



IBM Global Business Services
Plant Location International

Location Decision Making and the Role of Incentives

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Workshop World Bank Group
Istanbul, 20 September 2010



Content

- Introduction
- Location Decision Making
- Impact of Incentives
- Implications for Economic Development and Investment Promotion
- Annex

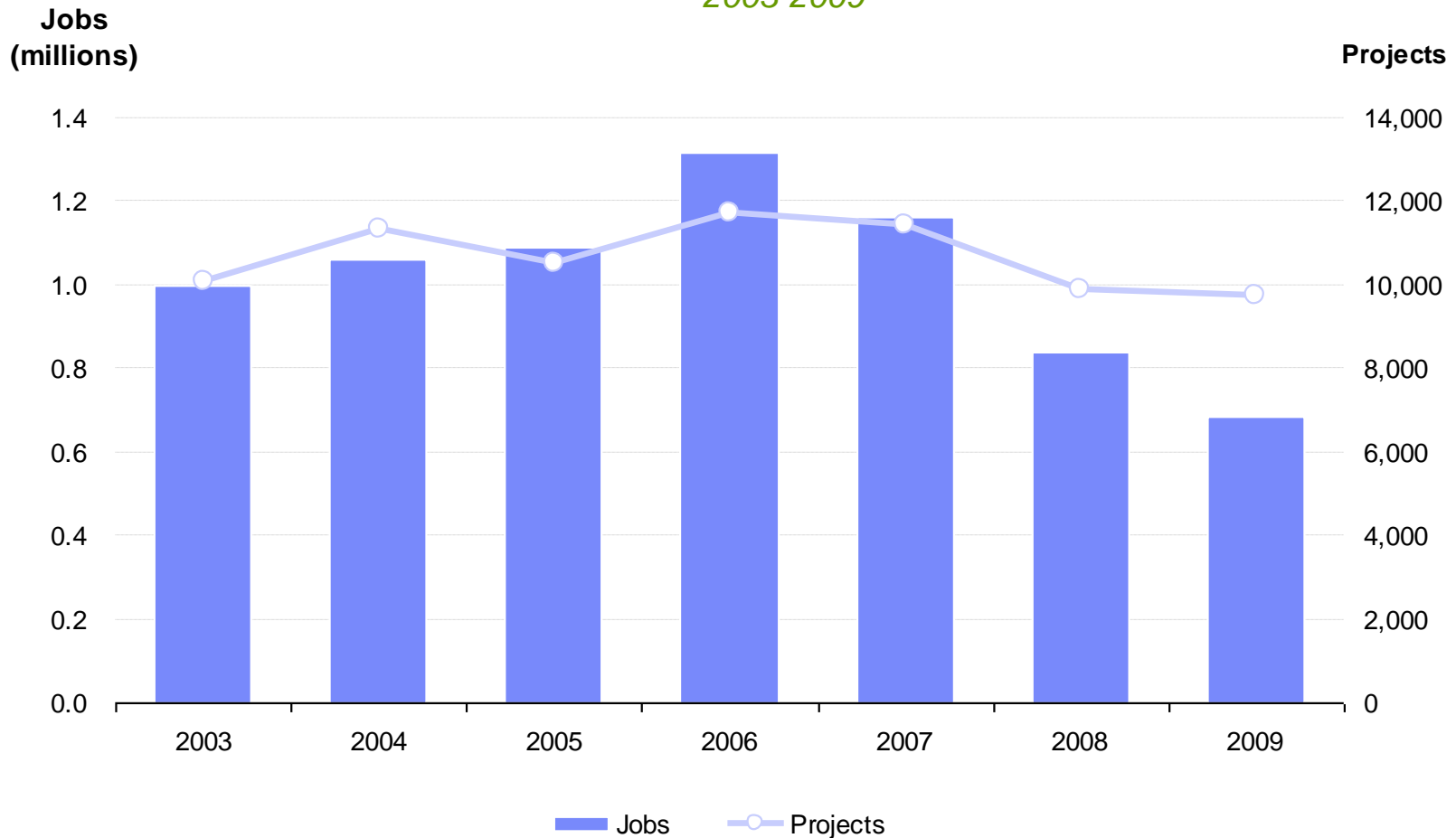
Content

- Introduction
- Location Decision Making
- Impact of Incentives
- Implications for Economic Development and Investment Promotion
- Annex

Crisis continued to impact foreign investment activity

Jobs down by almost 20%; initial signs of recovery in H2 2009

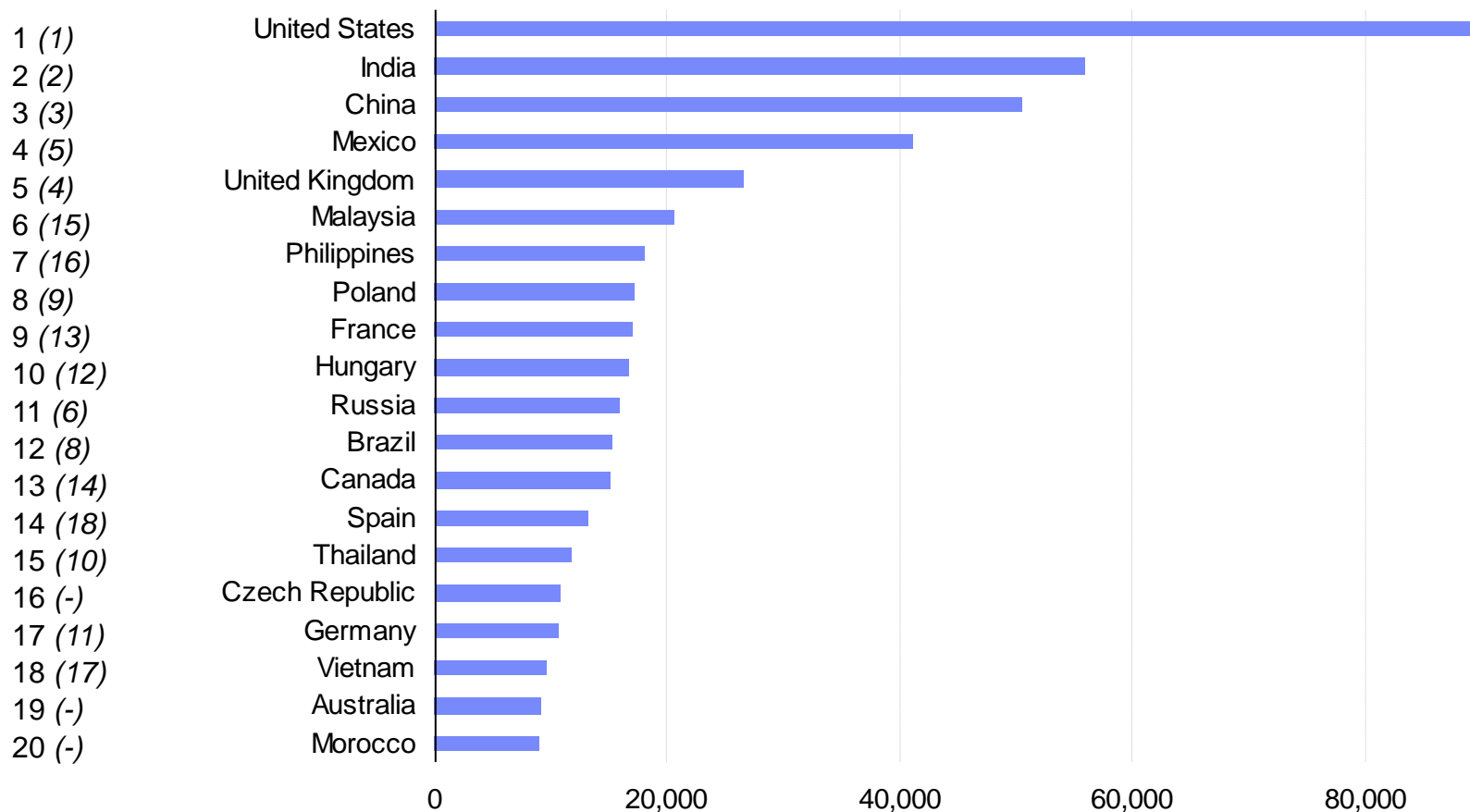
Evolution of job creation versus attracted projects
2003-2009



Emerging markets suffered most, due to investors postponing large projects. USA remained stable

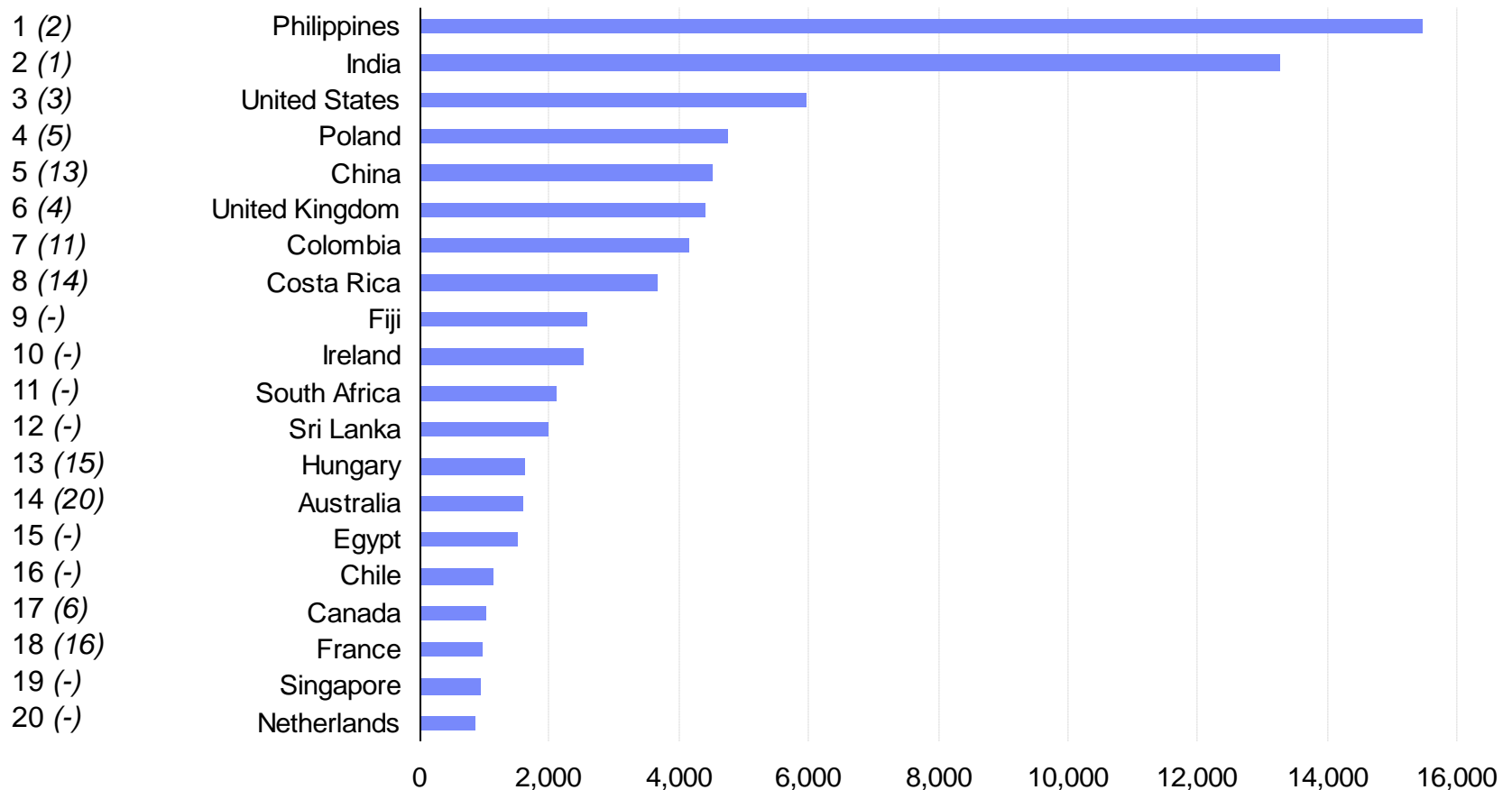
Top ranking destination countries by estimated jobs

