Is your FDI-strategy future-proof?

Investment agencies face new challenges

KARRES-ARCUS*plus* WHITEPAPER

Introduction

Attracting foreign companies to a city or region used to be quite an easy game. Selling land and creating jobs. But this has become a bit old-school. Perhaps it's a logical development: land and especially talent are scarce, while prices for energy and raw materials are very unstable. So why bother? Support by the public is also slowly disappearing. New companies? That means big boxes and messy business parks! Meanwhile, climate ambitions are high and all over the place: every region wants to be a sustainable frontrunner. Volume is becoming less and less important, it's more about 'value'. Any companies to be attracted must therefore be clean, smart and green. Making such a move as an investment agency is not a piece of cake! We see a number of problems on the road from 'volume to value'.

Attracting new businesses 'as we know it' is old-school! Job creation is out of fashion, sustainability and circularity are hot. Cities and regions: lead the way!

Determining 'value' is not an easy task

When does a company have much or little value for your economy? Determining this seems almost an impossible task. Employment was always leading for 'Standort' promotion. Topics such as sustainability, circularity, innovation and, especially now, contribution to the energy transition appear to be leading, from a political point of view. So, companies also have impact and even reinforce ecosystems. But how do you weigh these factors?

Ideally, the concept of 'value' aligns with strategic choices made by cities or regions. Meaning: companies that contribute to the spearhead sectors or markets are especially welcome. However, these strategic choices must be actually made. And that is not easy in practice. Germany and its regions support a variety of topsectors and a large number of niches within these sectors. Even cities do not put all their eggs in one basket, with increasing efforts being made to attract green, innovative and sustainable companies.

Incidentally, other 'value factors' can be added to the chosen markets or sectors, such as innovation and community involvement. This will create a nice and clean checklist. Subsequently, it must still be identified to what extent a company really offers 'value'. What is a good score and what is not? Will this be determined by a committee of wise men or just an Excel spreadsheet? 'New style' KPI's can be tricky, you know.

KPI's 2.0: possible criteria for determining 'value'

- Sector or (key) technology
- High-tech versus low-tech
- Quality of employment
- Inclusiveness of employment
- Contribution to smart mobility or industry
- Contribution to clean energy
- Collaboration with education and labor market
- Degree of circularity
- Ways of financing
- Regional ties and/or strengthening clusters
- Social impact

Source: ARCUS*plus*, 2023

In fact, we are treading on thin ice here. An average distribution center will undoubtedly score low in 'value'. But what about a sustainable and very innovative building, where products are processed, stored and recycled, such as Levi Strauss in Dorsten? What about a fully automated warehouse that combats scarcity by saving space and labor? Does a startup's new office, that is largely filled with expats, really offer much value? How do we assess a circular company that takes up above-average space? Are family businesses necessarily more sustainable than multinationals? What about a company setting out on service and logistics for green hydrogen, such as Plug Power in Duisburg?

Those are going to be tough decisions to make! And a strict set of requirements can be paralyzing for companies. Rather, turn it around! Choose the sectors or markets that are of value to your city or region upfront. Make sure you know what these entrepreneurs need and respond catered to their wishes.

Fewer fish in the pond: temper expectations

So, determining the focus is already a hefty challenge. And mind you, subsequently these choices have a major impact on inward investment results. Indeed, selectivity is the key word when ‘value’ is leading. It makes the pond in which to fish smaller. Logically, this will reduce the number of new established companies. Meanwhile, site selection processes are becoming more complex.

After all, targeted FDI-attraction means that it takes more effort to find the right customers. It will sometimes feel like looking for a needle in a haystack. And once in talks, the customer then sets higher standards than the average distribution center or sales office. The ‘new style’ of setting-up an operation requires a lot of knowledge of markets, innovation, technologies, talent and ecosystems. This leads to longer intakes and longer mentoring of newcomers. Local politicians will have to be patient. The number of ribbons to be cut or 'ground-breaking ceremonies' will be clearly decreasing.

