

How is COVID-19 impacting the future of FDI and how should IPAs respond?

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IBM-Plant Location International

in collaboration with

**World Association for Investment Promotion Agencies Promotion Agencies
(WAIPA)**



Plant Location International



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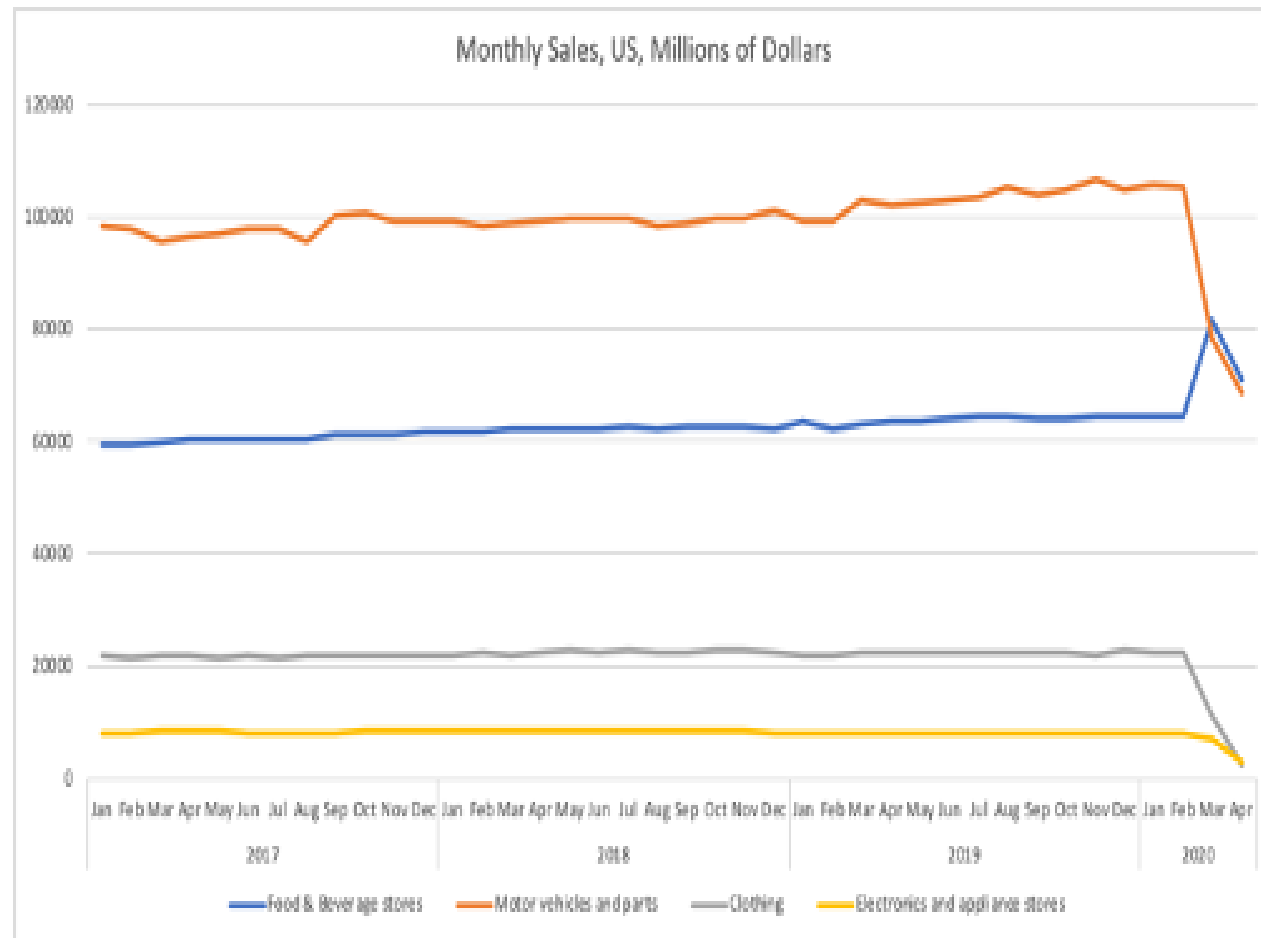
Q & A

1. How is the COVID-19 crisis impacting business and location strategy?

- **Changes in business strategies**
- **Operational challenges: short-medium term**
- **Longer term scenarios for a (post?) COVID-19 future**