2009 (08)



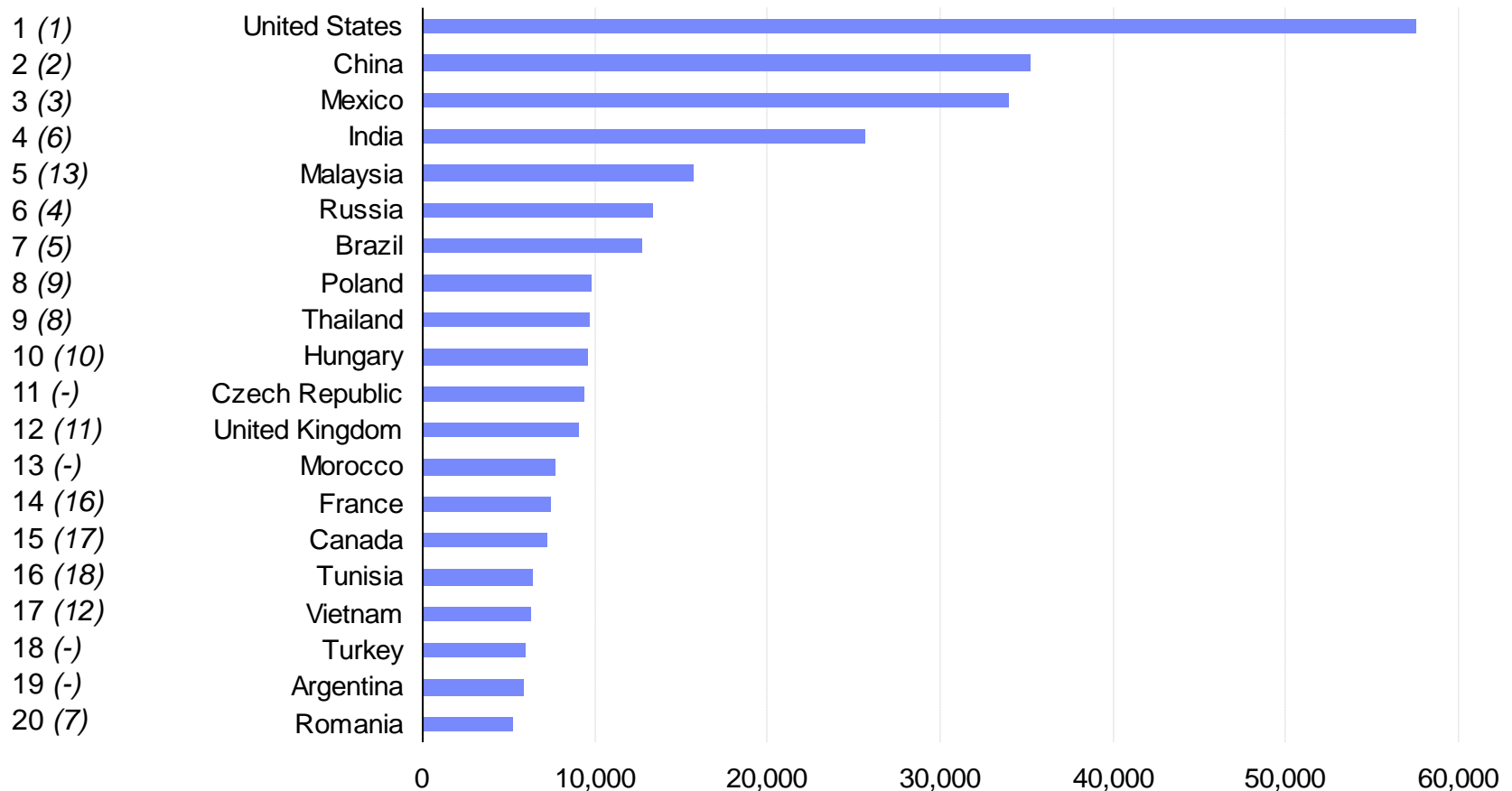
Philippines has overtaken India as top destination in 2009. Mature countries remain important destinations for services projects

Top ranking destination countries by estimated jobs in business support services 2009 (08)



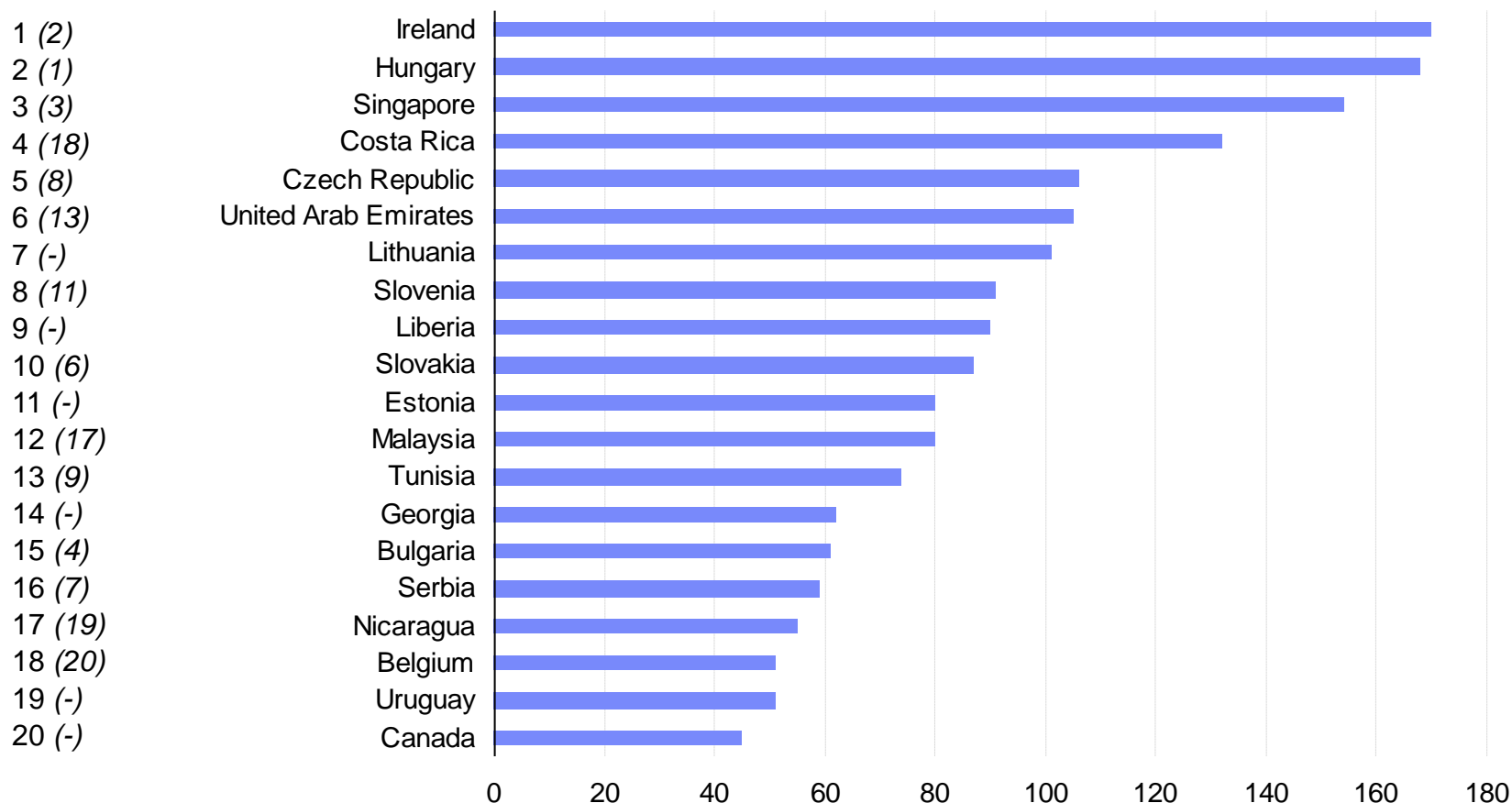
Investment in production remained low: BRIC and other emerging markets were especially hit.

Top ranking destination countries by estimated jobs in production 2009 (08)



Ireland, Hungary and Singapore topped the list of recipient countries in 2009. Countries with strong economic development perform well.

Top ranking destination countries* by estimated jobs - per 100,000 inhabitants
2009 (08)



* Countries with less than 1 million inhabitants not included

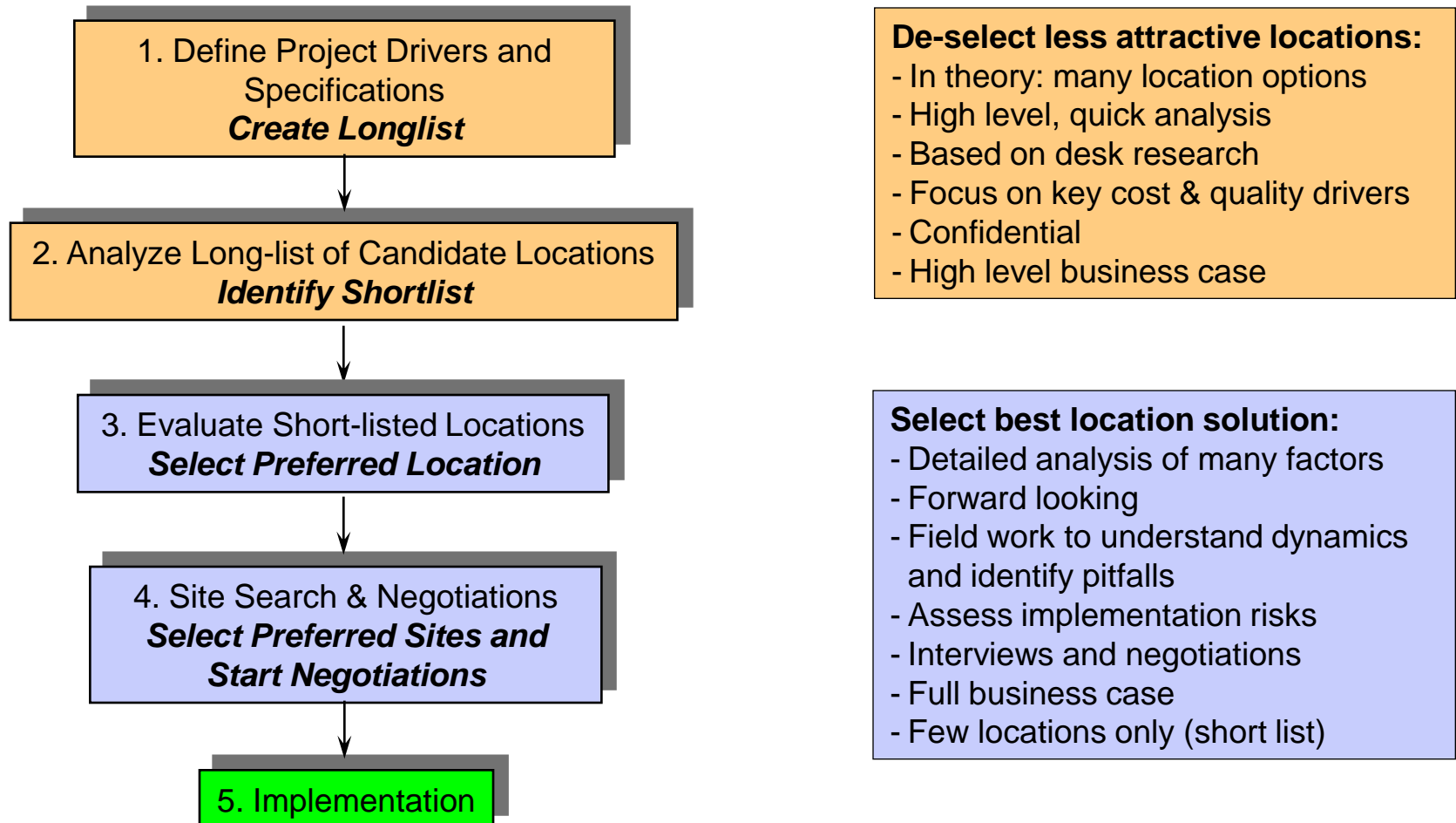
Content

- Introduction
- Location Decision Making
- Impact of Incentives
- Implications for Economic Development and Investment Promotion
- Annex

