process and meetings with senior members of IBW's management team and with others in DE&T.

Specifically, I have met and interviewed:-

Gareth Hall, Director General, DE&T

Sharon Linnard, Director, Economic Development Group

Ian Williams, Director, IBW, North and Enterprise

Mike Hnyda, Head of Asia Pacific, Europe, Middle East and Africa

Andrew Davis, Head of the London office

Geraint Jones, Head of the Americas

Meurig Watts, Head of UK and Sector Sales

Paul Landricombe, Head of DE&T Marketing

Tracey Mayes, Head of Single Investment Fund Appraisal and Monitoring

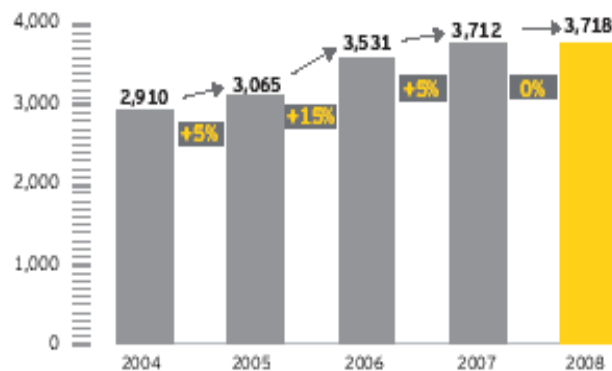
Mark Powell, Head of Government Business

Context

FDI into Europe

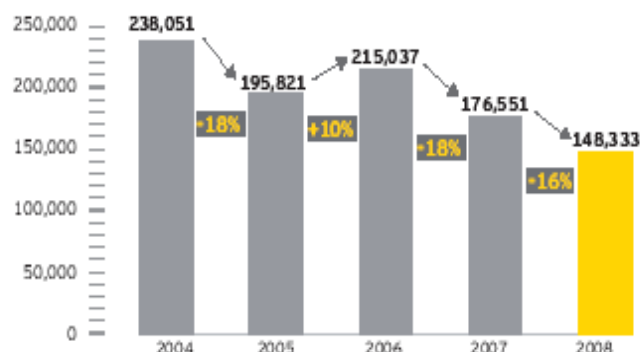
In 2008, Europe secured some 3,718 inward investment projects, a slight increase on the previous years but the size of individual projects fell significantly.

► FDI projects into Europe



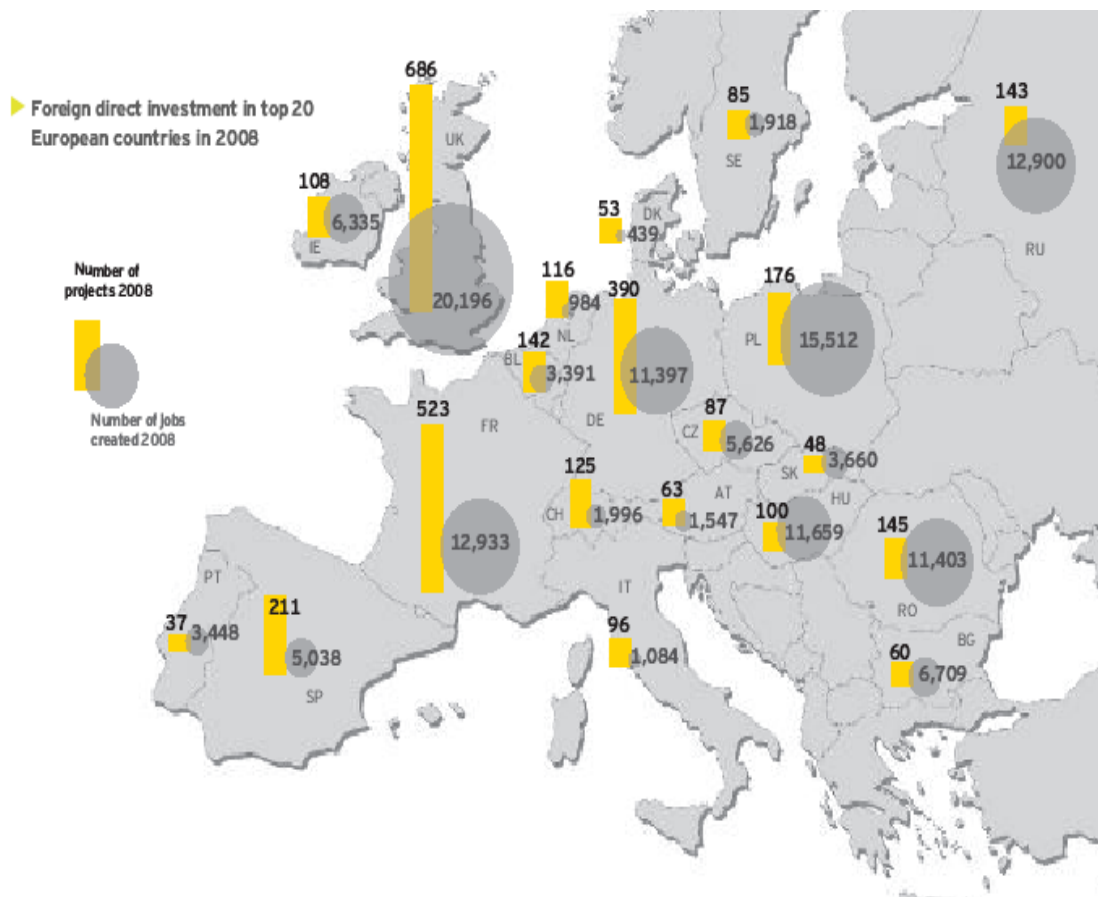
Source: Ernst & Young European Investment monitor 2009

► Job creation by FDI in Europe



Source: Ernst & Young European Investment monitor 2009

The economic crisis beginning in the second half of 2008 has resulted in projects being mothballed or significantly reduced. This trend is likely to continue into the foreseeable future.