Companies are having to navigate a radically different business environment

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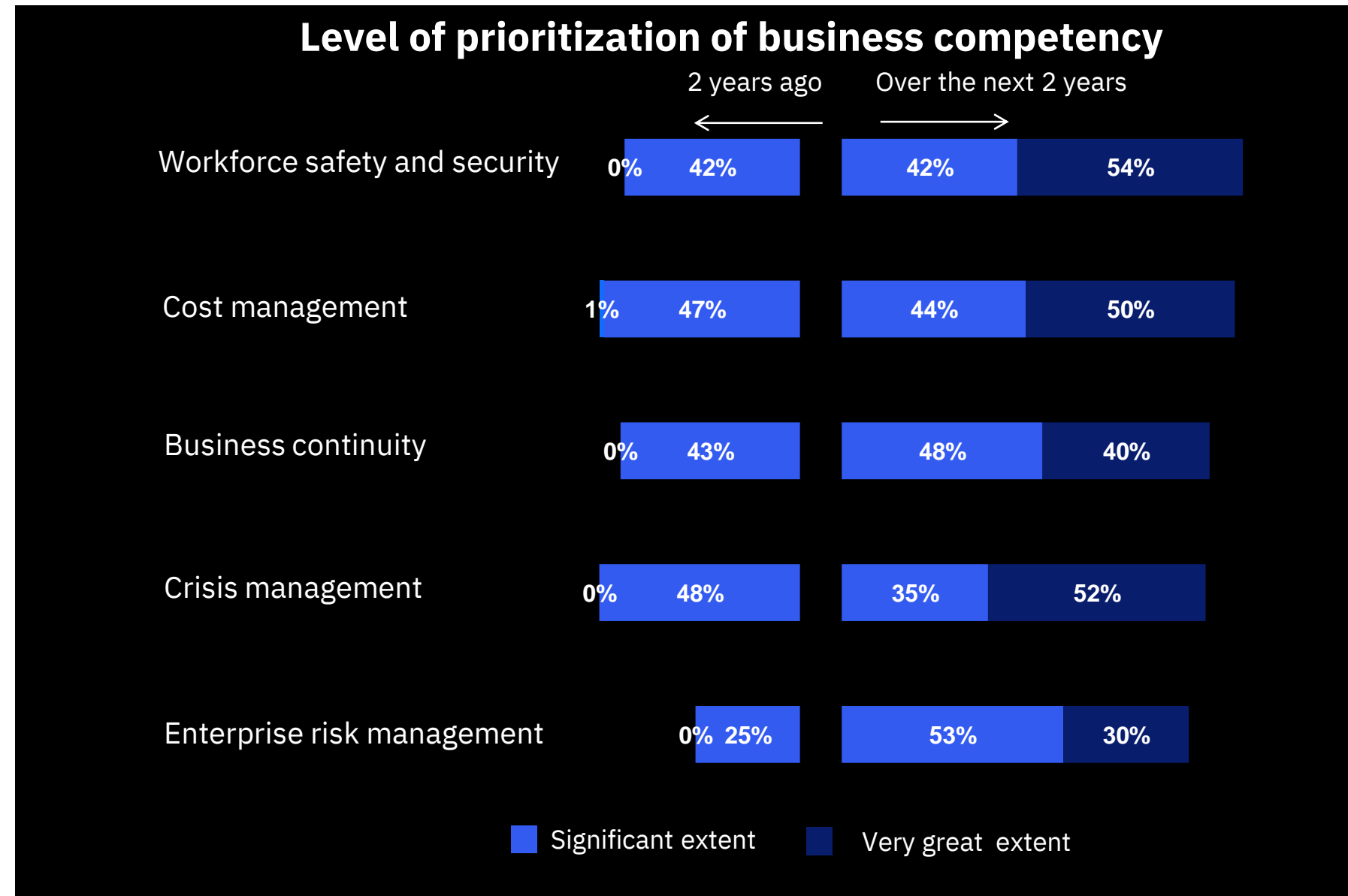
Source: US Census Bureau and IBM

- Companies have been faced with a level of business environment disruption that is almost unprecedented
- The speed and scale of change in key business metrics has left many companies struggling to cope
- Big variation in impact between sectors. Some sectors have seen dramatic declines in sales, while others have struggled to cope with rapid spikes in demand
- Traditional strategy development and planning from recent trends has not allowed companies to prepare for the level of disruption associated with the COVID-19 crisis

COVID 19 crisis is changing business priorities

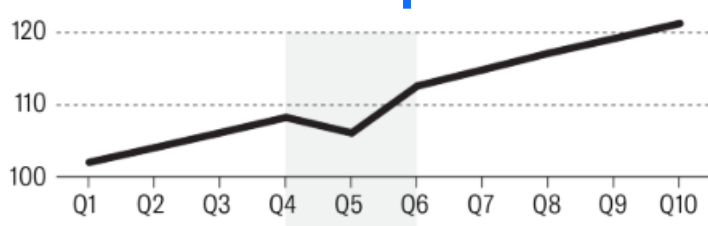
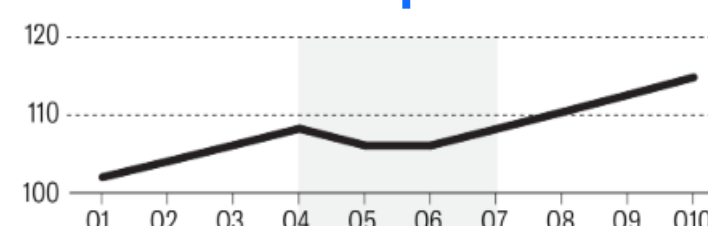
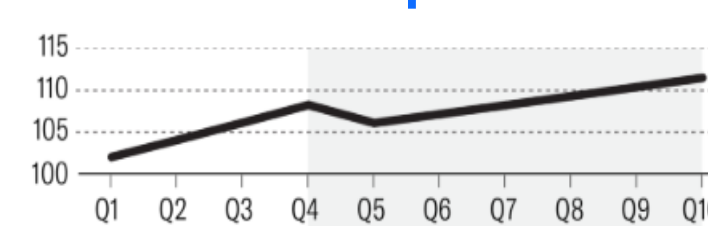
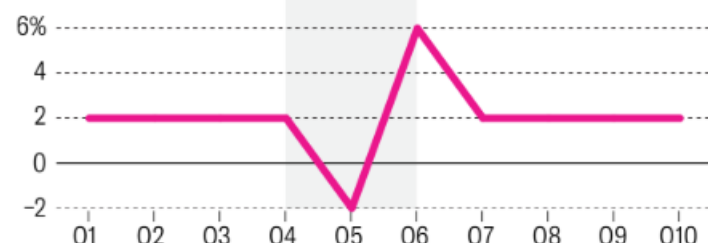
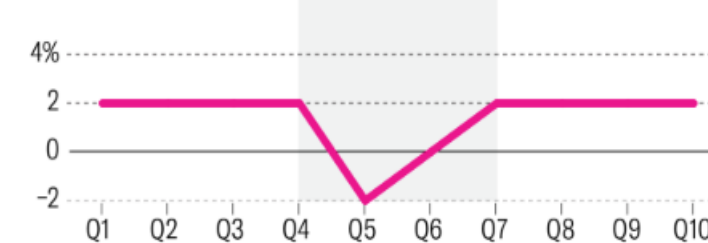
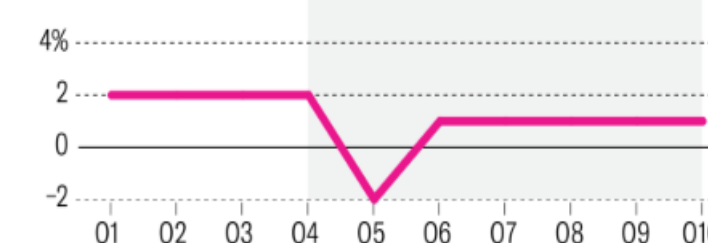
Source: IBM Institute for Business Value

- Companies are responding to the crisis by focusing on immediate operational challenges
- Crisis has made companies aware of the need to shift priorities
- The need for (re-)building different competencies has been brought to the fore
- Stronger emphasis on resiliency