Strategic investment drivers and location criteria

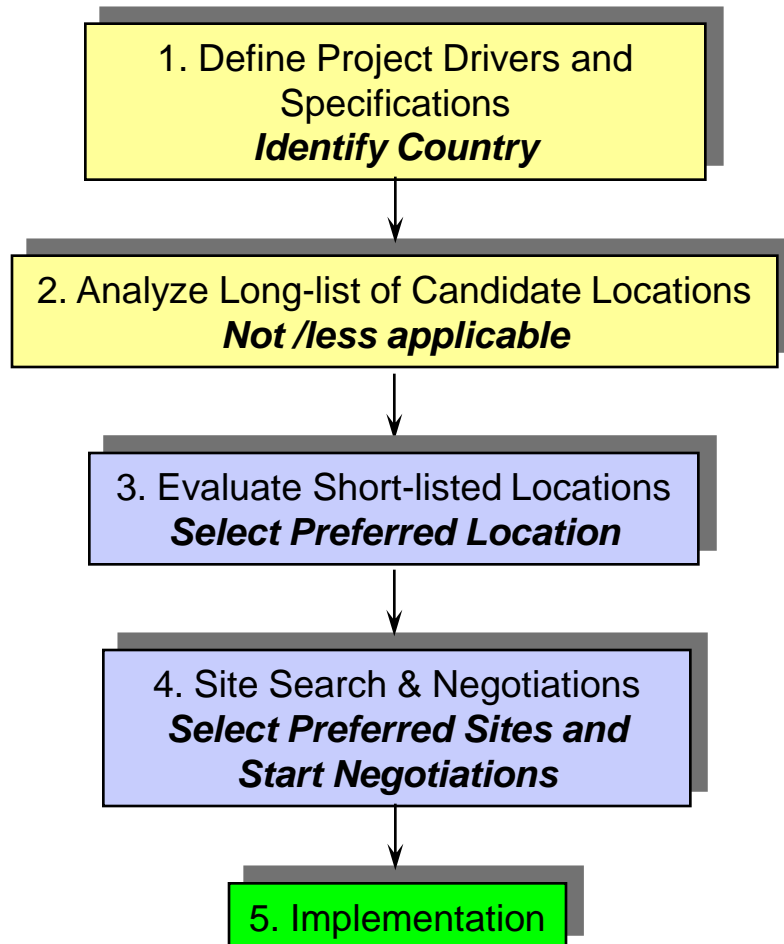
- Location selection process & criteria are different for every company
- There is no such thing as ‘a list of most important factors’
- Corporate strategy impacts location requirements and their relative importance for individual projects
- Strategic drivers for global investment:
 - Access to new markets (growth, expansion)
 - Access to resources (seeking competence: skills & clusters)
 - Optimize cost efficiency (consolidation)

Typical steps in location selection for 'mobile' investment projects: multiple international locations



Market driven investment projects

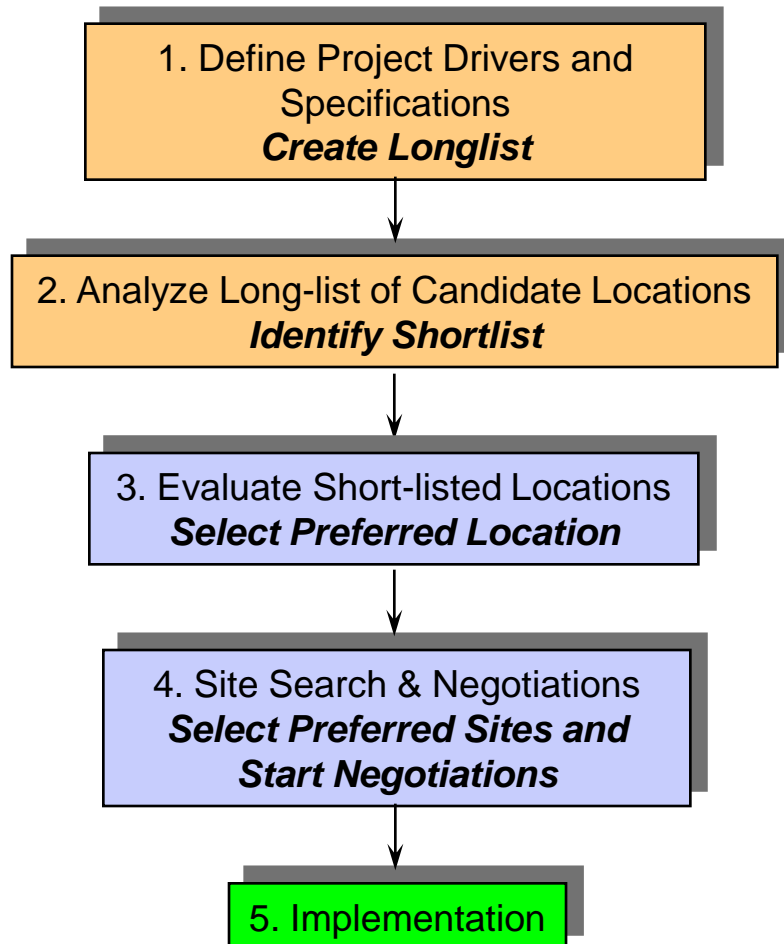
Focus on market entry into single country/region



- Focus on single country/region
- No international comparisons
- Faster process
- Focus on validating business case and in-country location selection
- Supply chain factors crucial

Resource driven investment projects

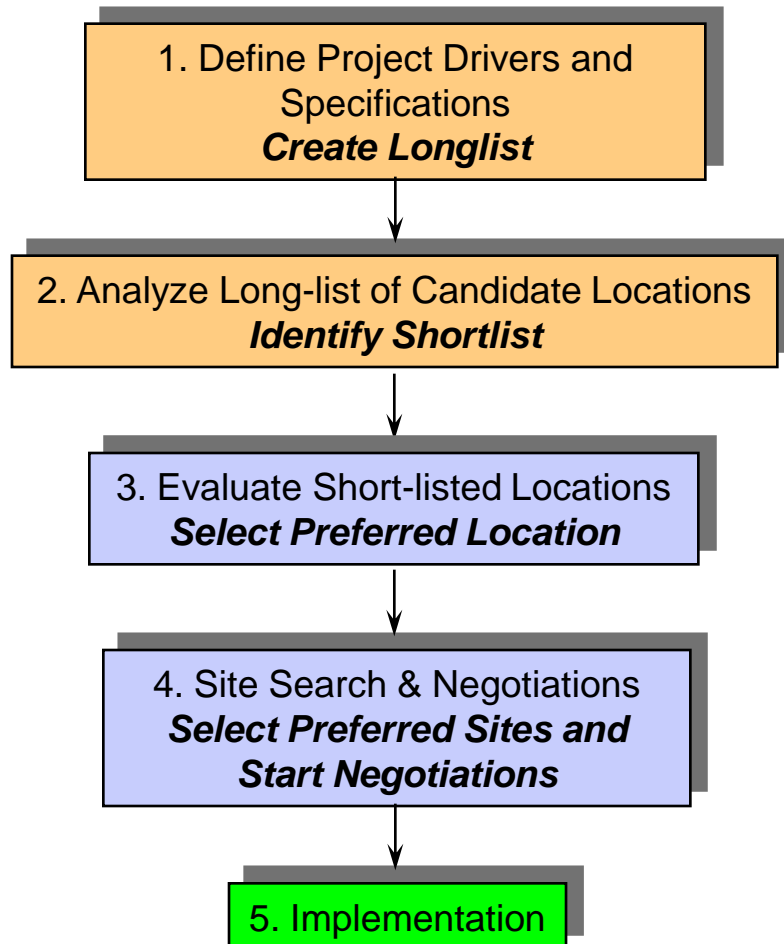
Focus on access to competence (skills, clusters)



- Focus on concentrations of clusters and talent pools
- But not solely! Many factors of impact
- Process very similar to typical process
- Throughout process, access to resources has higher priority

Efficiency driven investment projects

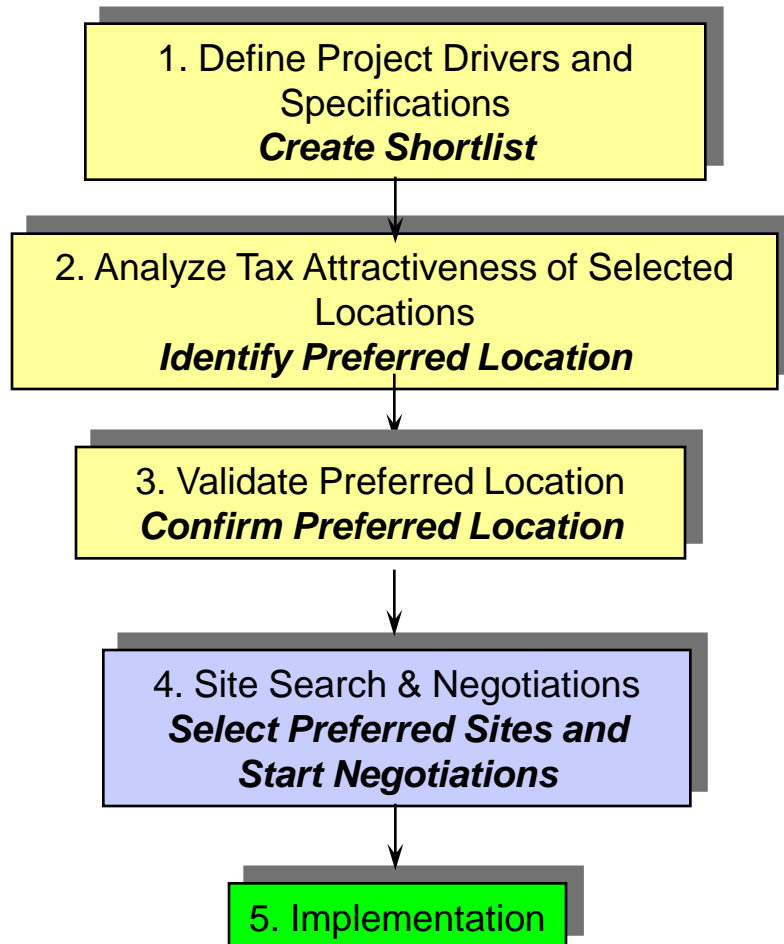
Focus on factors that determine cost efficiency (operating costs, taxes, investment costs)



- General cost levels critical for longlist selection (labor!)
- Throughout process strong emphasis on cost, but not solely!
- Process very similar to typical process
- Incentives stronger role than in other location strategies