Source: Ernst and Young

Job creation by FDI

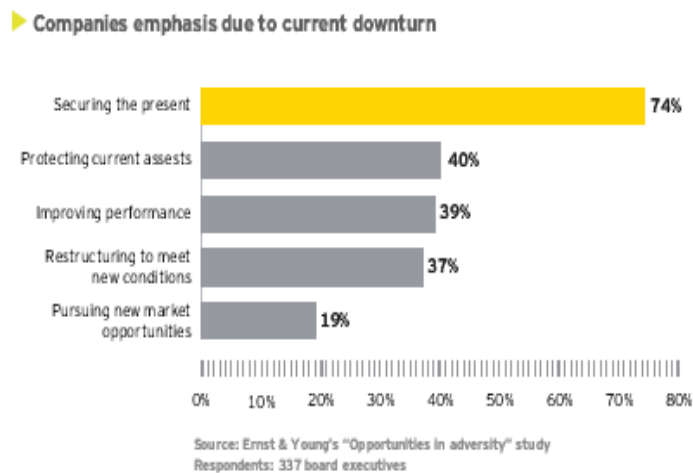
	Country	2007	Share 2007	2008	Share 2008	Trend 2007-2008
1	United Kingdom	24,186	14%	20,196	14%	-16%
2	Poland	18,399	10%	15,512	10%	-16%
3	France	14,488	8%	12,933	9%	-11%
4	Russia	14,934	8%	12,900	9%	-14%
5	Hungary	11,104	6%	11,659	8%	5%
6	Romania	12,464	7%	11,403	8%	-9%
7	Germany	5,972	3%	11,397	8%	91%
8	Bulgaria	3,096	2%	6,709	5%	117%
9	Ireland	4,052	2%	6,335	4%	56%
10	Czech Republic	15,102	9%	5,626	4%	-63%
11	Spain	7,335	4%	5,038	3%	-31%
12	Slovakia	8,479	5%	3,660	2%	-57%
13	Portugal	4,045	2%	3,448	2%	-15%
14	Belgium	4,379	2%	3,391	2%	-23%
15	Serbia	5,484	3%	3,063	2%	-44%
	Other	23,032	13%	15,063	10%	-35%
	Grand Total	176,551	100%	148,333	100%	-16%

Job creation by FDI

	Sector	Jobs 2007	Share 2007	Jobs 2008	Share 2008	Trend 2007-2008
1	Automotive	37,229	21%	32,459	22%	-13%
2	Business Services	13,201	7%	13,220	9%	0%
3	Machinery & Equipment	7,313	4%	12,611	9%	72%
4	Food	6,553	4%	8,677	6%	32%
5	Software	12,734	7%	7,364	5%	-42%
6	Electrical	8,021	5%	6,303	4%	-21%
7	Electronics	19,034	11%	5,569	4%	-71%
8	Other Transport Services	3,272	2%	4,898	3%	50%
9	Plastic & Rubber	3,409	2%	4,854	3%	42%
10	Other Transport Equipment	2,176	1%	4,803	3%	121%
11	Pharmaceuticals	4,526	3%	4,577	3%	1%
12	Non-metallic mineral products	4,047	2%	4,327	3%	7%
13	Chemicals	2,823	2%	3,614	2%	28%
14	Fabricated Metals	3,579	2%	3,497	2%	-2%
15	Retail	4,765	3%	2,809	2%	-41%
16	Financial Intermediation	7,351	4%	2,637	2%	-64%
17	Wood	1,848	1%	2,207	1%	19%
18	Computers	6,346	4%	2,200	1%	-65%
19	Furniture & Sports Equipment	1,985	1%	2,104	1%	6%
20	Scientific Instruments	1,999	1%	1,857	1%	-7%
	Other	24,340	14%	17,746	12%	-27%
	Grand Total	176,551	100%	148,333	100%	-16%

Source: Ernst and Young

The current economic crisis is likely to make companies risk averse which makes the more stable and predictable countries more attractive to investors. The table below emphasises the point.



This shifting strategy has major implications for IBW and resource allocation which is a theme I will return to in a later chapter.

FDI – European Trends

Key observations

- In 2008, the number of FDI projects coming to Europe rose slightly to 3,718.
- Forecast job creation for 2008 reduced by 16%, down to 148,333.
- In 2009, FDI projects will reduce significantly as will job creation.
- The biggest beneficiary of FDI in Europe remains the UK with a 14% share. However, job creation forecasts fell by 16% to 20,196.
- The biggest losers by sector were:-
 - Automotive down 13%
 - Software down 42%
 - Electrical down 21%
 - Electronics down 71%
 - Financial intermediation down 64%

All of these are key sectors for IBW.

- Over 74% of business leaders cited securing the present and protecting current assets.
- The emphasis for 2009 and 2010 will be on job safeguarding and reinvestment rather than riskier new investments.

UK FDI Trends

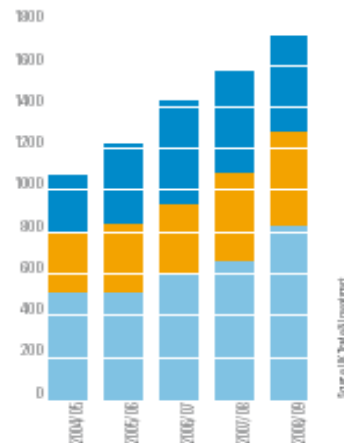
UK INWARD INVESTMENT
BY CATEGORY 2008/09

NEW	827
EXPANSIONS	490
M&A (INC./VS)	457
TOTAL	1,744



Source: UK Trade & Investment

UK INWARD INVESTMENT
BY CATEGORY 2004/05 TO 2008/09



Source: UK Trade & Investment

UK INWARD INVESTMENT
SUCCESS BY COUNTRY 2008/09

COUNTRY	PROJECTS	NEW JOBS
USA	621	12,888
INDIA	108	4,139
FRANCE	101	2,765
GERMANY	86	2,304
CANADA	83	754
JAPAN	81	1,405
AUSTRALIA	65	943
CHINA	59	607
IRELAND	57	2,056
SWITZERLAND	50	723
ITALY	48	752
SWEDEN	47	578
REST OF EU	155	2,987
REST OF WORLD	183	2,210
TOTAL	1,744	35,111

Source: UK Trade & Investment

NB: Please note that at least 30% of inward investment projects from the United States are in the retail sector.

