Decision-making process of investors and site selection

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Kumasi, Ghana
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Why companies invest?

Market
- Market size and income
- Market growth
- Access to regional markets
- Structure of the market

Resources
- Raw materials
- Low-cost unskilled labor
- Skilled labor
- Physical infrastructure

Efficiency
- Proximity to supply
- International specialization
- Proximity to customers
## Why companies invest?

Understanding the drivers of location decision by sector

<table>
<thead>
<tr>
<th>Primary sector</th>
<th>Manufacturing sector</th>
<th>Services sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to natural resources</td>
<td>Size of local market</td>
<td>Size of local market</td>
</tr>
<tr>
<td>Stable investment environment</td>
<td>Growth of local market</td>
<td>Growth of local market</td>
</tr>
<tr>
<td>Government effectiveness, incentives</td>
<td>Government effectiveness, incentives</td>
<td>Stable investment environment</td>
</tr>
<tr>
<td>Access to international/regional markets</td>
<td>Low labor cost</td>
<td>Access to international/regional markets</td>
</tr>
</tbody>
</table>

Source: UNCTAD World Investment Prospects Survey 2007-09
## The Hyundai project

### Hyundai Motor Manufacturing Czech

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned investment:</td>
<td>1.1 billion Euros</td>
</tr>
<tr>
<td>Number of employees:</td>
<td>3,500</td>
</tr>
<tr>
<td>Decision to invest:</td>
<td>27 March 2006</td>
</tr>
<tr>
<td>Start of construction:</td>
<td>1 November 2006</td>
</tr>
<tr>
<td>Start of test production:</td>
<td>June 2008 (October 2008)</td>
</tr>
<tr>
<td>Start of mass production:</td>
<td>November 2008 (March 2009)</td>
</tr>
<tr>
<td>Annual production:</td>
<td>300,000 cars + 600,000 gearboxes</td>
</tr>
<tr>
<td>Tier 1 suppliers:</td>
<td>15 – 25 companies</td>
</tr>
<tr>
<td>Total number of suppliers:</td>
<td>25 – 50 companies</td>
</tr>
</tbody>
</table>
## Hyundai suppliers’ projects

### Korean Hyundai suppliers investing near Nosovice

<table>
<thead>
<tr>
<th>Company name</th>
<th>Products</th>
<th>Employees</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donghee</td>
<td>Fuel tanks</td>
<td>230</td>
<td>Cesky Tesin</td>
</tr>
<tr>
<td>Dymos</td>
<td>Car seats</td>
<td>300-400</td>
<td>Frydek Mistek</td>
</tr>
<tr>
<td>Hanil E-Hwa</td>
<td>Interior parts</td>
<td>500</td>
<td>Chlebovice</td>
</tr>
<tr>
<td>Hyundai Mobis</td>
<td>Chassis modules</td>
<td>800</td>
<td>Nosovice</td>
</tr>
<tr>
<td>Hyundai Hysco</td>
<td>Steel sheet and pipes</td>
<td>70</td>
<td>Nosovice</td>
</tr>
<tr>
<td>Matador-DongWon</td>
<td>Rubber parts</td>
<td>200</td>
<td>Trinec</td>
</tr>
<tr>
<td>Pyeong Hwa Automotive</td>
<td>Door module parts</td>
<td>260</td>
<td>Cesky Tesin</td>
</tr>
<tr>
<td>Plakor</td>
<td>Plastic parts</td>
<td>500</td>
<td>Mosnov</td>
</tr>
<tr>
<td>Sejong</td>
<td>Exhaust systems</td>
<td>250</td>
<td>Karvina</td>
</tr>
<tr>
<td>Sungwoo</td>
<td>Sheet metal parts</td>
<td>1,500</td>
<td>Ostrava-Hrabova</td>
</tr>
</tbody>
</table>
What do investors need?