Efficiency driven investment projects

Corporate income taxes can be a unique driver for location selection



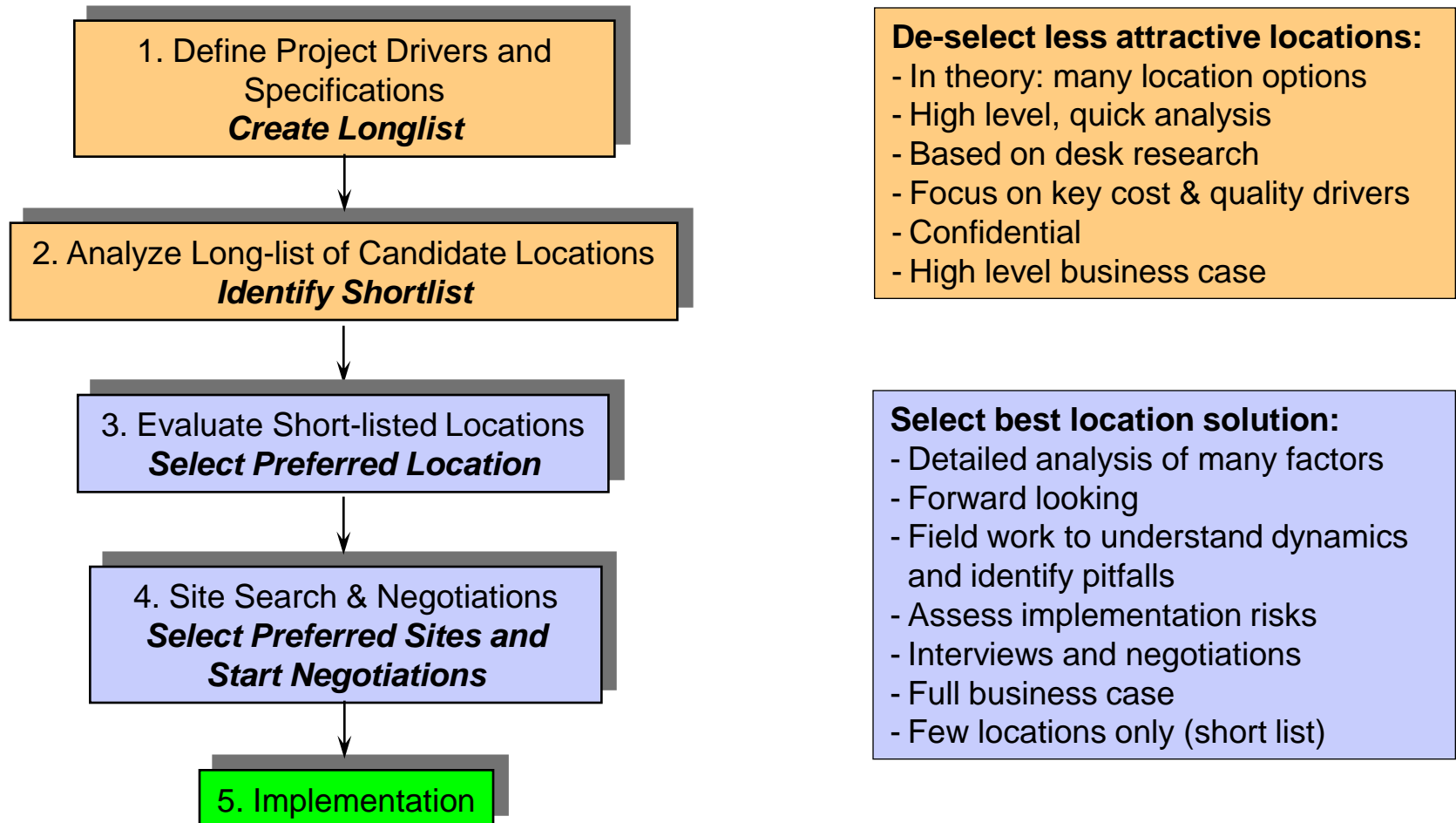
- Corporate income taxation drives shortlist selection & identification of preferred location
- Validation meant to confirm other requirements
- High operating costs less relevant

Differentiation of role of incentives

<i>Driver for investment</i>	<i>Role of incentives</i>
Market driven investment	<ul style="list-style-type: none"> - Improve business case - Determine location within country
Resources driven investment Mobile investment	<ul style="list-style-type: none"> - Incentives one of many factors, but not key in selection of countries - However: can be deal maker/breaker - Focus on support with project implementation
Efficiency driven investment	<ul style="list-style-type: none"> - Stronger role, since cost reduction - But still one of many factors
Tax driven investment	<ul style="list-style-type: none"> - Low tax as key location driver - Structural low income tax or long term guaranteed tax incentive

Back to the typical process

What are the steps and which factors are considered?



Step 1 - Defining key qualitative location assessment criteria

- An initial list of location candidates (countries, regions or communities) is typically screened on a broad range of location factors.
- Both financial and qualitative factors are identified based on strategic, geographical, industry, and corporate context.
- High level **financial analysis** focuses on key financial performance drivers.
- **Qualitative analysis** assess all key non-financial factors, each weighted on their importance (see to right). Locations are scored on each location factor. Overall weighted analysis identifies best quality candidate locations.
- Cost-quality maps are developed to identify locations that best meet project requirements (see next page).

Qualitative location category	weight	
General business environment	15	
Data privacy	5	
Potential to recruit & retain skilled staff	30	
Language skills	5	
Flexibility of HR & regulations	20	
CLIENT specific considerations	10	
Living environment	5	
Infrastructure & communications	10	
	100	
Qualitative location factors	weight	overall weight
General business environment		
Political stability	30	5%
Economic and financial stability	30	5%
Business ethics & bureaucracy	30	5%
Quality of support from local government & development agencies	10	2%
	100	15%
Data privacy		
Data privacy	100	5%
	100	5%
Potential to recruit & retain skilled staff		
Overall size of labor pool	10	3%
Presence of experienced finance staff in local labor market	30	9%
Presence of inexperienced staff (fresh graduates)	25	8%
Possibility to avoid competition for similar skills	25	8%
Overall tightness in the labor market (unemployment)	10	3%
	100	30%
Language skills		
Mastery of corporate language (English)	50	3%
Presence of relevant native speakers	20	1%
Local knowledge of relevant foreign languages	20	2%
	100	5%
Flexibility of HR & regulations		
Flexibility of working time regulations	30	6%
Flexibility of working practices	40	8%
Hiring & firing flexibility	30	6%
	100	20%
CLIENT specific considerations		
Potential to deploy current CLIENT staff	70	7%
CLIENT strategic interest / presence in country	10	1%
Office space available at existing CLIENT sites	20	2%
	100	10%
Living environment		
Cost of living	40	2%
Attractiveness of location for international recruits	60	3%
	100	5%
Infrastructure & communications		
International air access	35	4%
Quality & reliability of telecommunications	35	4%
Office vacancy in local property market	30	3%
	100	10%
		100%

Example

Step 1 - Defining assumptions for high level financial evaluation

C2. Agro-food processing

General description of operations

ACTIVITIES

Integrated development and manufacturing of healthy foods or nutraceuticals

KEY PROJECT DRIVERS

- Proximity to nutrition research resources
- Good interstate highway infrastructure
- Clean air in immediate vicinity
- Surrounding cluster of food processors
- Large number of consumers in 200 mile radius

CAPITAL INVESTMENT

\$US 27 million

Assumption in terms of project requirements

LABOR

Total headcount	100
Position	Number
Food scientists	10
Food sciences technicians	10
Cooks	10
General office clerk	10
Maintenance and repair workers	10
Mixing and blending machine operators	30
Packaging and filling machine tenders	10
Order clerks	10

PROPERTY

Site :		
Surface	15	acres
Building :	110,000	sq ft
Production	80,000	sq ft
Warehouse	20,000	sq ft
Laboratory	5,000	sq ft
Office	5,000	sq ft
Lease / own / build-to-suit	build-to-suit	
Opportunity cost		
Land	5%	
Building Amortization Rate	12.50%	

Operational assumptions for financial analysis

cost related graphs

Example

UTILITIES

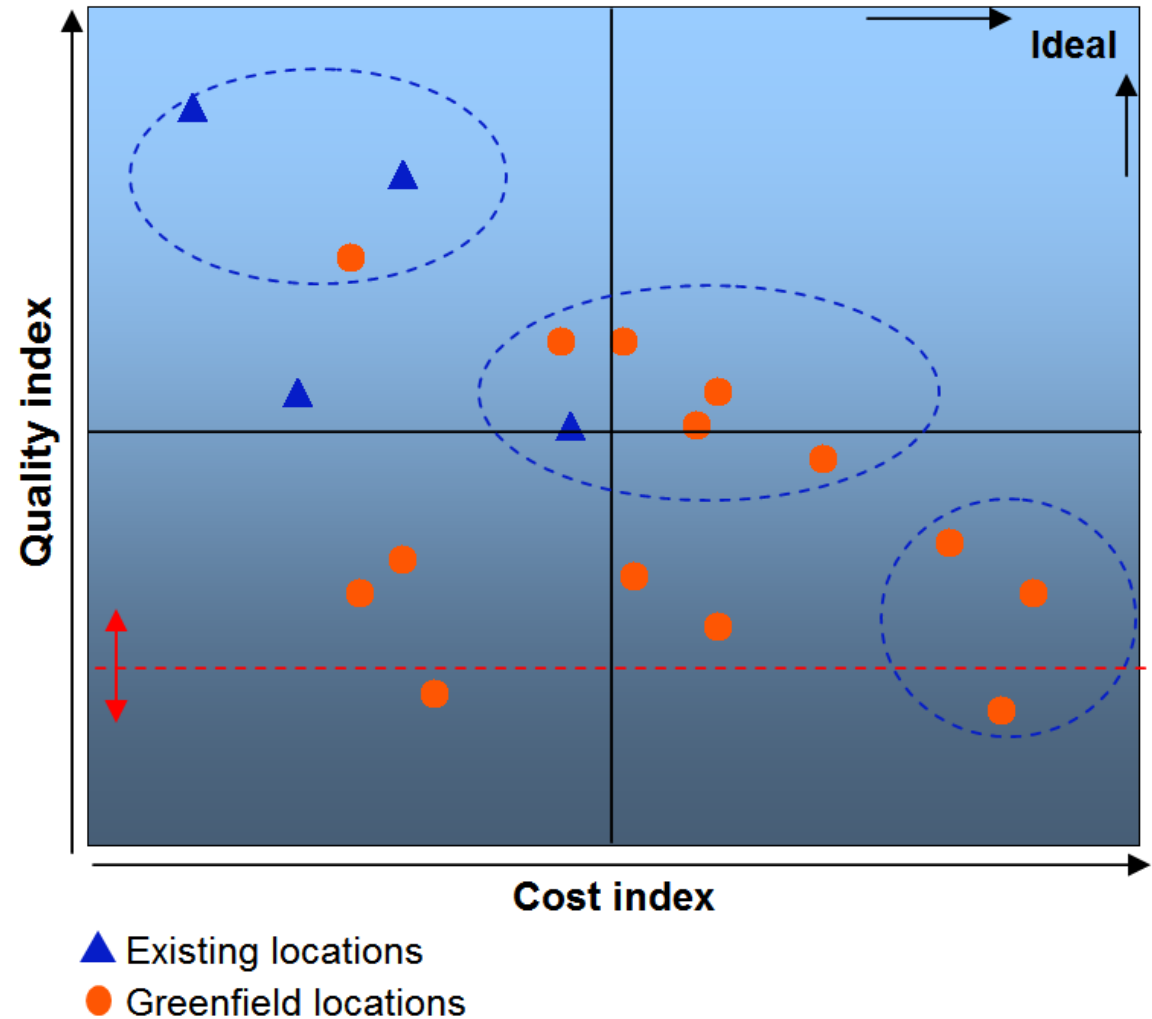
Power :		
Monthly consumption	500,000	kWh
Gas :		
Monthly consumption	6,000	MCF
Water :		
Daily consumption	30,000	gal

INCOME TAXES

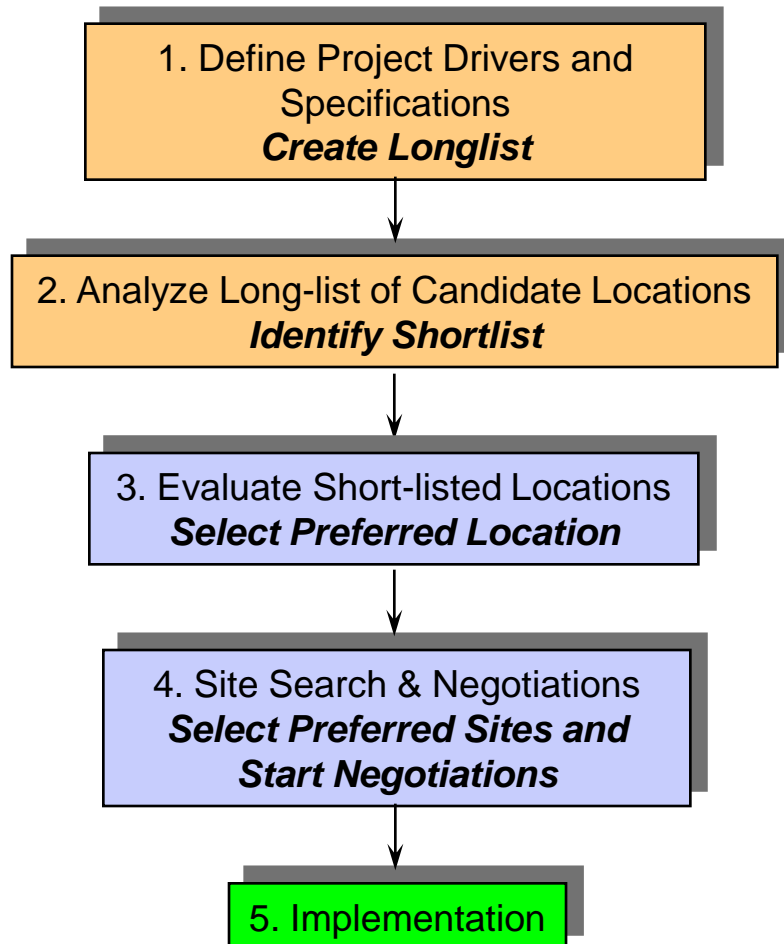
Cost center model:	
Profit markup	10%

Step 2 - Assessing the trade-off between cost and quality of locations to identify best location options

- Based on key qualitative requirements and assumptions for financial/cost analysis, locations can be quickly screened on their attractiveness for specific business operations.