The impact of globalisation and the emergence of Eastern Europe as a location for FDI have had a major impact on the UK and Wales in particular.

Throughout the late 1970s and the early 1980s, Wales secured between 20% to 25% of FDI jobs coming into the UK. Wales' product offering was:-

- A ready supply of labour.

- A low wage economy.
- Land and property availability at competitive prices.
- A generous grant regime.
- A small and professional inward investment team.

This proved to be a powerful and compelling proposition to many FDI projects, particularly for those that were both capital and job intensive. Unfortunately, with the advent of globalisation and the emergence of Eastern Europe and other more cost effective options, this leading position has now been eroded.

Many of the larger FDI projects are now attracted to Eastern Europe or companies have invested heavily in China and, more recently, India where the cost of production/business is significantly less than Europe.

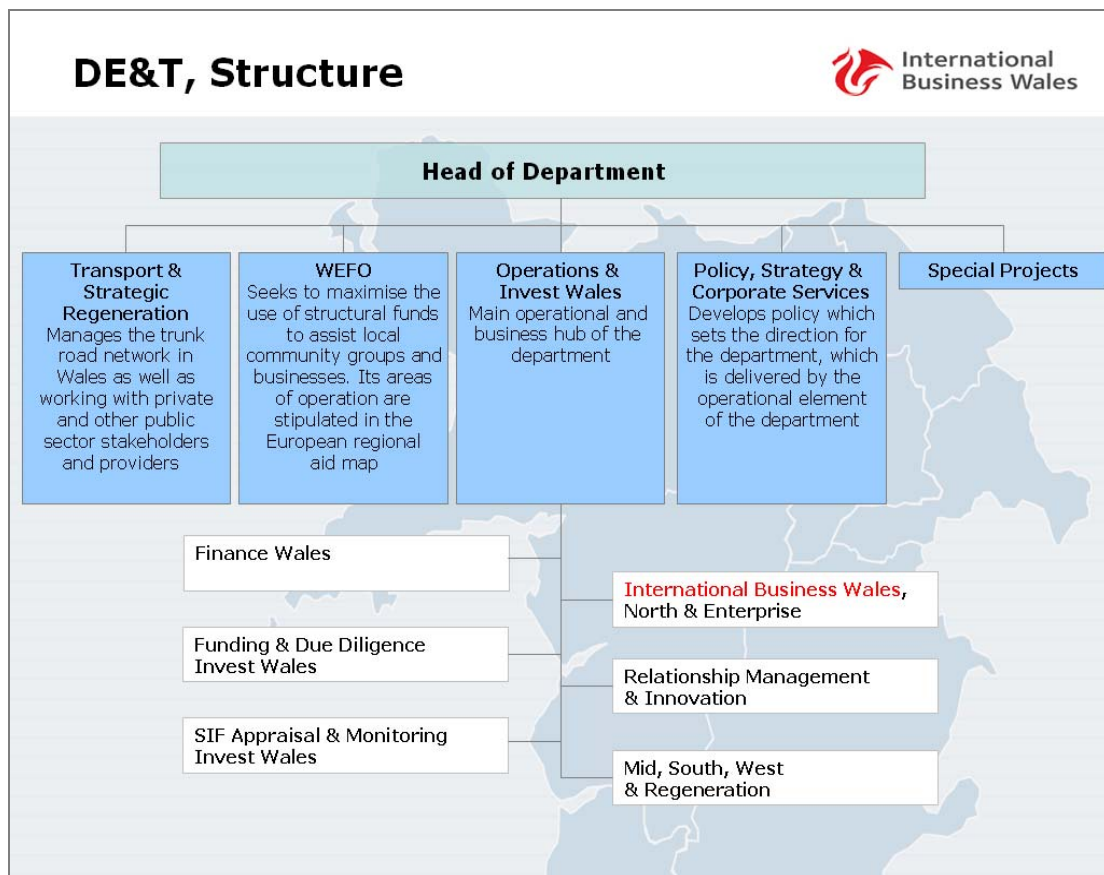
Over the past few years, FDI into the UK has been moving towards smaller projects with an emphasis on technology and knowledge i.e. where the main criteria for investment is not automatically the lowest labour cost base.

This seismic shift has led the UK to rethink its inward investment strategy. Some parts of the UK have been more successful than others, a theme to which I will return in a later chapter.

Key trends and issues – UK

- FDI trend up until 2008/9 has been upward year on year.
- New projects have outpaced expansions.
- Mergers and acquisitions, including joint ventures have also grown.
- 2009/10 is likely to be a difficult year for FDI.
- The biggest opportunity will be in reinvestment as companies become more risk averse.
- The United States continues to provide over 35% of FDI by country with India a creditable second with 108 new projects in 2008/9. However, a word of caution concerning the projects from India; they tend to be smaller and there are governance issues to consider.
- There is a significant regional variation in performance with the North West of England being the biggest beneficiary outside of the South East and London.

International Business Wales – Extracts taken from IBW’s 2009 Business Plan



International Business Wales’s core business is the attraction of inward investment and support for international trade. The inward investment team is a sales team attracting new companies and new jobs to Wales. It works closely with other operational teams, including funding and regional teams to put together a complete package to meet customer requirements to secure new investments for Wales. The inward investment team also works alongside the regional operational teams who are responsible for securing new investment from existing investors.

The trade teams, an integral part of IBW, work as trade specialists alongside inward investment colleagues, including in-market teams and consultants, and DE&T regional Relationship Managers to deliver trade support to Welsh businesses. The trade services provided by IBW form an essential part of the inward investment package for inward investors choosing Wales to serve markets beyond the UK. Increasingly, there is more integration of the complimentary trade and inward investment functions.