• Economic reasons to invest
  a. Market
  b. Resources
  c. Efficiencies

• Conductive environment for investment

• Information and support
The necessary conditions for an investment

- Market opportunities (internal or external market)
- Prepared locations (buildings, zones, land plots)
- Stable legal environment (laws, regulations)
- Stable physical environment (delivery of electricity etc.)
- Functioning labour market (legislation, education system)
- Developed transport infrastructure (export channels)
- Supporting environment (supporting institutions)
How investors decide on their new locations?
# The site selection process

<table>
<thead>
<tr>
<th>Long listing</th>
<th>Short listing</th>
<th>Negotiations</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Success factors</td>
<td>Field investigations</td>
<td>Risk analysis</td>
<td>Transition planning</td>
</tr>
<tr>
<td>Project specifications</td>
<td>Verify screening and process-drill down</td>
<td>Real estate</td>
<td>Facilities plan</td>
</tr>
<tr>
<td>Search Area</td>
<td>Identify specific opportunities and risks</td>
<td>Incentives</td>
<td>Vendor selection</td>
</tr>
<tr>
<td>Countries/regions</td>
<td>IPA provides detailed information and field logistics support (site visit)</td>
<td>Permitting</td>
<td>Construction ramp-up</td>
</tr>
<tr>
<td>IPA provides country and sector information</td>
<td>IPA provides quality contacts, prepares development packages and ensures permits are granted speedily</td>
<td>IPA provides quality contacts, prepares development packages and ensures permits are granted speedily</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>IPA services investor to fast-track project implementation</td>
</tr>
</tbody>
</table>
The site selection process

Screening (8-20)

Field work (4 – 6)

Negotiations (2-3)

Project (1)
## Usual screening criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate (land, building)</td>
<td>Services</td>
</tr>
<tr>
<td>Labour</td>
<td>Demographics</td>
</tr>
<tr>
<td>Taxes</td>
<td>Quality of life</td>
</tr>
<tr>
<td>Incentives</td>
<td>Utilities</td>
</tr>
<tr>
<td>Community</td>
<td>Market</td>
</tr>
<tr>
<td>Logistics</td>
<td>Environmental issues</td>
</tr>
</tbody>
</table>
Case study (2007)

Dutch company in the aerospace industry plans to expand its manufacturing capacity in a low cost location.

**Activity**
manufacturing facility for parts and assembly of aircraft components

**Facility**
initially 6,400 m² – ultimately 12,000 m²;
8 metres high, 80 m wide and 80 m deep

**Site**
5 hectares of land, all infrastructure

**Logistics**
proximity to inland waterways/seaport, maximum 1 transfer of goods
The project employment plan

Parts – Year 1 to 5

1 Production manager
1 IT specialist
3 Production leaders
6 Industrial engineers
40 Production workers

Total: 51

Parts and Assembly – Year 6 to 10

1 Senior production manager and 2 production managers
4 IT specialists
3 Senior production supervisors and 7 production supervisors
5 Senior industrial engineers and 20 senior engineers
40 Production workers for parts
150 Production workers for assembly

Total: 242
Requirements for this project

Critical decision criteria for this project (as identified by the company):

✓ **Lower cost** manufacturing environment than at the present location

✓ Industrial **background / experience with aerospace industry** at the new location

✓ Company’s positive/negative **experience in the selected countries** during the selection process
### Potential locations – long list

<table>
<thead>
<tr>
<th>Country</th>
<th>Region under Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>Sao Paulo State</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Batam</td>
</tr>
<tr>
<td>China</td>
<td>Shangai and Shenzhen</td>
</tr>
<tr>
<td>India</td>
<td>Chennai (Tamil Nadu State)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Kuala Lumpur (Selangor)</td>
</tr>
<tr>
<td>Thailand</td>
<td>Bangkok</td>
</tr>
<tr>
<td>Turkey</td>
<td>Istanbul area</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>East Bohemia</td>
</tr>
<tr>
<td>Poland</td>
<td>Southeast</td>
</tr>
<tr>
<td>Romania</td>
<td>Bucharest</td>
</tr>
</tbody>
</table>
# Qualitative analysis - matrix

<table>
<thead>
<tr>
<th>Categories</th>
<th>Weight</th>
<th>Factors</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Business Environment</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Support Environment</td>
<td>17,5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor Availability</td>
<td>22,5</td>
<td>Overall size of labor market</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Level of unemployment</td>
<td>4,5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Presence of manufacturing staff</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Presence of aerospace skills</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strength of competition in mfg.</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>English language skills</td>
<td>5</td>
</tr>
<tr>
<td>Labor Flexibility</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Logistics and Infrastructure</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation and Incentives</td>
<td>10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Qualitative analysis - results