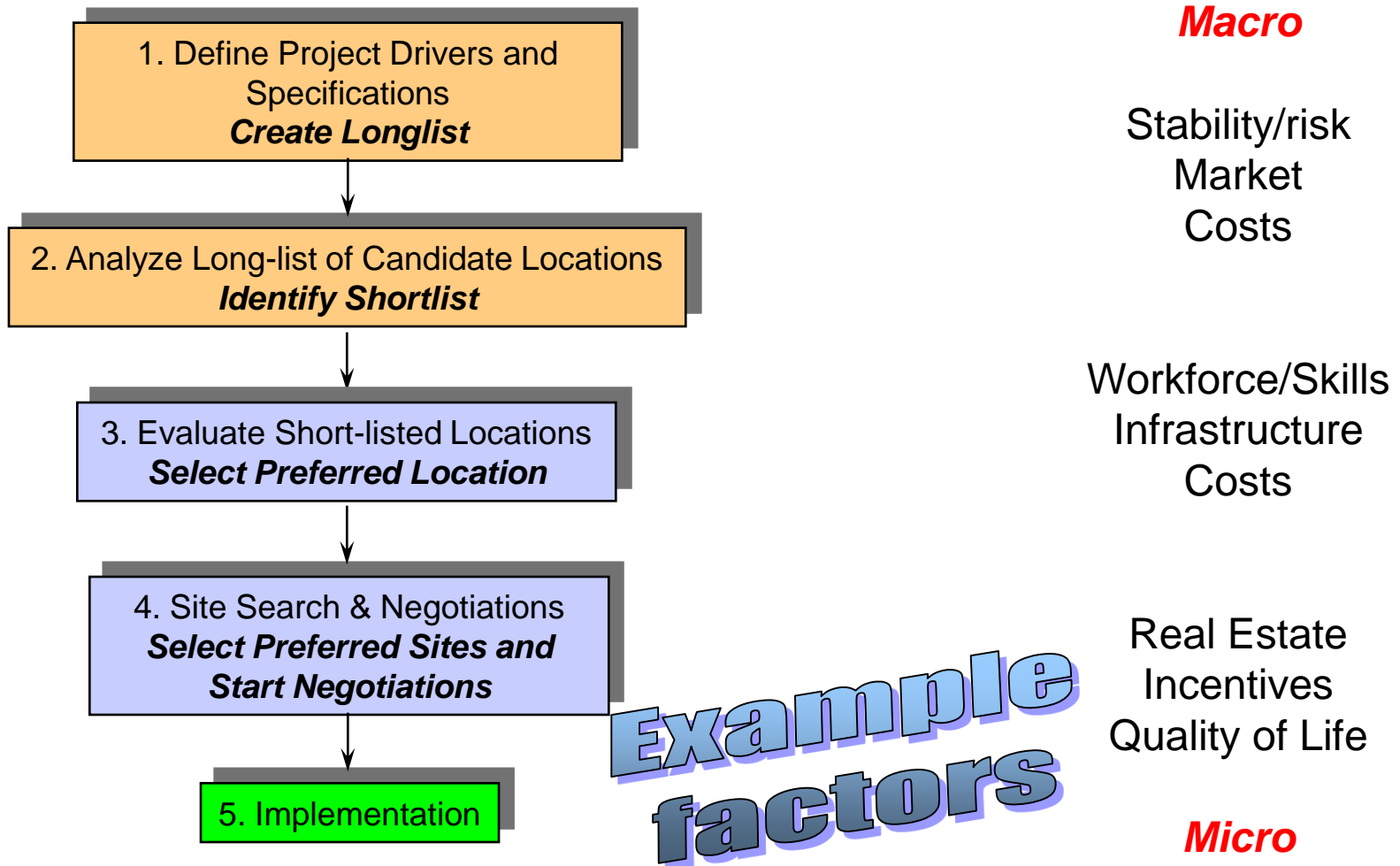


Location factors are not only different by investors, they also change throughout the process

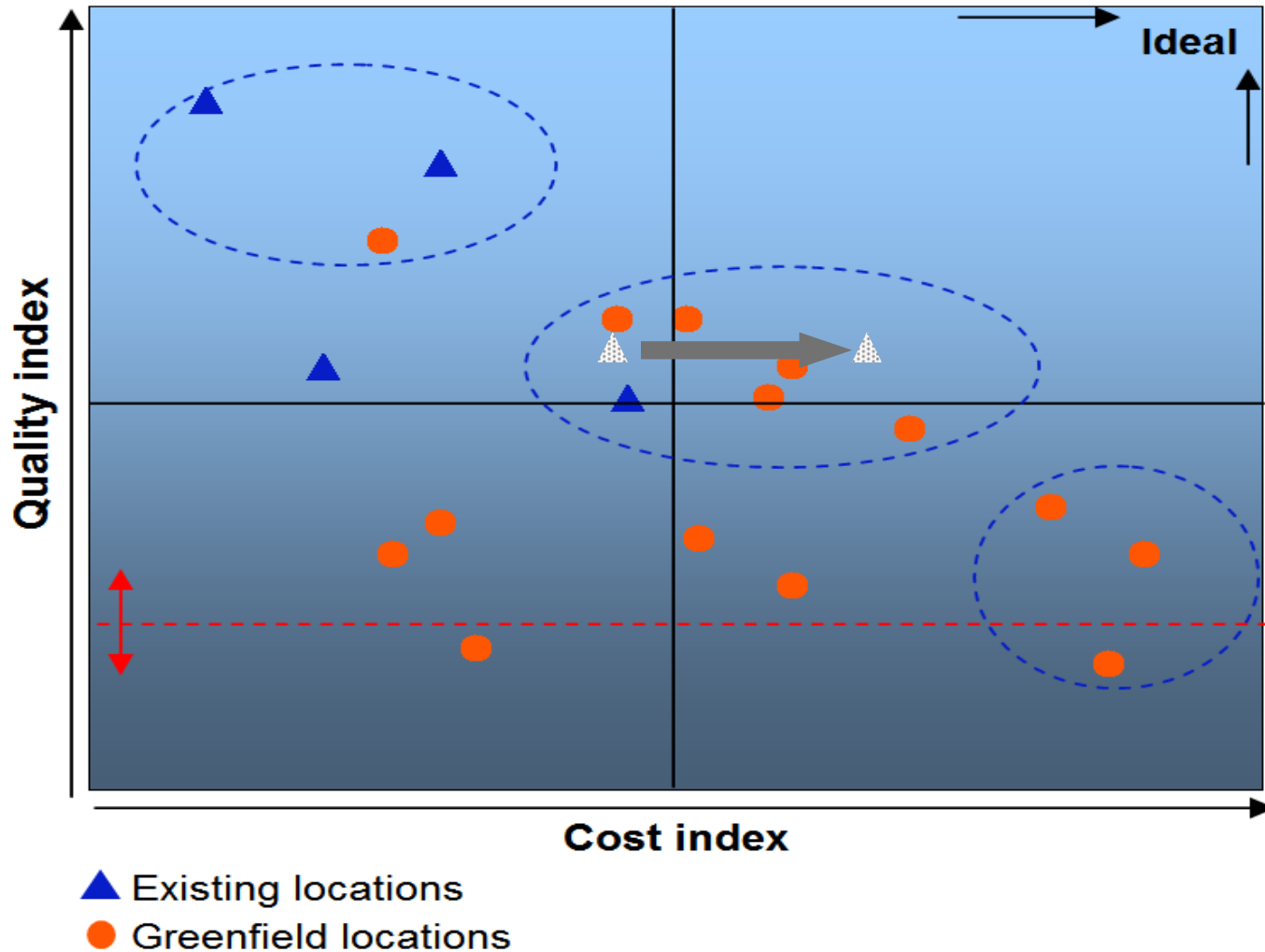


- Most critical requirements define the longlist of possible locations
 - Examples: Market/client proximity, Cost levels, Stability, Safety, ...
- During assessment of locations:
 - Many different factors are considered
 - Factors and their priorities change as the location selection proceeds

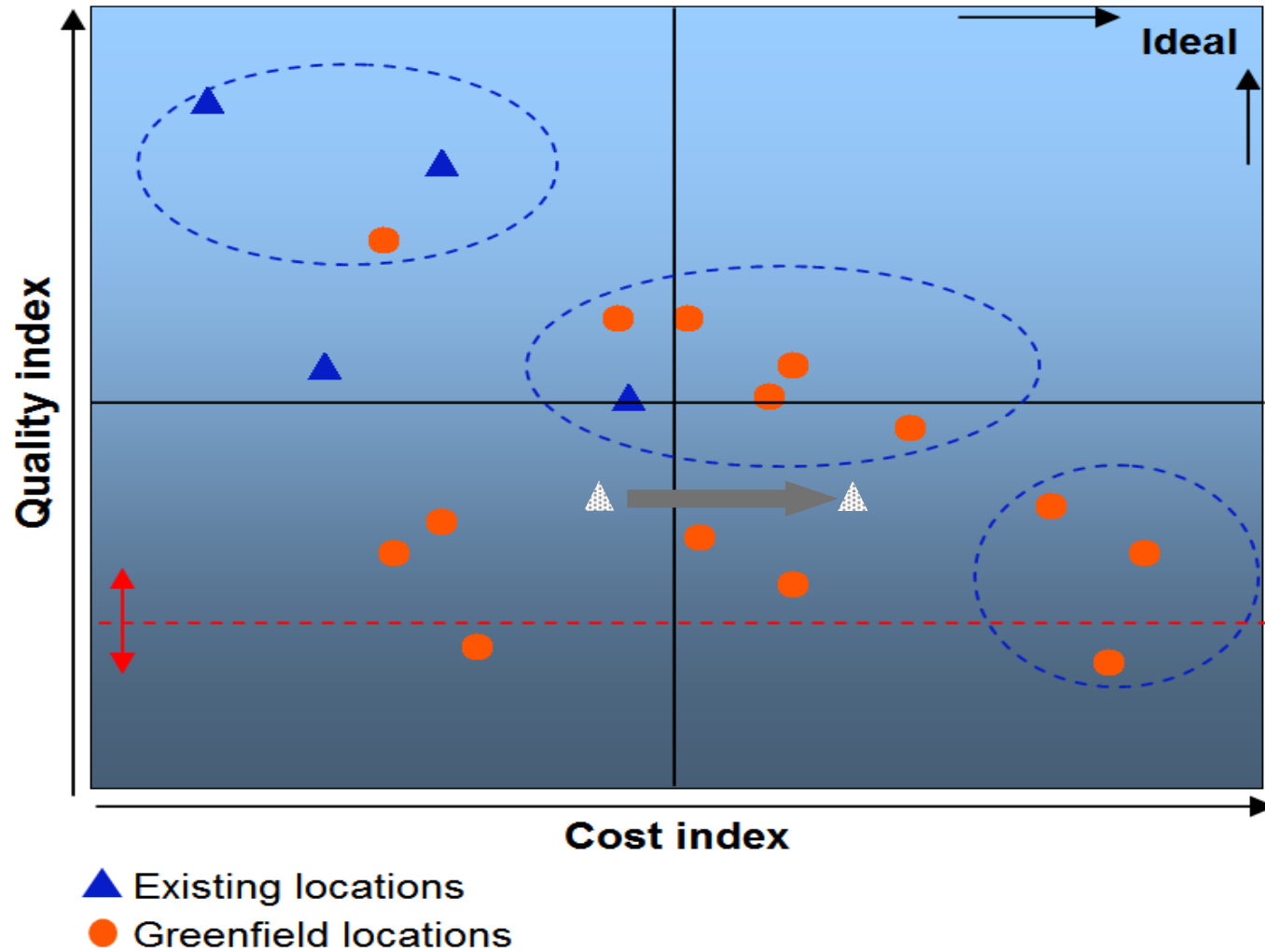
Incentives typically are less important in the initial selection phases, but can play a (strong) role in the final stage



Incentives CAN strengthen the location offer, and turn a reasonable proposition, into a strong proposition



BUT: incentives can never compensate for a weak offer!