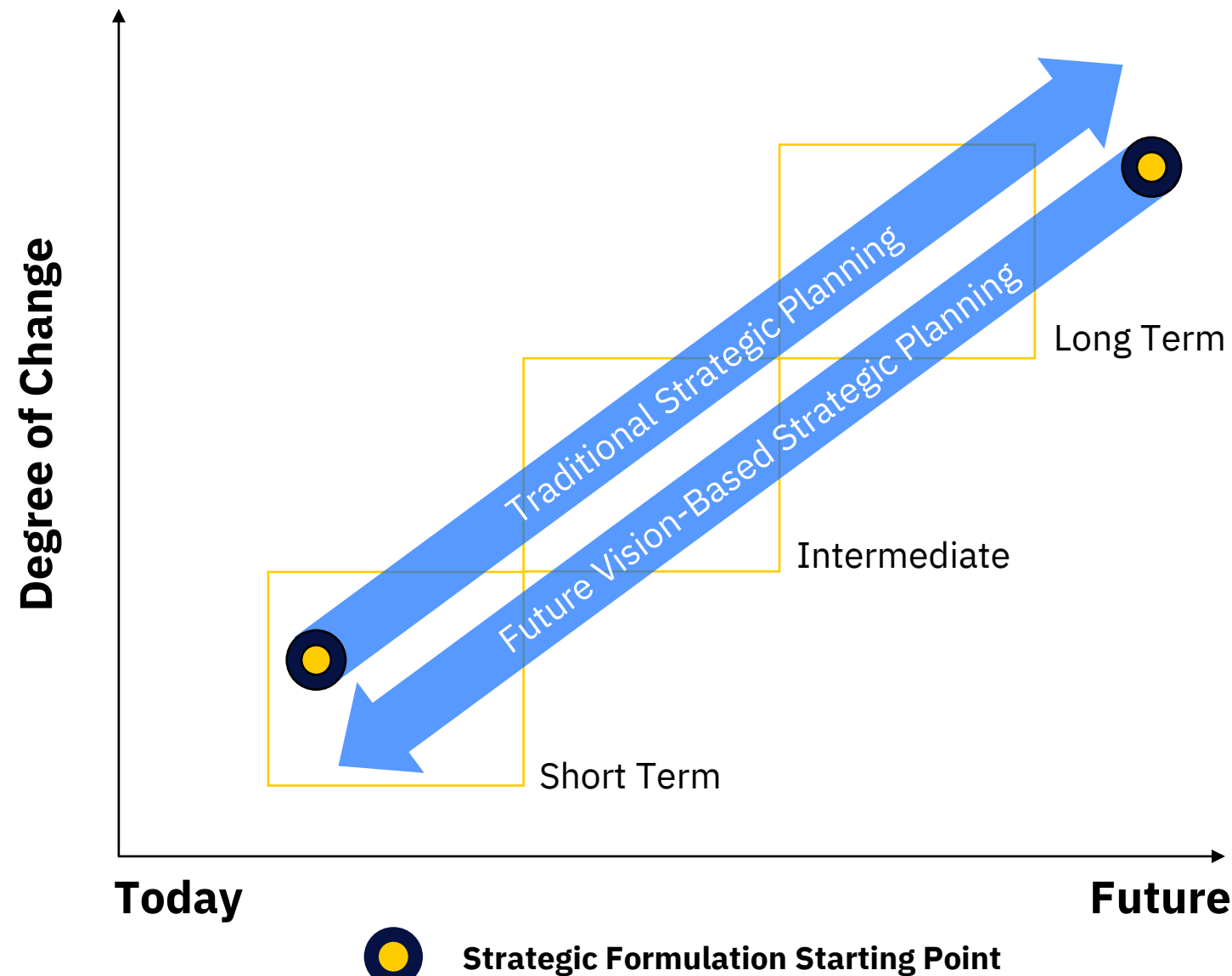
Different medium-term scenarios will drive vastly different impact, demanding tailored approaches by companies

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	V-shaped	U-shaped	L-shaped
GDP level			
GDP growth (%)			
Description	Output displaced but shock absorbed by annual growth rates; growth soon rebounds	Shock persists, growth path resumes but some permanent loss of output	Significant structural damage to the economy's supply side
Prioritized response dimensions	Customer & employee welfare / safety, virtual ways of working, cash flow, ensure security of supply, implement cost reductions, investment plans on hold	Commercial survival; aggressive promotion strategies, enterprise agility, harsh cost reduction tactics (e.g. reengineer supply chain, close / suspend locations & ops), investments postponed or cancelled with some consolidation	Corporate reconfiguration, permanently closing underperforming geographies / BUs / channels, restructure operations, M&A, partnerships, cash conservation, refinancing;

Companies need to take a different approach when developing longer term strategies

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- Traditional strategy development starts with current state and trends and works its way forward
- In the new disruptive normal, it will be necessary to also prepare for radically altered future states
- This means starting from potential different future states and working your way back to the present to understand implications
- It requires you to plan for different scenarios of the future
- Emphasis on ability to succeed in different scenarios rather than optimize within a given set of assumption
- Resiliency over efficiency

The future may look very different from today...



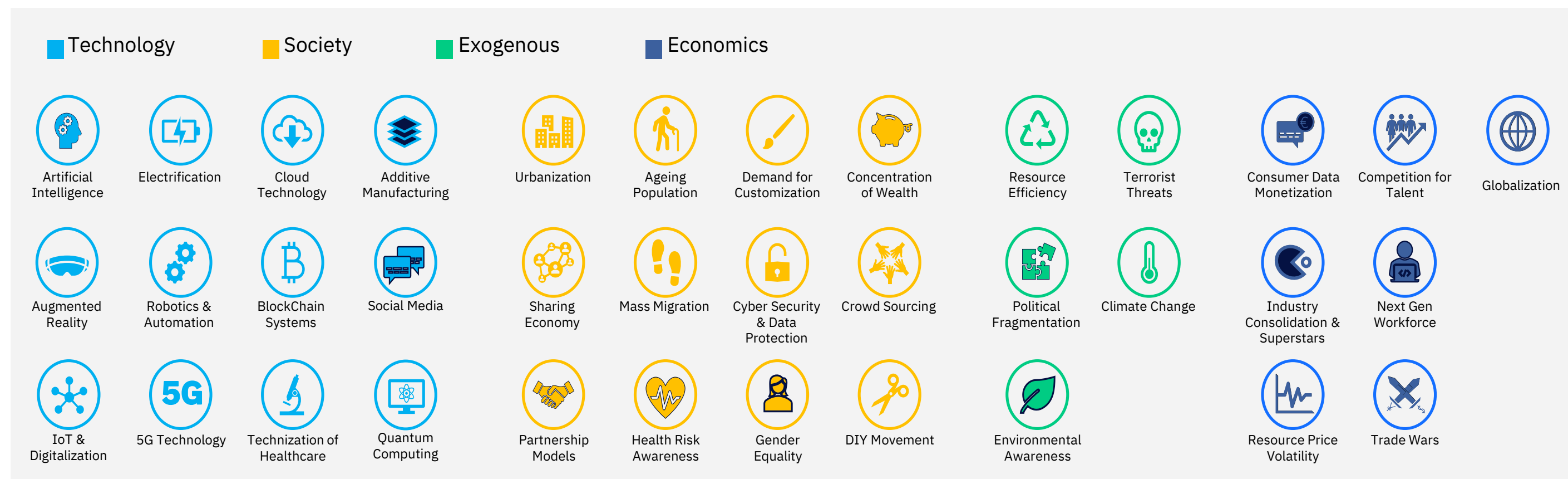
2. How does this relate to transformation of FDI?