International Business Wales is dedicated to creating jobs across Wales and stimulating enterprise and business growth. International Business Wales also supports the promotion of a rich and diverse culture and operates to ensure that Wales is renowned across the world by promoting a strong trading

nation and a valued partner in international relationships and encouraging strong engagement with Welsh interests overseas.

More specifically, the main aim of International Business Wales is:

'attracting high value sustainable investment to Wales and assisting Welsh companies to trade profitably overseas'.

This includes:

- to encourage new and existing Welsh exporters to internationalise and sustain and grow their overseas sales
 - to develop the capacity and capability of existing Welsh companies to trade internationally, as well as supporting the creation of new exporters
 - to increase the value of Welsh international trade 25% year on year with overseas markets
 - to promote key sectors of the Welsh economy in priority overseas markets.
- to encourage inward investment in and into Wales by multinational companies looking to establish a base for their European / UK operations.

Guiding principles: More Exports, New Business, Better Jobs

The team in International Business Wales are committed to supporting the economic development of the Welsh economy through the delivery of more exports from Welsh companies, the establishment of new companies and operations in Wales and the creation of better quality jobs for the people of Wales.

International Business Wales has set aspirational guidelines, which have been communicated to all staff, which are as follows:

- Our customers exports will grow by 25% in every region
- 25% of all new jobs we attract will pay £30,000+
- All the new jobs we attract will pay more than the local average salary
- 5% of all investment coming into the UK will be captured by Wales
- In market staff will cost the taxpayer nothing.

Investment approach

International Business Wales's approach to inward investment is illustrated below.

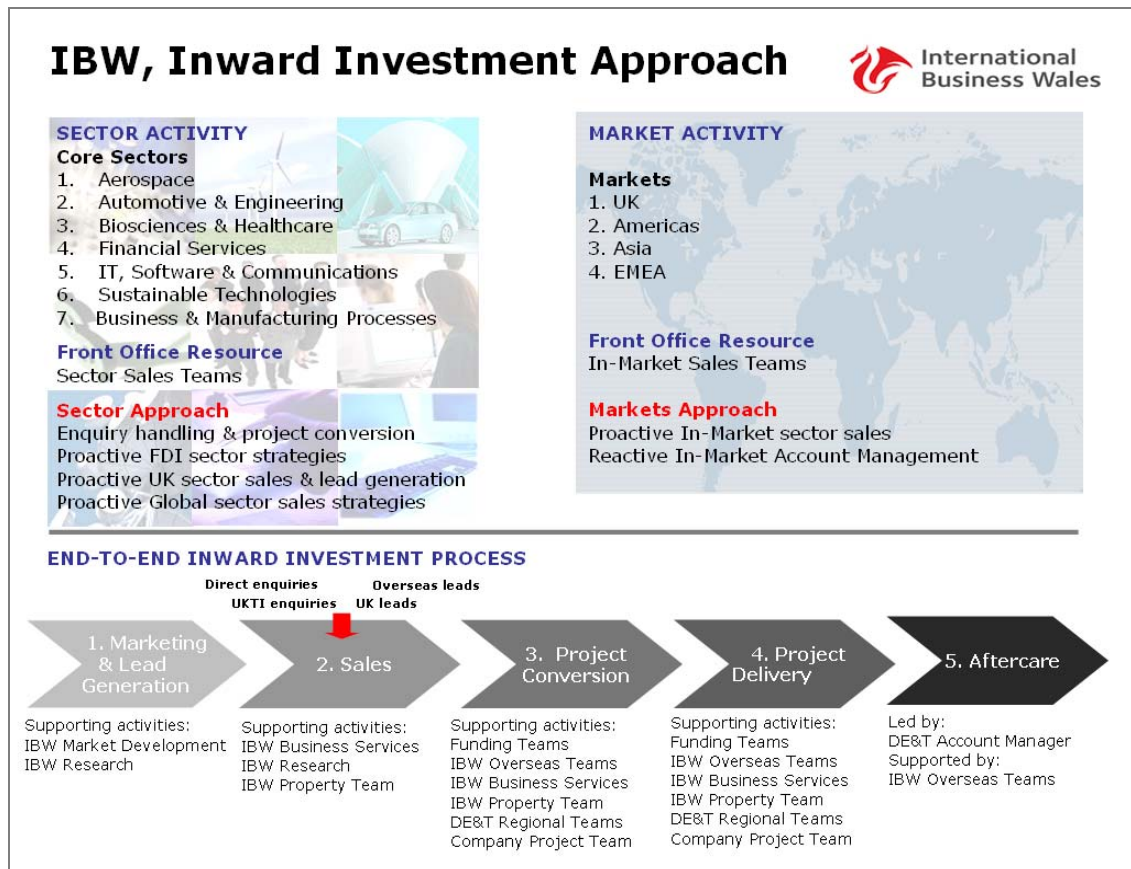
In response to the changing market, reliance cannot be made on incoming enquiries to drive new business, IBW now operates Cardiff-based sector teams (core sectors listed below), with full-time sales and project management resource assigned to each team. This will help foster the further development of sector specialists. The teams are responsible for the UK

sector sales, Wales's sector knowledge, Wales FDI sector strategies, global / regional proposition development and directing overseas sector sales and sector project conversion, which is the full conversion of leads identified through all global marketing and business development channels.

International Business Wales has operated a sectoral approach to inward investment for a number of years and constantly monitors the global marketplace to ensure target sectors consider both Welsh economic development needs and global opportunities. International Business Wales continually applies an evidence based approach to defining core sectors (as listed below).

International Business Wales provided briefings to MAG during their sector evaluation and all of IBW's core sectors have been included within the DE&T sectors.

Note: Business and manufacturing processes focuses on attracting activities such as BPO (Business Process Outsourcing), Shared Service Centres and contact centres across all sectors, as well as attracting new investment from MAG agreed sectors such as retail, food and creative industries.



International Business Wales - Overseas Office Structure

IBW currently have 15 overseas offices and 34 staff (plus 2 vacancies) across Americas, Asia Pacific and EMEA, as well as an office in London. With the exception of the office in Dubai all other IBW staff in market are predominantly inward investment focused.