A targeted, strategic approach to attract new investments will demand a lot of your organization. It requires detailed knowledge of markets, technologies, and talent.

So, are you also going to say 'no' to your customers...?

For years, foreign investments and new establishments have brought something extra and something new: technology, market access, scale, and organization structures. They can also have quite a spin-off. A simple sales office can grow into a European headquarters and/or an innovative production site. Therefore, from something of modest size with relatively low value, an investment of high value eventually could emerge.

If investment agencies say ‘no’, or start promoting a new ‘value’ approach, less-desirable operations do settle down next door and cities or regions – in the long run – do not reap the benefits. In other words, choosing is also losing. And can you even afford to say ‘no’? Not every city or region can simply pull the 'value card'. Consequently, here too, 'the proof of the pudding is in the eating'.

Are you equipped to attract ‘value' businesses?

Attracting companies with ‘value’ therefore requires a different, more proactive approach. This not only concerns the competencies and knowledge of the involved business manager. The markets involved, think AI, agritech, proteins or hydrogen, are less obvious and less defined. It is still quite uncertain where market dynamic exists, what requirements companies have and who the key players are. And how do you find the desired scale-ups or unicorns in these markets? This requires deepening and specialization. Knowledge is the basis of all this. As well as a very sharp value proposition of your city or region. But even more important is the question of whether your business climate is ready for the step to 'value'.

Attracting ‘value’: checklist how to seduce
1. Clear choices for (value)sectors/markets
2. Sharply and structurally raising your profile in the market
3. Deepening of knowledge of ecosystems
4. Building up the right business intelligence
5. Pro-active, focused, and professional marketing
6. Managing stakeholder expectations
7. High-quality support of companies setting-up operations
8. Cross-city border cooperation
9. Relying on the market forces and adjustments
10. A long-term focus

Source: ARCUS*plus, 2023*

The art of seduction

Yes, the art of attracting investments finds itself in the middle of a transition. But let's not get lost in spreadsheets and checklists and pretend that everything is makeable. Making real choices can help you a great deal. And communicating this clearly to your markets and companies, for several years in a row. The story, the proposition, as the starting point of seduction. Then you will ultimately get the customers you are looking for.

In addition, one may also rely on how the market operates. ‘Greening’ and ‘sustainability’ are happening in all areas of business. Forced or not by a range of existing and new governmental measures, varying from the billions in Brussels to gasless business parks and mandatory solar roofs.

The scarcity of land also forces parties to make choices and start innovating in location and real estate development. But choices require the right investments and preconditions to facilitate 'value'. And that is often overlooked.

It is also about raising your profile, effective communication and the use of data/business intelligence.

Then it's not just about the physical factors. It is also about marketing, communication and deployment of data/business intelligence. And also, at the end of the day, about the quality and organization of investment attraction. So really deploying the available capacity for the right actions. In addition, come up with a good framework that offers room for innovations and cooperation regarding topics such as smart mobility, life sciences, circular economy, and cybersecurity. Put your energy into the right things. In other words, seduce! But you will have to be SMART about it.

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KARRES-ARCUSplus supports its clients with a clear strategy and with powerful tools, to be executed instantly in order to attract new business and retain current investors.

KARRES-ARCUSplus stands for:

1. *Specialists regarding Foreign Direct Investment (FDI) and Location Marketing;*
2. *Contribution to attracting and retaining (foreign) companies, and a better promotion of cities, regions and business locations;*
3. *Focus and the right tools delivered for better results;*
4. *Consultants who have worked for: Netherlands Foreign Investment Agency (NFIA); Brabant Development Agency (BOM); Holland International Distribution Council (HIDC); Stec Group; Ernst & Young;*
5. *Clients represent private and public sectors with cross border focus: corporations, ministries, Länder, regional development agencies, municipalities, campuses.*