- Which trends and dynamics are already impacting FDI?
- What changes will we see as result of COVID-19 crisis?

Transformation Drivers for FDI

Transformation Drivers are trends, dynamics or events that are:

- applicable at a **global** scale
- **current**, meaning that it is relatively new or recent
- likely to have **longer term** implications: for the next 5 years at least

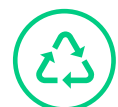


Examples of key Transformation Drivers



Robotics &
Automation

Intelligent automation is a new capability that enables processes to perform in such ways as to **minimize the amount of human support** needed and which has the potential to **redesign the way work** gets done within an enterprise.



Resource
Efficiency

Resource use has commonly resulted into high **pollution** levels, environmental **degradation** and the **depletion** of natural resources. As such, efforts to increase sustainable resource use and prevention, reuse and recycling of waste streams is gaining traction with a fully **circular economy** as its end goal.



Cyber
Security &
Data
Protection

As data are becoming the **new natural resource**, the needs for stronger data and privacy protection **regulations** and enforcement is increasing. Moreover, **cyber threats** have become common in most day to day operations and as such capacity needs **for cyber security solutions and skills** are increasing as well.



Trade
Wars

Trade has become a focal point in political discussions around competitiveness and **fair globalization**. Resulting protectionist policies have increased **trade costs and barriers** around the world, most notably between the US and China. Going forward these policies have the potential to **substantially alter supply chain footprints** and as such be a key dynamic for economic development in many countries around the world.

FDI Impact from Transformation Drivers

- Transformation Drivers impact companies:
 - ✓ in a **differentiated** manner across industries
 - ✓ ranging from **disruption** to dedicated parts of the value chain to a requirement to fully rethink business model strategies
 - ✓ **scenario** dependent
- Most obvious and direct impact can be seen through the emergence of **new segments**:
 - Typically linked with key **technology** areas, e.g. Blockchain, Social Media, 5G
 - New **business/product areas**, e.g. industrial machinery manufacturer transforms into service provider through consumer data monetization
- More fundamental impacts however at the level of **investment drivers and location requirements**

Changing priorities in location requirements

- ✓ Transformation drivers have the ability to
 - alter **investment behavior**
 - change **location decision making drivers**

Transformation drivers (subset)	Market	Talent	Efficiency	Risk
Artificial intelligence		+	-	+
Cloud Technology	+		+	+
Environmental Awareness	+	+	-	+
Globalization	+		-	+
Health Risk Awareness	+		-	+
Robotics & Automation		+	-	
Trade Wars	+			+

Notable examples:

- **Artificial Intelligence** and **Robotics & Automation** are expected to drive investment which is less focused on seeking efficiencies but driven by access to skills, knowledge and insight instead -> applicable across a broad set of established industries/activities
- **Electrification** induced changes to the composition of the automotive power train lead to different skill, technology and resource requirements -> substantially altered structure of the automotive global supply chain

COVID-19 crisis causes additional impact

- The current crisis has at least in the short to mid term dramatically changed the **direction, speed and nature** of transformation driver impact
- The focus on **Health Risk Awareness** both from a consumer as well as from an employee perspective is quickly redefining how companies are serving their markets as well as how operations are being run
- While the way in which companies are approaching their international operations has already been changing in the past few years, the current crisis has made **resilience and risk avoidance** a key part of future decision making

Key transformation drivers during COVID-19 crisis

Health Risk Awareness

Globalization

Environmental Awareness

Cloud Technology

Cyber Security & Data Protection

Trade wars

Resource Efficiency

IoT & Digitalization

Electrification

Industry Consolidation & Superstars

3. How can IPAs prepare and respond?

- Implications for future marketing strategies
- Changes to current efforts, opportunities for new FDI

IPA strategic responses to COVID-19 crisis require 3 key actions

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1. IPAs need to assess:
 - How upcoming changes are effecting current strengths (sectors)
 - How the location proposition for current target sectors is affected
 - Which new opportunities may emerge from upcoming transformation
2. Refreshment of marketing strategy and resource allocations
3. Initiate any required improvements in business environment