Content

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- Annex

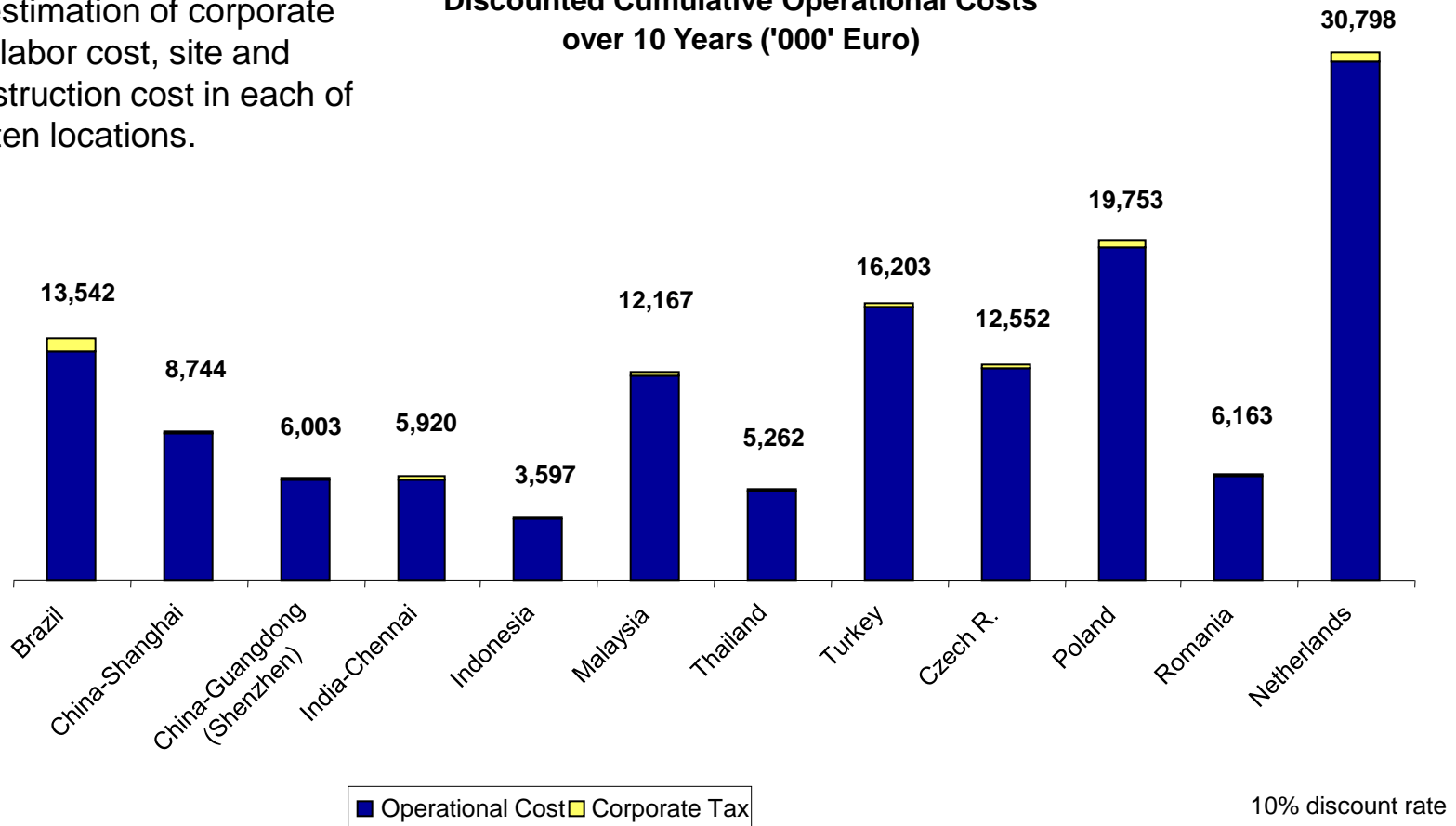
Differentiation of role of incentives by investment/investor

- Strongest variation of impact of incentives can be noticed by **business function**, in particular whether the operation functions as a cost or profit center
- For operations which make limited profits, tax incentives have very little impact. Typical examples are: call centers, share services center, distribution center, etc.
These operations are more impacted by grants based on job creation.
- On the other hand, operations which generate high profits are very strongly impacted by low taxes (standard taxes and longer term tax incentives).
- See case examples on next pages

Example of cost center with low corporate tax burden. Tax incentives will have little impact.

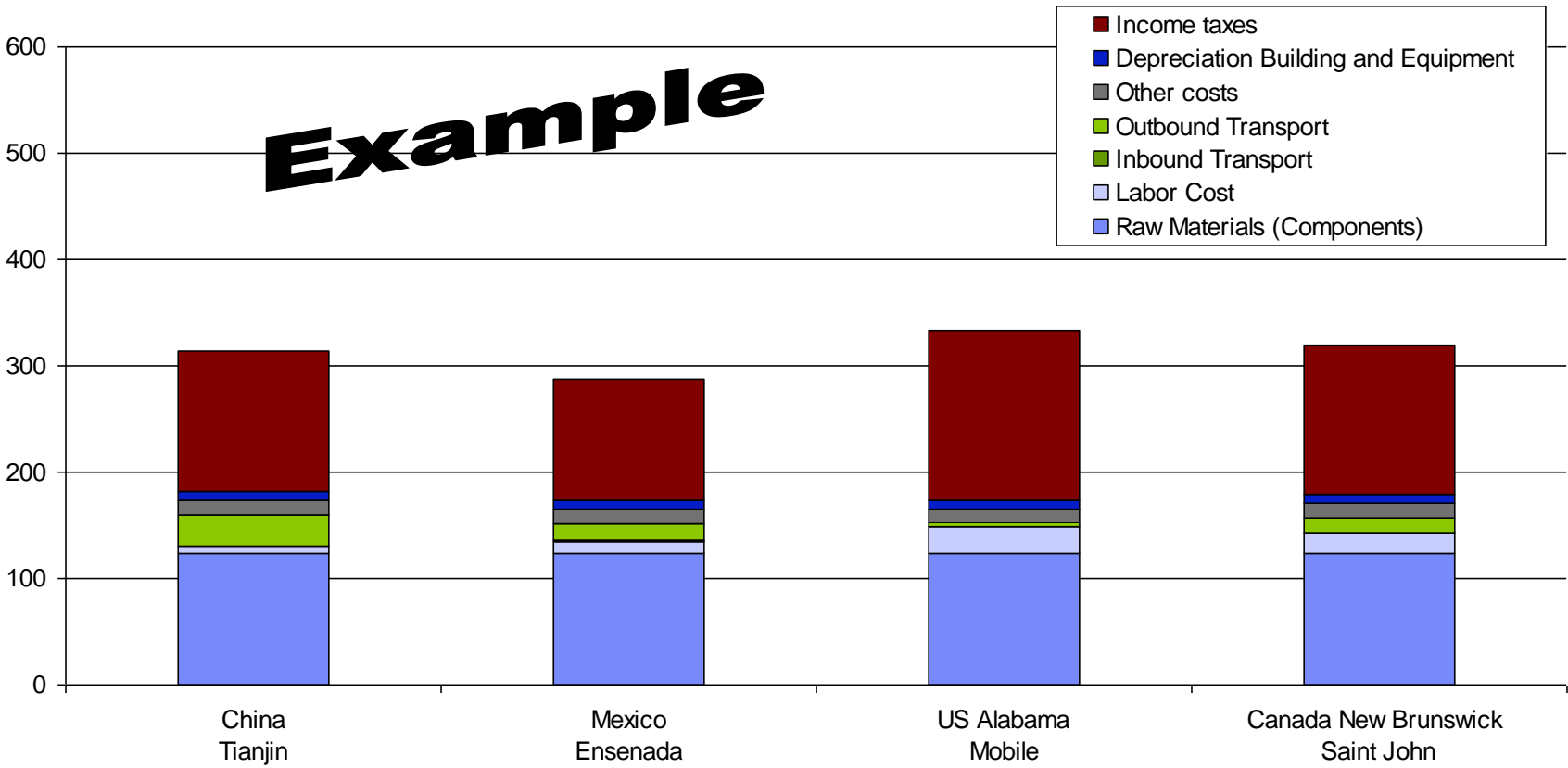
Financial analysis including an estimation of corporate tax, labor cost, site and construction cost in each of the ten locations.

**Discounted Cumulative Operational Costs
over 10 Years ('000' Euro)**



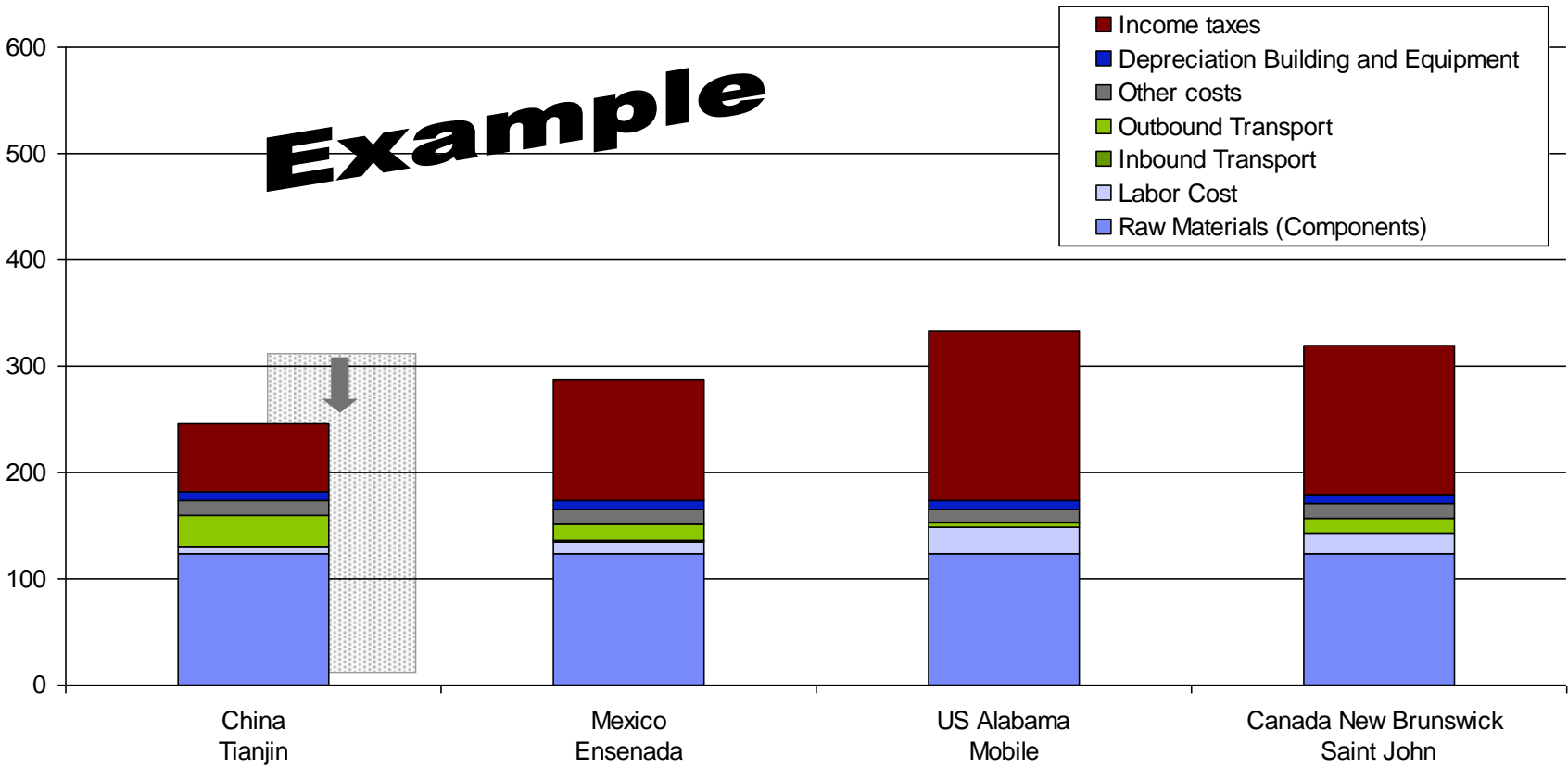
Example of profit center with high tax burden