Overseas office structure

	Americas (1 office, 12 staff)	Asia Pacific (8 offices, 15 staff + 2 vacancies)	EMEA (6 offices, 7 staff)	UK (1 offices, 3 staff)
Office / staff details	New York – 12 staff	Australia (Sydney) – 3 staff China (Shanghai) – 1 staff, 1 vacancy China (Beijing) – 1 staff China (Hong Kong) – no staff (virtual address) India (Bangalore) – 2 staff India (Mumbai) – 3 staff Japan (Tokyo) – 3 staff Korea (Seoul) (closing end Aug 2009)	Holland (Amsterdam) – 1 staff France (Paris) – 1 staff Italy (Milan) – 1 staff Ireland (Dublin) – 1 staff Germany (Munich) – 1 staff United Arab Emirates (Dubai) – 2 staff	London
Structure	Centralised Americas team including: Head of Market 5 sector teams - each with a Senior Vice President and Vice President Aerospace, Defence & Homeland Security. ICT & Business Processes. Life Sciences. Energy & Environmental Technology. Financial Services Project Manager	Asia Pacific team is structured by market, with each market having a Head of Market supported by Business Development staff and Project Managers as appropriate depending on the scale of opportunity from the market. In the case of China and India IBW operate multiple offices to enable effective targeting of the large geographic markets and local nuances.	EMEA is structured by market, with 1 representative in each of IBW's core European markets. In addition, IBW have 2 staff in Dubai offering in-market trade services to support the Cardiff-based EMEA trade team.	London team consists of: Head of London Business Development Manager Business Development Executive

International Business Wales – Staff Numbers Analysis

Prior to merger WDA International Division had approximately 112 staff and WTI had approximately 88 staff.

These are based on 2005/06 organisation charts / contact lists.

Team	2005/06	Aug 2009	% change
Inward investment overseas teams	42	31	-26.0%
Inward investment UK teams	42	40	-4.8%
Trade staff	63	48	-23.8%
T&I Support teams	53	18	-66.0%
Total staff	200	137	-32.0%

Support teams reductions have included:

- Significant downsizing of finance support and performance management function
- Closure of International Trade Information Centre (ITIC) in Welshpool
- Closure of Inward Investment presentations team in Cardiff
- Significant downsizing of Inward Investment research & analysis team.

Region	Office	2005/6	2006/7	2007/8	2008/9	2009/10
Americas	USA	16	16	14	12	12
	Canada	3	2	1		
	Total Americas	19	18	15	12	12
Europe	Paris	1	1	1	1	1
	Munich			1	1	1
	Amsterdam	5	2	1	1	1
	Milan	1	1	1	1	1
	Dublin	1	1	1	1	1
	Total Europe	8	5	5	5	5
Asia	Tokyo	4	4	3	3	3
	Seoul	2	2	2	2	0
	Hong Kong	2	2	2	2	0
	Shanghai/Beijing	2	2	3	3	3
	Taipei	1	1	1		
	Bangalore/Mumbai	1	1	1	6	5
	Sydney	3	3	3	3	3
Total Asia	15	15	15	19	14	
Total Overseas Inward Investment Staff		42	38	35	36	31

	Pre merger		
	2005/6	2009/10	
	Actual	Budget	
	£m	£m	% reduction
FDI Marketing & Lead Generation and Support	5.5	3.6	35%
Trade	6.5	3.4	48%
IBW Running Costs	11.9	9.6	19%
Total IBW Costs	23.9	16.6	31%
FDI related IBW costs	14.9	10.5	30%

IBW linkages to Flexible Support for Business

International Business Wales will be linking into the new Flexible Support for Business structure within both its inward investment and trade activities.

Flexible Support for Business consists of 3 elements:

- **Access** - Fast, simple & straightforward access to information, advice and support for all businesses and prospective businesses.
- **Relationship Management** - dedicated relationship managers to support businesses with growth potential by diagnosing development needs and sourcing a package of relevant tailored support.
- **Funding and Specialist Support** - Single Investment Fund and Specialist Support.

The **inward investment** business process will involve the following approach:

- IBW will continue to focus and target key companies.
- IBW will continue to conduct *informal* inward investment related diagnostics and as appropriate will facilitate introductions to SIF Managers to manage SIF applications (for example, Business Development grants, SMART).
- IBW will continue to bring in relevant staff / teams from across Wales and WAG (for example, Property, Skills, Universities) to maximise the strength of the Welsh proposition and to encourage the embedding of new companies / projects into the Welsh economy.
- IBW will continue to engage and handover companies / projects to the Regional Relationship Managers, KB4B Relationship Managers and aim to minimise the number of companies / projects which are Non Account Managed.

Key points and concerns

- IBW has no direct responsibility for reinvestment by foreign owned companies in Wales. Given that there are over 500 foreign owned companies in Wales with many of them being major players, this is a major concern in the light of recent reinvestment trends and the current economic crisis likely to reinforce this trend. As Wales was the most poorly performing Region of the UK last year for FDI job safeguarding / reinvestment a radical rethink is needed to more closely align IBW and the Regions through a more proactive account management for FDI aftercare.
- Significant budget cuts have been made in IBW although there have been budget cuts elsewhere in DE&T. In 2005/6, the FDI budget was £14.9 million; the budget for 2009/10 is £10.5 million. Staffing in IBW has been reduced from about 200 to 137. These reductions include trade as well as inward investment and some central services.
- Part of the marketing budget has been taken out of IBW (e.g. Ryder Cup) into DE&T offsetting some of the cuts.
- IBW appears to operate in a silo along with other parts of DE&T.

IBW performance

As IBW does not take the lead on reinvestment – an activity undertaken by relationship/account managers based in the regions – performance is focused on new projects and associated new job creation. However, overseas offices can be directly involved in expansions or job safeguarding but their impact is difficult to assess or measure as no accurate statistics are available.