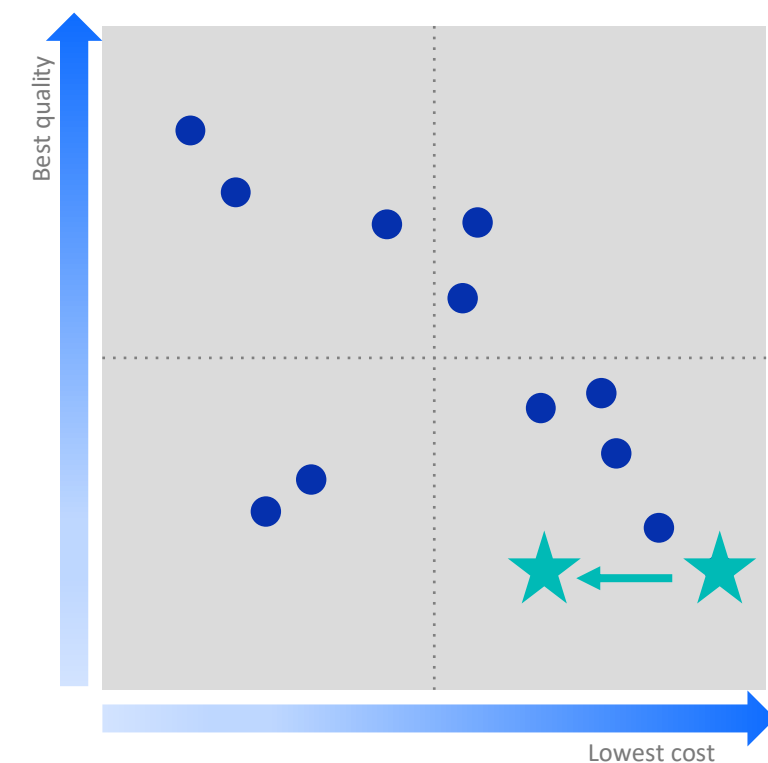
1. Changing propositions

Low cost-low quality proposition becoming more expensive

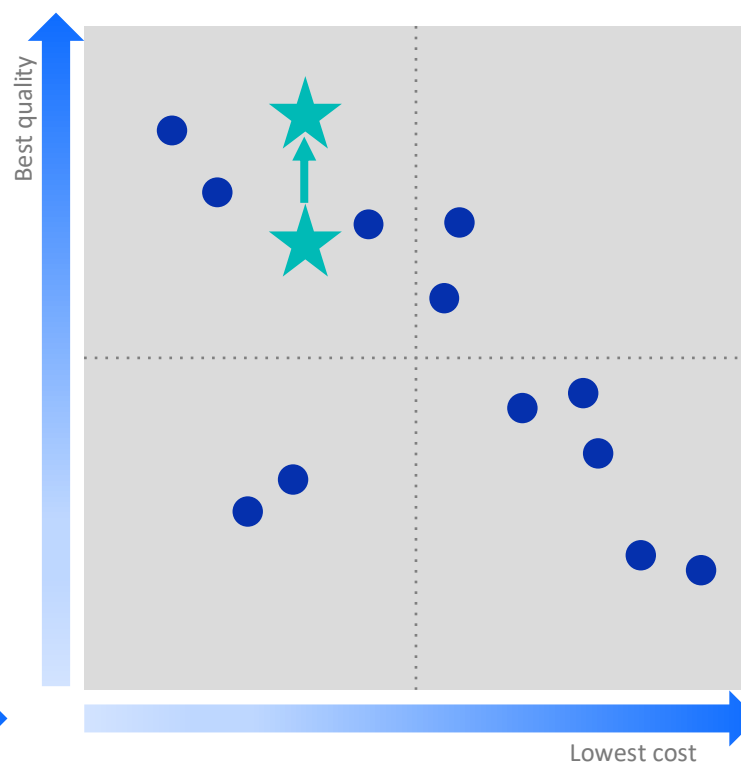
Good quality proposition becoming stronger by increased focus on talent/market

Balanced proposition becoming more cost and qualitative attractive

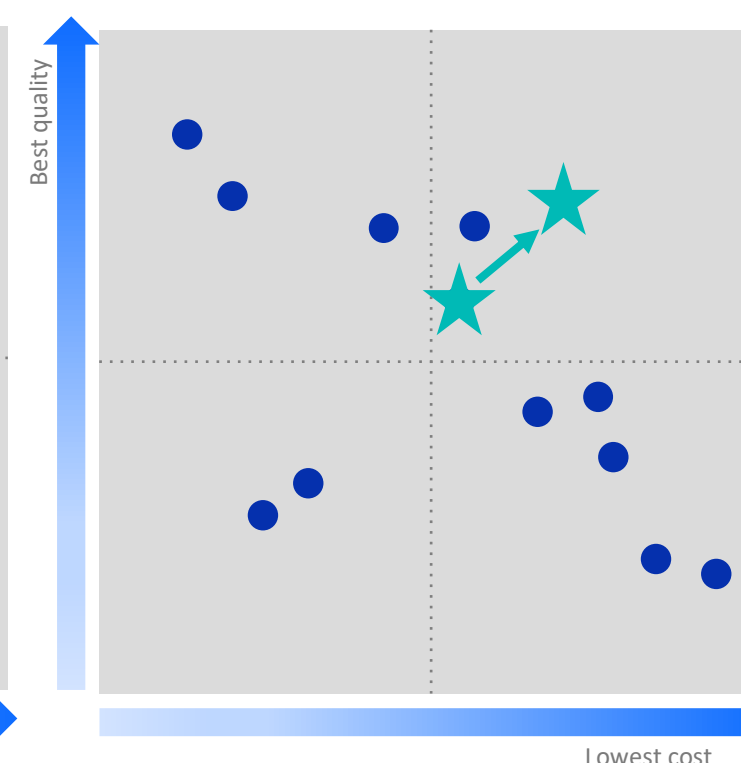
Balanced proposition weakening by more focus on single tight labor market