Cumulative operating costs in million USD over 10 years (discounted at 10%)
No corporate tax holidays in China



Tax incentive has strong impact on financial attractiveness

Cumulative operating costs in million USD over 10 years (discounted at 10%)
Sensitivity analysis: corporate tax holidays in China



Differentiation of role of incentives by investment/investor

- From a **sector** point of view, less pronounced differentiation can be noticed. Although some sectors more frequently have high profit generating projects, and therefore are more sensitive to low taxes. Examples are pharmaceuticals, and high value electronics and medical devices.
- **Origin of the investor** generally shows little variation either, although US investors tend to be more sensitive to incentives (given higher importance of incentives in site selection in their home market).

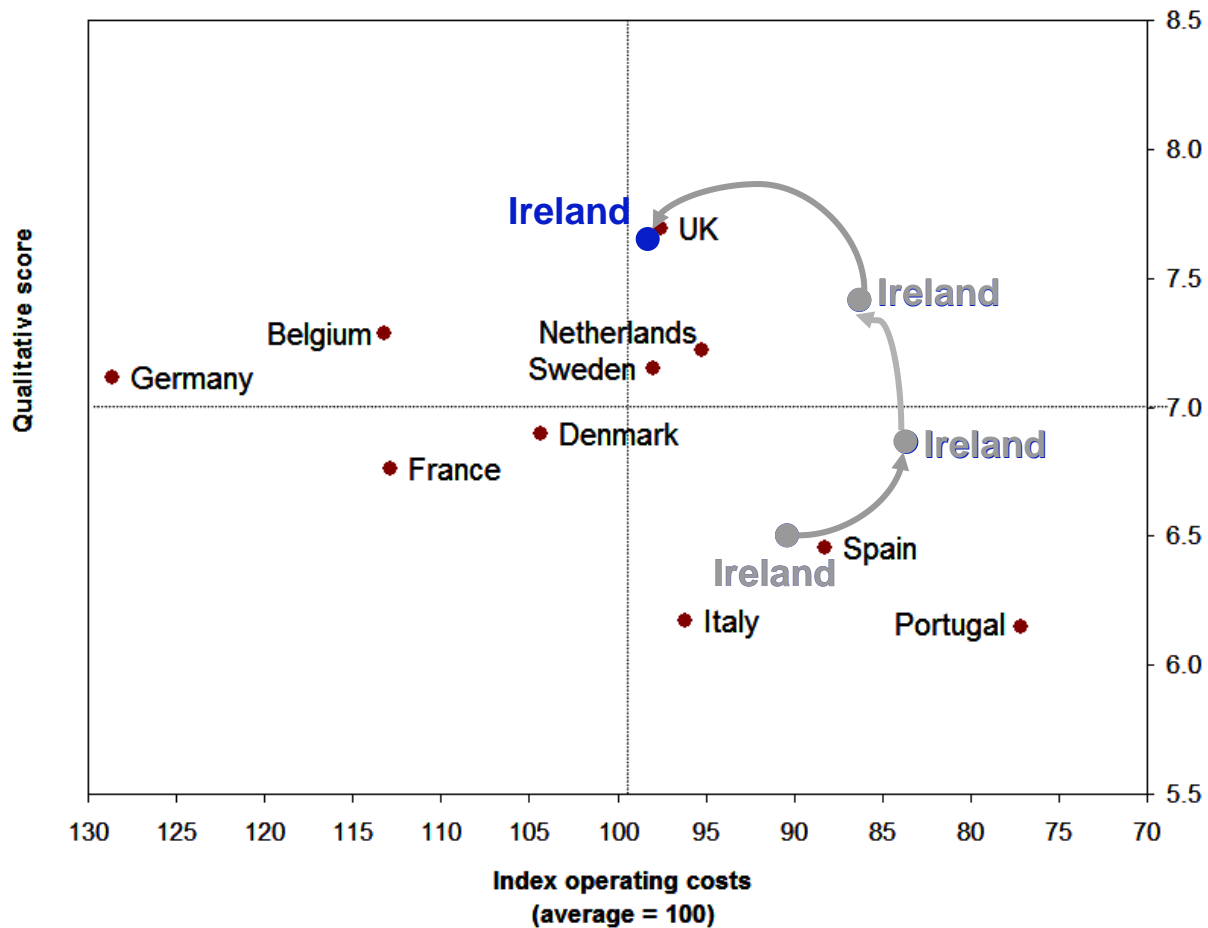
Content

- Introduction
- Location Decision Making
- Impact of Incentives
- Implications for Economic Development and Investment Promotion
- Annex

Role of incentives in economic development

- Investment incentives are one of many factors impacting attractiveness of location, and therefore do impact the overall location's competitiveness
- When used successfully – in combination with other factors – incentives can increase a country's overall degree of welfare (see example of Ireland)
- Incentives can steer economic development in preferred directions, by focusing on:
 - Targeted sectors: diversification, leveraging local strengths, attracting a share of global FDI
 - Targeted regions: stimulating job creation in areas of need.

Impact of (tax) incentives on economic development: *The Irish example*

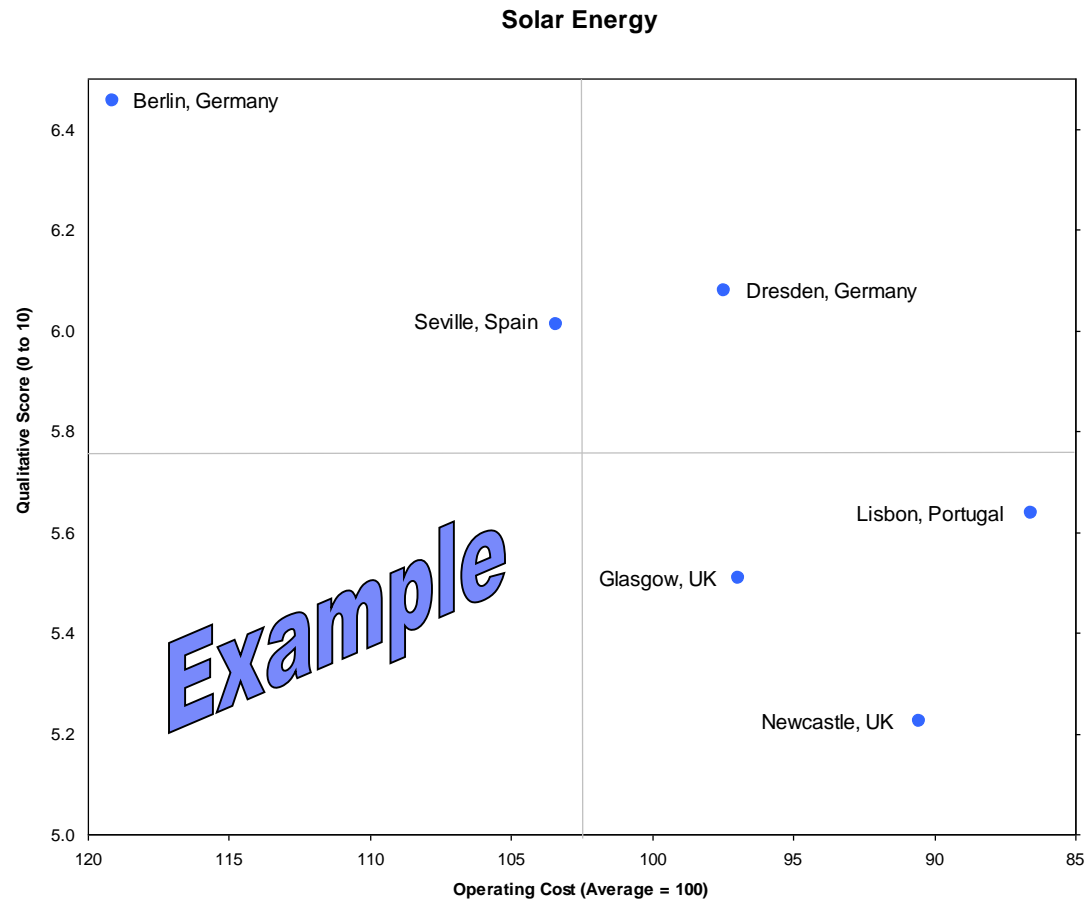


Location Marketing requires a strong Value Proposition

- In investment promotion, a location's Value Proposition must be based on client needs
 - Client = corporate decision maker
 - Needs = Location requirements
- Key corporate location requirements will define a location's true value proposition and most promising target groups
- Marketing incentives as USP is a poor strategy, even if it is crucial for investors (cf profit centers). If incentives are the only strength, they won't help either.
- Location marketing has to be based on combination of other prime strengths, with incentives as a possible final differentiator

Example Value Proposition

Dresden, Germany has a strong offer for Solar Energy based on incentives combined with overall good quality environment



Final Observations (1)

- Incentives are not always a good way to spend tax payers money
 - Assess the competitiveness of your country/region with and without incentives
 - Assess the economic impact of incentives (return on investment for your country/region)
 - Define selectively for which investments you wish to use incentives

- Should we stick to incentives programs once defined and implemented?
 - No. FDI is dynamic, and competitive environment changes constantly. Incentive policy needs to be responsive to market changes. Monitoring of need and impact is required.

- Companies threaten to choose other locations where (higher) incentives are offered
 - Let them do so!
 - If this would be true, they would move anyway with every single change, and add little value to the economy.

Final Observations (2)

- Why are tax incentives most popular with governments?
 - Tax incentives reduce income, but don't require a short term investment from government (as with cash grants)
 - Note that companies frequently prefer short term benefits

- Should incentives be given automatically, or be negotiated?
 - No automatism. But clarity and predictability is positive. Well defined criteria for eligibility.
 - Will also reduce risk of corruption, and avoid pressure by investors who tend to go for at least the previous best deal.

- Is a policy of an overall low tax rate the way to go?
 - Yes. It's simple, fair, attractive, structural, not artificial (and thus risky).
 - Combined with short term stimulus to facilitate implementation (such as training grants) this is very strong offer.