Job creation is a crude measure of success as it does not take into account the trend towards higher value and smaller projects in the UK FDI market. However, given the current economic crisis, crude job creation numbers will become again the benchmark for measuring success. Quality and added value measurements remain important in assessing the value of projects to the economy of Wales but tackling unemployment will be the major priority.

I have undertaken an analysis focused on job creation by office and by sector. In the office analysis, I have also looked at the cost of securing those jobs where possible.

Performance from April 2004 to March 2009 – projects and new jobs

	Number of Projects	New jobs forecast
North America		
US	17	2,046*
Canada	4	154
TOTAL	21	2,200
EMEA		
Belgium	2	60
Denmark	3	87
Estonia	1	7
France	19	735
Germany	8	1167
Israel	1	12
Italy	2	79
Jordan	1	16
Netherlands	4	616
Norway	2	23
Qatar	1	515
Ireland	11	1119
South Africa	2	141
Spain	4	45
Sweden	1	15
Switzerland	2	80
TOTAL	64	4717
Asia		
Hong Kong	1	15
Japan	3	129
Taiwan	2	25
Australasia	16	269
Korea	1	10
India	6	257
China	14	85
Singapore	1	70
TOTAL	46	860
UK	125	4,146

*Includes 1,200 jobs from Amazon

**Includes 800 jobs from two power stations in Pembroke

***Includes 460 jobs from Quinn

****Includes 515 LNG jobs

IBW performance from April 2004 to March 2009 – New jobs and costs

	Gross New Jobs	Net New Jobs	Office Costs (£m)	Lead Gen (£m)	Marketing Costs (£m)	Total* Costs (£m)
North America	2,200	1,000	9.7	1.25++	7.0	17.95
EMEA	4717	2942	5.4	2.0++	4.3	11.7
Asia	860	860	10.4	1.0++	5.6	17.0
UK	4,146	4,146	11.2+++	1.0	2.1	14.3

*Excludes UK Overhead

++ estimated pre merger

+++ estimated pre merger

The rounded cost for each job created, based on the net new jobs figure identified above is as follows:-

North America	£18,000
Europe	£4,000
Asia	£20,000
UK	£3,500

The benchmark used by UKTI and other agencies is that an average cost of a job secured from overseas is £4,500. This excludes overhead and any grant paid etc.

IBW performance from April 2004 to March 2009 – From new projects by new jobs from key sectors

	Overseas	UK	Total
Aerospace	107	112	219
Automotive and Engineering	146 825	336 57	}1,364 }
Bioscience/healthcare	380	206	586
Financial services	1,244	1,075	2,319
ICT/Electronics	1,118	728	1,846
Sustainable technologies	12	38	50
Business and Manufacturing processes	188	42	230
Balance	4020	2594	<u>6614</u>
Total New Jobs –all sectors (gross)			11923

Key issues and observations (2004-2009)

Location

- Over the past five years, Wales has significantly underperformed in the United States, Asia, and some parts of Europe.
- In the United States/Canada, only 21 projects were secured forecasting 2,200 new jobs. Of these, 1,200 were attributable to Amazon which was a direct enquiry i.e. not through the overseas network. It is difficult to measure the North America team’s impact on the remaining 1,000 jobs.
- Directly attributable costs to the North American operation is about £17.95 million over the five year period. The costs include salaries, offices, local expenses, lead generation, marketing etc. They do not include overhead in the UK.
- The cost per net job in the United States is about £18,000 (Amazon excluded).
- In Japan over the period in question, only three new projects were secured forecasting 129 new jobs.

- The average cost per job in Asia is over £21,000. There is presently one major automotive project in the pipeline which could have a major impact on this year's results.
- The average cost per job across in Europe is £4,000 putting the costs of Japan and the United States into perspective.
- The cost per job average sometimes quoted in the UK is £4,500 which includes new and safeguarded jobs. This is a good benchmark to evaluate IBW's performance.
- The decision to centralise all operations in the United States on New York runs contrary to accepted practice where overseas staff are encouraged to embed themselves in 'local' business communities and develop long lasting relationships. The order book for 2009-10 does look promising compared to previous years but delivery will be the determining measure of success.
- Both China and India remain elusive FDI sources for Wales. It is difficult to see the rationale on increasing staff numbers to five in India given performance in the last five years when only six new projects were secured forecasting only 257 jobs. China's performance is even worse.
- The decision to continue with current resources in China and India will be made more on 'cementing' long-term relationships rather than on immediate prospects for securing new projects. Perhaps a political rather than an economic decision.
- Most of the projects come from the rest of the UK with 124 projects forecasting over 4,000 jobs for the period 2004-2009.
- France and Ireland have performed well.
- IBW's office in Germany is located in Munich. The office/staff costs are over £200,000 per annum. The member of staff is not German speaking and it is difficult to see how this arrangement could work. Of the 1,167 jobs secured, over 800 are attributable to two power stations which have been excluded from the performance analysis.
- Offices located in Europe have generally underperformed apart from Paris and Dublin.

Sector

- Performance in key sectors has been poor for the period 2004-2009.

New jobs

Aerospace	219
Automotive and engineering	1,364 (including 460 from Quinn)
Biosciences and healthcare	586
Business processes	230
Financial services	2,319
ICT/Media/Electronics	1,864
Sustainable technologies	50

- Given this poor performance of the past 5 years it begs the question does Wales have a credible business proposition for each of its key sector priorities? The analysis suggests not.
- Wales is good at delivering projects once they are hooked but struggles with sales and marketing at the front end of the inward investment process. This is the area IBW needs to excel.

Benchmarking exercise

In order to get a better understanding of IBW's performance, I have, where possible, benchmarked against English Regional Development Agencies, Scottish Development International and Invest Northern Ireland.