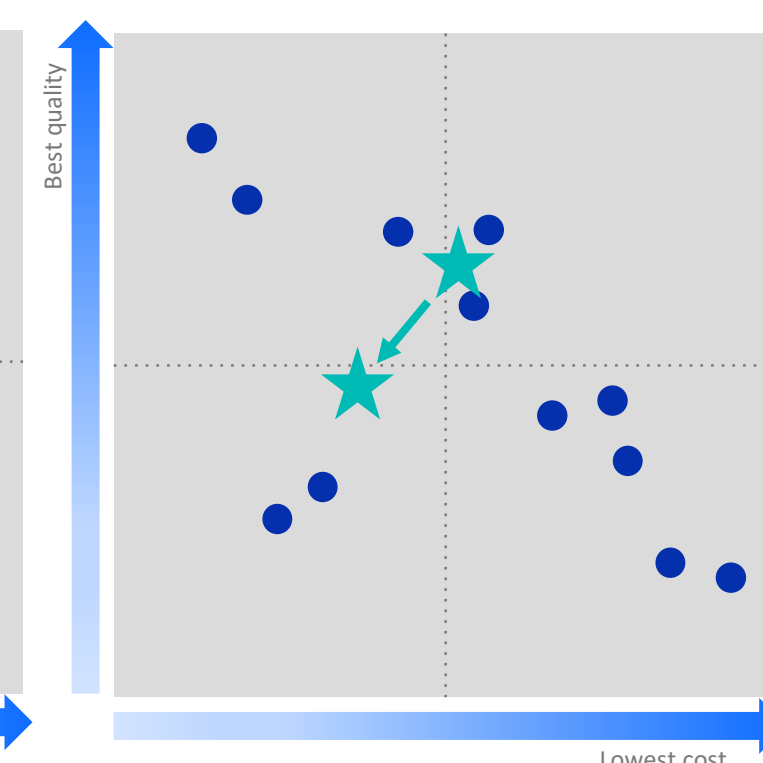
Example:
Labor cost sensitive
assembly



Example:
high tech-high volume
manufacturing



Example:
new technology sectors



Example:
domestic delivery center

2. Refreshment of marketing strategy

- IPAs need to refresh their marketing strategy based on assessment of future outlook:
 - Determine future approach towards current target sectors: focus on retention, pro-active or re-active marketing
 - Identify any new target sectors for pro-active (or re-active) marketing (see below example)

<u>Target sectors</u>	Example sectors	Existing cluster	Market outlook	FDI Proposition	Future strategy
<u>Current</u>	Automotive	++	-	-	Retention
	E-commerce	0	++	+	Pro-active
	Life sciences	+	++	+	Pro-active
	Food	+	0		Re-active
<u>New</u>	Data centers	0	++	0	Explore
	Fintech	0	+	+	Explore

- Make adjustments to resource allocation based on refreshed strategy

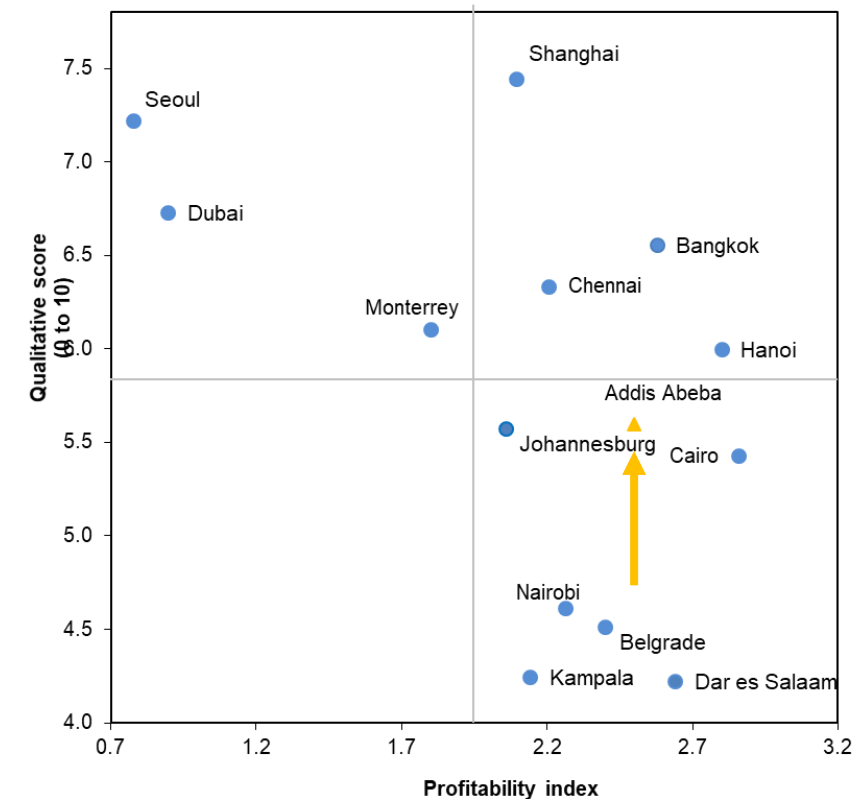
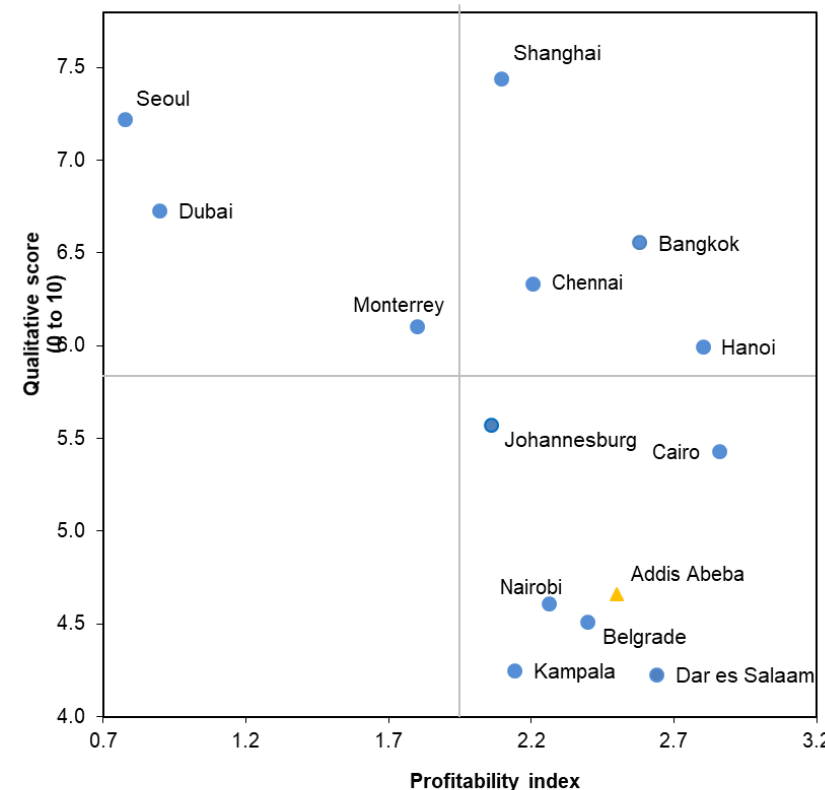
3. Improvements in business environment

- Propositions can be maintained or strengthened by improvements in business environment:
 - Improvement actions should be based on priorities of corporate decision makers
 - Education, Infrastructure, Real Estate, Regulations, ...