- Taxation and Incentives
- Logistics and Infrastructure
- Labor Flexibility
- Labor Availability
- Business Support
- Business Environment
Sub-analysis: annual costs per employee

- Netherlands: 30,000
- Romania: 10,000
- Poland: 20,000
- Czech Rep.: 15,000
- Turkey: 20,000
- Thailand: 10,000
- Malaysia: 15,000
- Indonesia: 5,000
- India: 10,000
- China: 15,000
- Brazil: 20,000
Results of both analyses
Another example of decision-making and site selection

**CELESTICA**

**investment in the Czech Republic**

1998: 39 potential sites identified in CEE
       14 sites visited (CZ, HU, PL, SK)

March 1999: Decision to buy a building in the Czech Republic
Q3 1999: 200 staff trained in Celestica UK
Q4 1999: new machinery installed

Jan 2000: 750 employees
May 2000: new building completed

September 2001: 2,000 employees
Another example of decision-making and site selection

Their own presentation on why they had invested in the Czech Republic, 2002
Exercise

Imagine you are an owner or director of a company manufacturing plastic containers in which edible oil is sold in shops.

You are thinking about building a second manufacturing plant. What type of information you would need to select the best location for that plant?
Exercise – group 1

- Italian manufacturer, 180 employees in Italy
- Typical customers: producers of edible oil
- Market: 60% in Italy, 15% Greece, 20% Nigeria, 5% Liberia
- Idea: to establish a new plant in W.Africa to expand to this market
- Hall 3,500 m², minimum 6 m high
- Land 10,000 m² plus 10,000 m² for future expansion(s)
- Electrical power, drinking water, sewage system, telephone
- 58 employees: 8 managers (2-3 Italians), 50 workers (30 operators of plastic injection moulding machines, 15 warehouse operators, 5 clerical and maintenance)
Exercise – group 2

- Ghanian manufacturer, 180 employees in Accra
- Typical customers: producers of edible oil
- Market: 60% in Ghana, 15% Burkina Faso, 15% Nigeria, 10% Mali
- Idea: to establish a new plant in Ghana to expand
- Hall 3,500 m², minimum 6 m high
- Land 10,000 m² plus 10,000 m² for future expansion(s)
- Electrical power, drinking water, sewage system, telephone
- 58 employees: 8 managers (3-4 from Accra), 50 workers (30 operators of plastic injection moulding machines, 15 warehouse operators, 5 clerical and maintenance)
2 types of potential investors

1. Informed potential investor

2. Ignorant potential investors
Informed potential investor

1. Has studied the market and sees a market opportunity

2. Studies investment/business climate at several potential locations to see if it makes sense to invest

3. Studies investment and business climate at several potential locations to decide which location would be best for this investment

4. Does not need data on the market

5. Does need information on potential locations, investment and business climate, and available support
Ignorant potential investor

1. Produces the product(s) for which there is a demand in our country/region/city or continent/globally

2. Has not paid any attention to potential market opportunities in our country/region/city/continent

3. Does need to be told about the opportunity/ies – needs some basic data on the market and opportunity

4. Does need information on potential locations, investment and business climate, and available support
2 types of potential investors

1. Informed potential investor
   - Already has an idea/plan: to establish a new plant in Africa to expand to this market

2. Ignorant potential investor
   - Never thought of potential market opportunities in Africa
   - Never thought of potential lower costs of manufacturing in Africa
   - Does not have any contacts in Africa, apart from customers
   - Does produce product(s) for which there is currently demand in Ghana and/or Africa (West Africa)
Hyundai Central Europe project

Clearly-defined project:
plan to set up a car manufacturing and assembly plant in Central Europe to serve the European market while keeping the cost of production at a reasonably low level
Not a clearly-defined project: company came to see opportunities

British company – manufacturing door handles for cars and painting them in metallic paint. Until recently all its customers were in Britain (Toyota, Honda, GM, Rover), but there is increasing demand from continental Europe an decline in UK demand: they came for a visit