UKTI publish annual FDI results by region and Devolved Administration. The results for the last five years are set out below:-

01 April 04 - 31 March 05	Projects	New Jobs	Safe Jobs	Total jobs
East	67	1,648	2,486	4,134
East Midlands	68	1,794	1,850	3,644
London	280	3,955	628	4,583
North East	58	3,947	4,039	7,986
North West	92	5,376	2,590	7,966
Northern Ireland	36	2,627	3,719	6,346
Scotland	68	4,340	2,171	6,511
South East	178	5,379	6,077	11,456
South West	38	1,251	6,857	8,108
UK	2	0	930	930
Wales	56 (5.3%)	2593 (6.5%)	1,261	3,854
West Midlands	69	4,083	2,144	6,227
Yorkshire & Humberside	54	2,599	699	3,298
Total	1,010	36,999	35,451	75,043

01 April 05- 31 March 06				
East	92	2,381	2,144	4,525
East Midlands	74	1,567	2,979	4,546
London	323	4,412	2,340	6,752
North East	63	4,253	1,522	5,775
North West	112	3,385	3,418	6,803
Northern Ireland	23	947	3,132	4,079
Scotland	60	1,901	1,014	2,915
South East	223	4,511	1,832	6,343
South West	61	1,169	2,756	3,925
UK	2	200	24,000	24,200
Wales	51 (4.2%)	3132 (9%)	2,072	5,204
West Midlands	82	4,285	6,015	10,300
Yorkshire & Humberside	54	1,934	2,565	4,499
Total	1,169	30,945	55,789	89,866

01 April 06 - 31 March 07				
East	119	793	3,864	4,657
East Midlands	84	2,630	3,103	5,733
London	388	7,118	901	8,019
North East	64	1,828	3,831	5,659
North West	138	3,492	4,028	7,520
Northern Ireland	31	4,220	497	4,717
Scotland	89	3,185	3,057	6,242
South East	235	3,241	3,054	6,295
South West	57	2,279	3,562	5,841
UK	1	50	0	50
Wales	67 (4.7%)	3379 (9.3%)	2,788	6,167
West Midlands	104	2,510	12,101	14,611
Yorkshire & Humberside	54	1,801	1,045	2,846
Total	1,364	33,147	41,831	74,978

01 April 07 - 31 March 08				
East Midlands	89	2,163	3,797	5,960
East of England	108	2,008	4,375	6,383
London	424	8,079	1,446	9,525
North East	66	1,572	2,062	3,634
North West	151	3,378	9,258	12,636
Northern Ireland	56	4,430	335	4,765
Scotland	91	4,366	1,646	6,012
South East	219	4,432	3,101	7,533
South West	65	2,835	2,196	5,031
Wales	68 (4.3%)	3743 (8.3%)	1,886	5,629
West Midlands	112	4,640	25,480	30,120
Yorkshire & Humber	124	3,405	2,906	6,311
Total	1,505	41,308	58,488	99,796

01 April 08 - 31 March 09				
East Midlands	82	1,809	3,786	5,595
East of England	105	1,280	1,861	3,141
London	527	7,296	4,248	11,544
North East	68	2,591	2,875	5,466
North West	176	5,171	6,265	11,436
Northern Ireland	65	4,521	1,269	5,790
Scotland	77	1,356	1,486	2,842
South East	247	3,249	3,202	6,451
South West	94	1,243	3,570	4,813
UK Wide	3	17	6,000	6,017
Wales	60 (3.4%)	2185 (6.2%)	529	2,714
West Midlands	115	2,524	3,619	6,143
Yorkshire & Humber	125	1,869	4,719	6,588
TOTALS	1,684	32,926	43,429	76,355

Source: UKTI Database. Figures stated are those published by UKTI at launch of Annual Report.

NB: The new jobs recorded in the tables above relate to forecasts from new, expansion, joint venture and acquisition projects.

Almost 3,000 of the new jobs in recent years relate to four significant projects: Amazon with 1,200 jobs in 2006/7; LNG with 500 jobs in 2007/8; Quinn with 460 jobs in 2005/6; and two power stations with 800 jobs in 2008/9.

Wales' performance for new and safeguarded jobs is trending downwards with the latter showing significant falls. Other parts of the UK seem to be performing better than Wales.

I have analysed reports and public documents where other parts of the UK network operate overseas, the focus being on staffing levels and costs. The table below summarises the position. Much of the information comes from the Arthur D Little report published in 2008 and relates to the 2007/8 financial year.

2007/08 Overseas FDI Costs by Region/Devolved Administration										
	Japan		USA/Canada		China		India		Germany	
	Staff	Cost (£000)	Staff	Cost (£000)	Staff	Cost (£000)	Staff	Cost (£000)	Staff	Cost (£000)
UKTI	59	1,200	9	2,200	16	820	25.0	565	14.0	590
AWM	1.0	120	3.0	520	-	-	1.0	40	1.0	155
EEDA		-	1	40	-	-	-	-	-	-
EMDA	1.0	120	3.0	520	-	-	1.0	40	0.5	120
NWDA	3.5	195	6.0	405	0.8	40	-	-	-	-
ONE	3.0	220	6.0	405	4.0	300	1.0	60	0.2	28
SEEDA	1.0	60	5.0	200	1.0	40	-	-	1.0	110
SWRDA	4.0	400	2.0	140	2.0	80	-	-	-	-
YF	4.0	195	Outsourced		1.5	60	-	-	-	-
IBW	3.0	510	11.0	1,800	5.0	510	1.0	143	1.0	202
INI	1.5	120	19.0	1,400	1.5	40	-	-	2.0	?
SDI	4.25	600	20+	?	7.0	660	3.0	260	7.0	320

	Staff	Cost (£000)	Average Cost/member of staff
AWM	6.0	835	139
EEDA	1	40	40
EMDA	5.5	800	145
NWDA	10.3	640	62
ONE	13.2	953	72
SEEDA	8.0	410	51
SWRDA	8.0	620	77
YF	5.5	255	46
IBW	21	3165	150
INI	24	1560	65
SDI	40+	?	?