Example:

Tailored improvement actions (workforce, regulations, infrastructure, ...) will effectively improve Ethiopia's competitiveness

Computers and computer equipment manufacturing



Summary of key observations

1. COVID-19 is severely disrupting business environments with significant implications for operations and business strategy
2. COVID-19 crisis is accelerating some more fundamental and structural transformation drivers
3. Structural changes in FDI resulting from transformation drivers are occurring sooner than expected
4. IPAs need to revise marketing strategies in light of expected changes:
 - changing location propositions
 - new FDI market opportunities

Questions

Plant Location International

www.ibm.com/services/pli

Jacob DENCİK

+32 475 91 57 82

Jacob.Dencik@be.ibm.com

Koen GIJPERS

+32 494 33 45 92

Koen.Gijpers@be.ibm.com


Roel SPEE

+32 475 91 58 32

Roel.Spee@be.ibm.com



Plant Location International (PLI)



IBM's global **Center of Competence** for location strategies and economic development

Subject matter experts in key global markets

>50 years experience as trusted location advisor

Portfolio of **>3,000 projects**

Robust set of **methodologies** and **analytical tools**

Cooperating with IBM's **global network** of industry and subject matter experts

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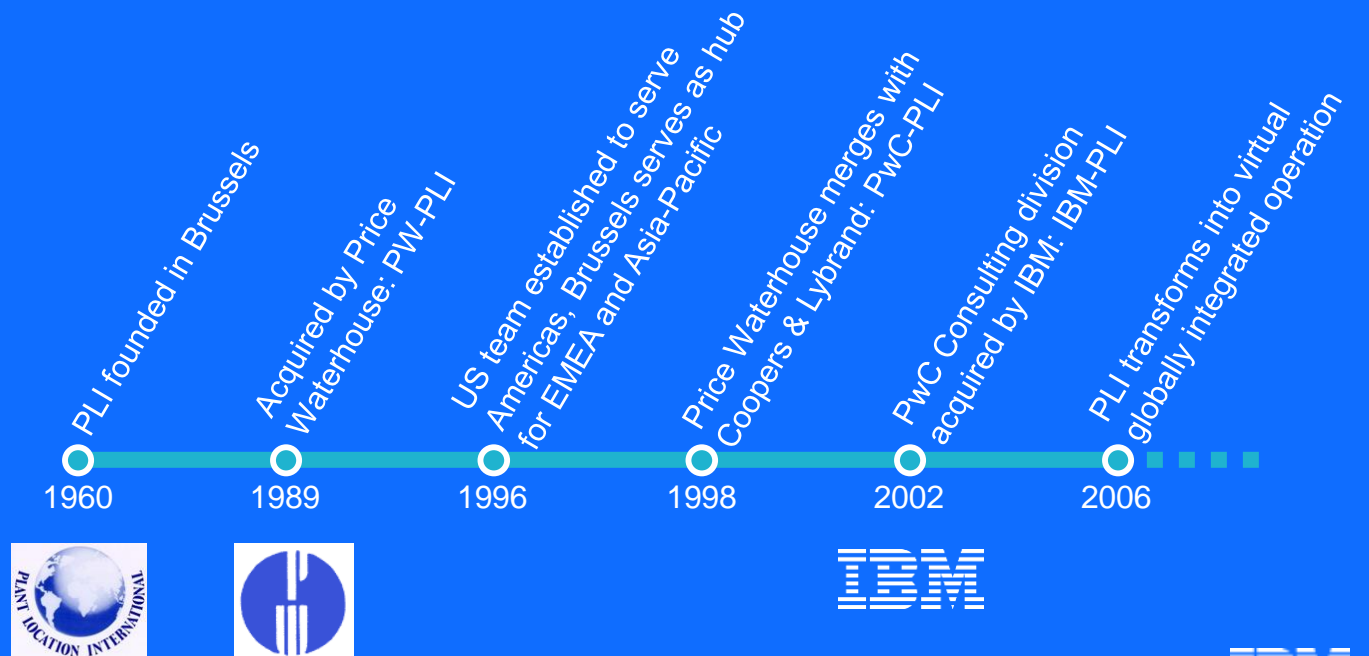
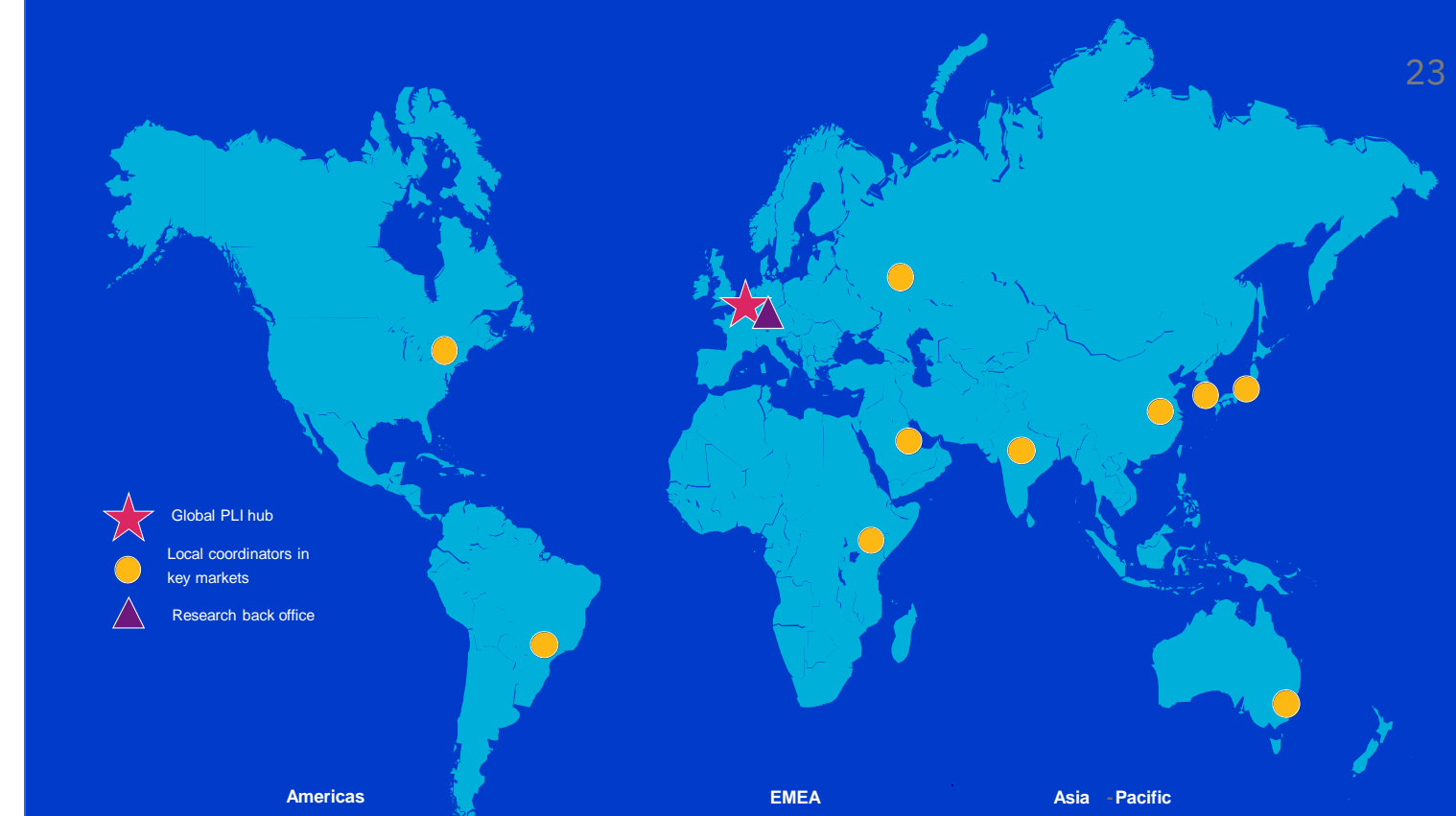
Plant Location International (aka PLI) is a **global** service offering within IBM Global Business Services consulting division, exclusively specialized in global location strategies.