Thank You

Plant Location International (PLI)

Global Location Strategies

A service of IBM Global Business Services

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Global Location Trends reports 2010 can be downloaded shortly at www.ibm.com/gbs/pli



Content

- Introduction
- Location Decision Making
- Impact of Incentives
- Implications for Economic Development and Investment Promotion
- Annex

Plant Location International (PLI): IBM's center of excellence for Global Location Strategies and Economic Development

1. Corporate Executives

- Support with location strategies: *where* should we operate?
 - Define global footprints, screening countries/regions, local site selection, incentives negotiations
- Across all industries
- Across all relevant business functions: manufacturing, distribution, R&D, HQs, shared services, contact centers, data centers, etc
- ***IBM-PLI is a global market leading dedicated corporate location consultant!***

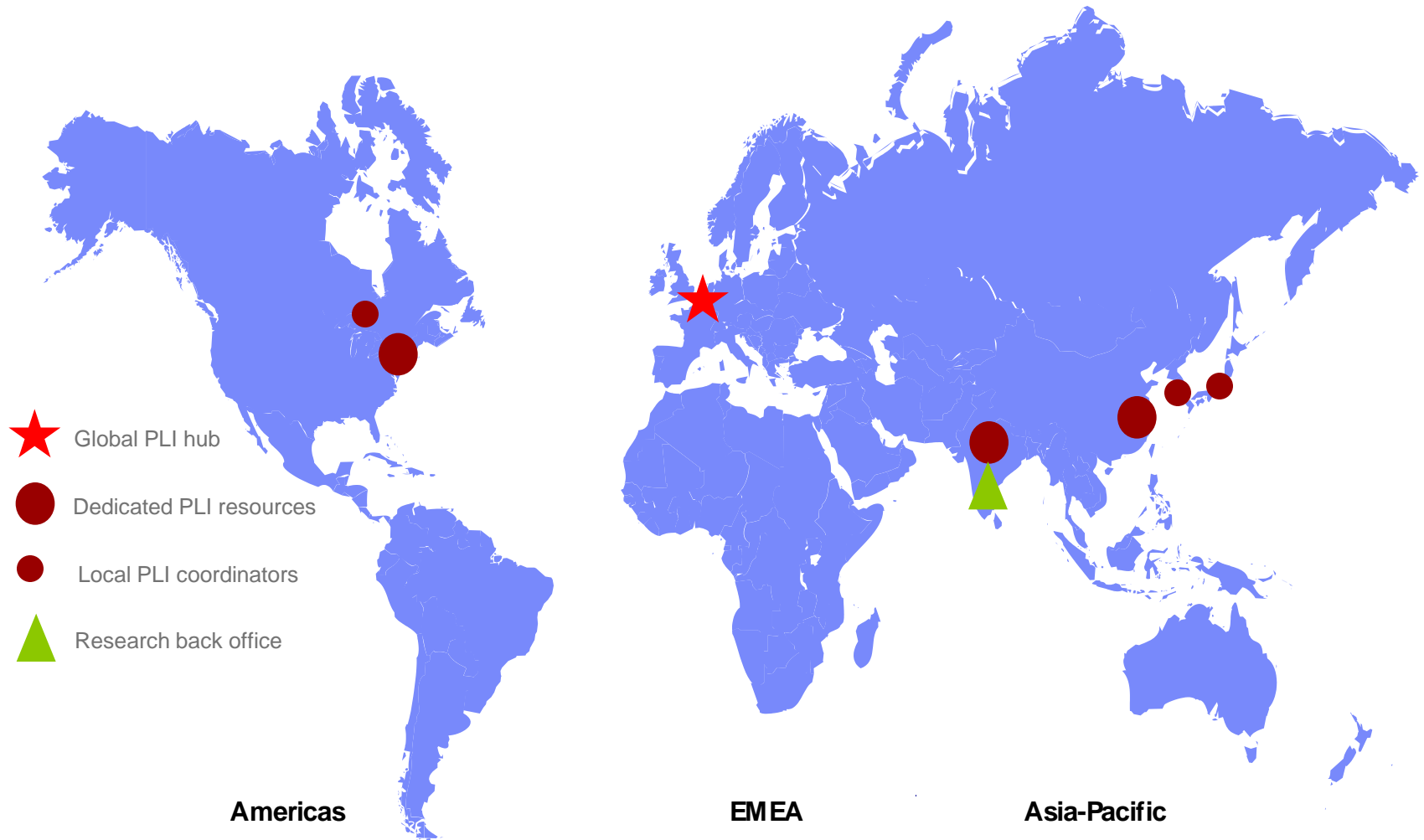
2. Economic Development Organizations (frequently Public Sector)

- Support with efforts to attract and retain business
 - Improvement of business environment
 - Inward investment strategies
- Based on our unique insight in the investor's perspective
- Services do not include investment attraction (conflict of interest)!
- ***IBM-PLI is unique in advising EDOs on the basis of its unrivalled corporate experience!***

Brief history

1960	Plant Location International (PLI) founded as independent location consulting firm in Brussels, Belgium.
1989	PLI fully acquired by Price Waterhouse, becomes PW-PLI
1996	US-team established to serve Americas market Brussels based PLI serves as key practice for EMEA and Asia-Pacific
1998	Price Waterhouse merges with Coopers & Lybrand: PwC-PLI
2002	PwC Consulting acquired by IBM: IBM Global Business Services becomes new home of IBM-PLI
2006	Global operating model agreed with IBM global management: PLI transforms into virtual globally integrated operation
2010	PLI: Global team of 25 dedicated location consultants, supported by IBM network of industry experts and local strategy consultants around the world

Global resources of Plant Location International



Examples of corporate clients for location advisory services

** Multiple assignments, only most recent names used*

ABN-AMRO*	Cadbury Schweppes	Ford Motor*	John Deere*	NKT Cables	SKF
AGFA*	Campbell Foods*	GAP	Johnson & Johnson*	Norske Skog	SMA Solar Technology
Alza*	Caterpillar	GATX	JP MorganChase*	Novartis*	Société Général
American Express	Chiquita	General Electric*	JVC	Nuon	Sony*
Amgen	Citibank*	General Motors*	KBC	Owens Ollinois	Standard Chartered Bank*
Anheuser-Busch	Claire's	Gillette*	Kellogg	Paramount	Stork
AstraZeneca*	Compaq Computer*	GlaxoSmithKline*	Kimberly Clark*	Pepsico*	Sun Electric
Avaya*	Concert (AT&T/BT)	Goodyear/Dunlop*	Knauf Insulation	Phillip Morris*	Sun Microsystems
Aventis*	Corning*	Guardian	Kodak*	Phillips*	Swissair
Avery Dennison	Daikin*	Harsco	Kohler*	Procter & Gamble*	Tandem
Avis*	DHL*	Heinz*	Kone	PricewaterhouseCoopers*	TDK
Aviva	Delphi	Henkel	Kraft Foods	Prudential Investment	Technicolor
Avnet	Deutsche Bank*	Hercules	Level 3	Quintiles	Telia
BAT	Diageo	Hertz	Levi Strauss	Radnor	Telxon
Baxter*	Disney	Hewlett-Packard*	LG Electronics	Ralston Purina	Tetra Pak*
Bayer*	Dow Chemical*	Hoechst	Mattel*	Raychem	Toyota*
Becton Dickinson*	Draka	Holcim*	Medtronic*	Reader's Digest	UBM
Bekaert	Dresdner Bank	Hoogovens	Merck*	Reckitt & Colman	Unilever*
BF Goodrich*	DSM	Huawei	Meritor	Reuters*	UPM-Kymmene
Biogen	Duty Free Shoppers*	IBM*	Metro	Rockwell Collins	Vaillant
BMW	Eastman Chemical	ICON*	Mitsubishi	Rohm & Haas	Visteon
BOC International	Eaton	IFF	Monsanto*	Samsung*	Wellman
Bombardier	Engelhard	Inbev	Motorola	Saville Systems	Westvaco
Bose*	Ericsson	Indspec	National Instruments*	Schering	Whirlpool
Boston Scientific*	Esco	Ingersoll Rand	Nestlé*	Scott Paper	WL Gore
Bristol Myers Squibb*	FMC	International Paper	Netscape*	Shell*	Xerox
Brunswick	Fokker	James Hardie*	Nike*	Siemens*	Xircom

Examples inward investment & economic development clients

* Multiple assignments

Albania	Foreign Investment Promotion Center	Ghana	Ghana Investment Promotion	Spain	PromoMadrid*
Antilles	Government of Curaçao	Guadeloupe	Port of Guadeloupe	Suriname	Government of Suriname
Australia	Invest Australia*	Hong Kong	ITC Hong Kong	Sweden	ISA Invest in Sweden Agency*
	City and Port of Brisbane	Hungary	ITD Hungary*	Switzerland	Canton of Schaffhausen
	DSRD New South Wales ^{o*}	India	Government of Gujarat SEZ	Tanzania	Tanzania Investment Centre
	Invest Victoria*		Positra SEZ	Thailand	Industrial Authority Esate of Thailand
Austria	Austrian Business Agency*	Ireland	Enterprise Ireland*	Tunisia	Government of Tunisia
	Vienna International Airport		IDA Ireland*	Trinidad Tobago	Port Authority of Trinidad & Tobago
Azerbaijan	Port of Baku	Israel	Israeli FEPZ	UAE	Jebel Ali Port Authority, Dubai
Belgium	Brussels Airport	Italy	PROMOS Milan	UK:	
	Flanders Foreign Investment Office*		Sviluppo Italia*	- England	Advantage West Midlands*
	Office for Foreign Investm. Wallonia*	Kuwait	Kuwait		Creative Sheffield
	Port of Antwerp*	Luxembourg	Ministry of Transport		East Midlands Development Agency*
Canada	Invdustry Canada	Malaysia	Port Klang		MIDAS Manchester*
	Invest Canada/DFAIT*	Mexico	Industrial Port Development Board		North West Development Agency*
	Montreal International	Morocco	Government of Morocco		UK Trade & Investment*
	Province of Quebec	Namibia	Namibia Investment Centre	- Scotland	Edinburgh IFC
	Toronto	Netherlands	Airport Amsterdam-Schiphol*		Scottish Development International*
Cape Verde	Promex		Airport Maastricht-Aachen	- Northern Ireland	Invest Northern Ireland*
Caribbean	Carribean Inward Investment Office		Netherlands Foreign Investm.Agency*	- Wales	Welsh Development Agency*
China	Xi'an Pharma Park, Shaanxi		Ports of Amsterdam and Rotterdam	USA	Commonwealth of Pennsylvania*
Costa Rica	CINDE*	New Zealand	Auckland City Council		Greater Jamaica, NY
Czech Rep.	CzechInvest*		Investment New Zealand		Greater Phoenix Economic Council*
Denmark	Copenhagen Capacity*	Philippines	Cagayan		Maryland DBED*
	Invest in Denmark*	Poland	Industrial Development Agency		Michigan EDC
	Ministry of Economy		PAIZ Polish Inward Investment Agency*		New York State
Djibouti	Government of Djibouti		Special Economic Zones (various)		Research Triangle Park, NC*
Estonia	Port of Tallinn	Portugal	AIP Regio Norte		State of Florida
Ethiopia	EIA Ethiopian Investment Authority		Embassy of Portugal/ICEP*		State of Indiana
France	Ile de la Réunion	Puerto Rico	Instituto de Fomento		State of Louisiana
	Ile de France, Paris	Russia	Moscow		TexasWorkforce Commission
	Invest in France/Datar*		St. Petersburg		Toledo, OH
	Languedoc-Rousillion	Saudi Arabia	APEC	International organisations	Asian Development Bank*
	Nord-Pas de Calais Developpement*		General Investment Authority		COMESA
Germany	Frankfurt Airport	Singapore	Ministry of Finance		European Commission*
	HWF Hamburg		PSA Port of Singapore Authority*		FIAS/World Bank/MIGA*
	IIC (former East German States)*		Singapore Econ. Development Board*		OECD*
	Nordrhein Westfalen*	South Africa	COEGA*		UNCTAD*
	Saxony Economic Development Corp*		Trade and Investment South Africa		WAIPA*



Contact Details



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