Key points to be drawn from the 2007/8 data are:-

- There is no obvious correlation between the number of overseas offices, staffing levels and success as measured by new jobs and projects.
- Wales, Scotland and Northern Ireland spend significantly more on overseas offices than the English RDAs. Most English regions spend between £400,000 and £1,000,000 per annum. Wales has spent over £3 million per annum on its overseas offices analysed by Arthur D Little's report. English RDA's rely more heavily on UKTI for lead generation than the Devolved Administrations.
- The average cost of a member of staff located in overseas offices varies from £40,000 per annum to over £150,000. Wales is the highest. Scotland has incomplete records so it is excluded but is likely to be similar or higher than Wales.
- The most successful region is the North West of England, outside of London and the South East, where the average cost is £62,000 per overseas member of staff. The North West and the North East share a United States office and costs.
- RDAs are more likely to use 'local hires' on local rates or agents to reduce costs, and compensation costs related to ending contracts.

NB. A word of caution in drawing too many conclusions from the above information: the statistics should be viewed as 'directional' rather than actuals.

Key Points and Observations:

- Consistently good performers over the recent past for new jobs and projects are Northern Ireland and the North West.
- For projects in 2008/9, Wales came last and for new jobs seventh. If the two power stations are excluded, Wales would slip to ninth in terms of new jobs.
- The number of new FDI jobs recorded in 2008/9 by Wales was the lowest ever recorded by Wales since records began in 1983/4.
- For safeguarded jobs in 2008/9, Wales came last of the 12 Regions.
- For new jobs Wales met its target of securing 5% of UK total. However, if 800 jobs relating to the 2 power stations were removed it fell well short.

Making sense of the findings

Besides analysing and presenting information from published sources and from IBW, I have also interviewed a number of key staff. In addition, I have drawn heavily on over thirty years experience in inward investment working both for clients with FDI projects and on a consultancy basis for Development Agencies looking to attract FDI.

Key findings and observations

- The IBW brand is not strong or well recognised overseas.
- My experience when in practice and evidence from interviews, both formal and informal, indicate that IBW operates in a silo focusing on securing new inward investment projects. Expansions and reinvestment are the prime responsibility of the Relationship/Account managers based in the regions.
- The key hook to attract inward investment is still based around RSA and this needs to be reviewed.
- Key sector priorities appear aspirational.
- In the light of results in recent years, consideration should be given to the pattern of representation overseas and how it relates to resource in Wales. This could include a standardised approach to representation overseas in terms of the role that staff fulfil and the knowledge and training that they receive.
- The outward flow of FDI from India and China is potentially large but, so far, the results have been disappointing.

Key recommendations and observations

- The success of any organisation or business is dependent upon good management, the quality and motivation of staff and the product offering being attractive to the target market.
- Clearly, the performance of IBW and its predecessor over the past ten years has at best been mixed. Managers should consider ways of better aligning resources. Such consideration could lead to improved performance in terms of winning more projects, creating and safeguarding more jobs and creating more added value investment in Wales. Some would be relatively quick fixes and result in savings; others will take time and would require investment and a realignment of resources across DE&T.
- DE&T has significantly more resources at its disposal in supporting the economy than any RDA in England. Therefore, overall resource should not be the issue but the way in which resources are deployed will be

vital if Wales can once again demonstrate success in attracting high quality FDI.

- It should be possible in overall DE&T terms to improve inward investment performance at lower cost with better use of resources.
- Ministers and management should consider the balance of resources devoted to the inward investment function both here and overseas so that that balance provides the opportunity for appropriate returns.
- Ministers and management should consider ways in which the inward investment function might be better integrated into the wider economic development activity.
- Ministers and management should consider whether appropriate resource – financial and human – is devoted to the inward investment function.
- Ministers and management should consider appropriate mechanisms to enable them to fully understand inward investment performance and the ways in which various parts of IBW influence and affect that performance.
- I highlight in Annex 1 some of the measures being taken by the competition.

What is the competition doing?

I have listed below initiatives, propositions, solutions and hooks in which the competition has invested in the recent past:-

- **Yorkshire Forward – Advanced Manufacturing Park** with, at its core, the Advanced Manufacturing Research Centre. This is a joint venture with Boeing and the University of Sheffield and partly funded by Yorkshire Forward.

Companies attracted include:-

- Rolls Royce has built a 4,200 square metre factory of the future to showcase its latest technology which is an exemplar of sustainable building development. Yorkshire Forward is well placed to secure more investment from Rolls Royce as a consequence.

Other companies attracted include:-

- Titanium Castings
- Dormer Tools
- The site looks well placed to secure further Rolls Royce investment recently announced by the company

- **North West Development Agency – Media City**

This is a 36 acre site designed to provide a purpose built home for creative and digital businesses in Salford Quays. The site can be expanded to 200 acres. The BBC is moving 2,500 people to Media City and the University of Salford is building a brand new campus onsite.

The private sector developers will be providing one of the largest high definition studio facilities in Europe featuring seven high definition studios and two anchor studios, one dedicated to the BBC Philharmonic Orchestra.

NWDA has pump-primed the project through infrastructure support and grants.

National Biomanufacturing Centre

The NBC was developed as a publicly funded project between 2005-8 and the facility is owned by NWDA. The facility, which cost £70 million, is now let to Eden Biodesign which is a product development and contract manufacturing business. A large slice of the funding was provided by ERDF. NWDA receive a commercial rent on the property.

□ **London Development Agency – Touchdown London**

This is a service funded by the LDA and outsourced to Avanta, the office space provider. Small businesses thinking of setting up in the UK are provided with a small office rent free for twelve months and a dedicated Think London manager will be on hand to provide a full range of services on a subsidised or free basis. Avanta provides a serviced office environment.

□ **West Midlands/East Midlands Development Agencies**

The Midlands Consortium comprising the universities of Birmingham, Loughborough and Nottingham, financially supported by WMDA and EMDA has been chosen as the group to host a new national institute to develop cleaner energies.

The Energy Technologies Institute is being established to speed up the deployment of new low carbon energy technologies. Jointly funded by government and industry, the ETI's brings together some of the world's biggest companies – BP, Caterpillar, EDF Energy, EON, Rolls Royce and Shell. The estimated budget is £10 million per annum and the costs are shared between the private and public sectors.

These are just a few examples of competitor activity which provides substance and credibility to their product offering in the key sectors in which they and Wales compete.