With over **60 years of experience** PLI is the oldest still existing specialized site selection consultancy globally.

Area of expertise focuses on analyzing international business locations for expanding or consolidating companies to select the **optimal location** (country / region / city / site) against best shareholder value: *where should we operate our business units?*

- Across all industries
- Across all business functions (manufacturing, HQ, R&D, shared services, etc)
- Across all geographies

Independent from government authorities or other organizations with local interests and fully objective and unbiased in its advice



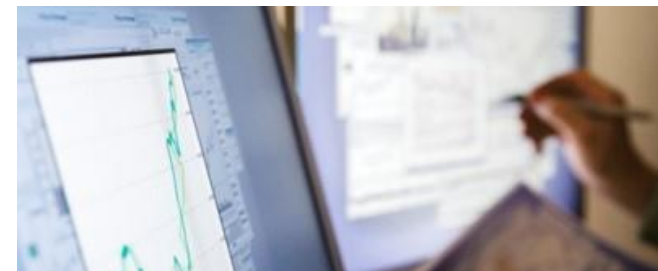
Global location strategy and site selection services

Strategic



- **Strategic location planning:** advice on locating or consolidating business functions in alignment with the overall business strategy
- **Definition of key location criteria:** help corporate executives define and prioritize key criteria to assess locations for specific business functions
- **Location benchmarking:** assess and rank locations on key cost and quality criteria to quickly identify the most interesting candidate investment locations
- **Location network optimization:** strategic advice on optimal organization of the corporate operations' footprint identifying scope for improvement and developing different scenarios
- **Location strategy workshops:** help optimize company's own location strategy efforts based on latest insight in market trends and location dynamics, data sources and evaluation techniques

Operational



- **Validation of location options:** validation or second opinion of preferred locations to assess their suitability based on specific project parameters
- **Risk assessment:** analysis of risks associated with relocating or expanding activities in new locations and the implications on corporate strategy
- **Advice on financial support:** analysis of financial incentives available to corporations in countries around the world: amounts, conditions, application, etc.
- **Business case development:** assessment of business benefits of relocating, expanding and/or consolidating locations through analysis of costs of implementation, transition, operations, etc.

Tactical



- **Monitoring business environments:** constant screening of dynamics in specific regions of interest to provide early advice on upcoming location opportunities and threats
- **Site or facility search:** researching and validating available sites and buildings meeting the client's project specifications once a preferred country/region has been identified
- **Consolidation of existing sites:** projections and assessment of location impact of consolidation scenarios; assisting with determining best site for future consolidation

Examples of recent clients for location advisory



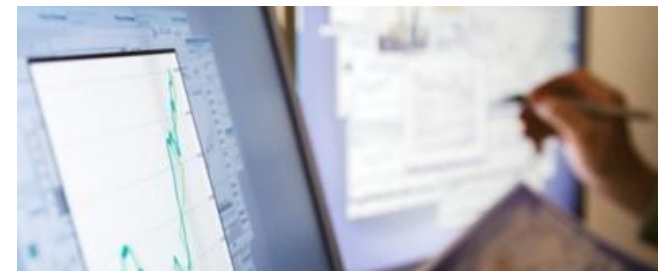
Global services to economic development organizations

Strategic



- **Investment promotion strategies:** define the objectives for inward investment promotion, setting out priorities and targets for sector/business functions
- **Competitive location benchmarking analysis:** provide tailor made analysis of the attractiveness of regions/countries as investment locations relative to key competitors, covering a range of sectors and business functions, and based on typical investor's requirements
- **Economic impact analysis:** analyze impact of policies and initiatives on the attractiveness of specific locations to investors, coupled with broader economic impact assessments for investments
- **Strategy workshops:** conduct workshops to review investment promotion strategies and provide advice on trends and upcoming changes
- **Smarter cities strategies:** based on the city's unique vision define strategic priority areas to become smarter

Operational



- **Investment trend analysis:** provide comprehensive investment trend analysis for countries and regions across the world using IBM's Global Investment Locations Database (GILD) - a unique database that records investment project announcements around the world on an ongoing basis
- **Marketing strategies and tools:** develop marketing tools and initiatives based on investor needs, including the unique IBM-PLI Location Benchmarking Tool to validate your location's proposition and market this to prospective investors using their own location selection criteria and techniques
- **Analysis and advice on Economic Development Organization (EDO) effectiveness:** analyze and provide advice on structure, organization and operations of EDOs, based on international best practices

Tactical



- **Training:** train economic development staff on the corporate location decision process, how to undertake investment promotion activities and initiatives, and deal with investors
- **Location Intelligence On Demand:** deliver ongoing support services, providing prompt responses to urgent requests for market or location intelligence

Examples of recent clients for inward investment & economic development services

