IBM Global Business Services

Global Location Trends

2009 Annual Report Germany

Foreword

Companies are facing a new economic environment characterized by uncertainty and global disruption. The world has been going through a turbulent period with volatile money markets, a financial system on the brink of collapse and a global economy in recession. Confronted with the challenges of surviving and prospering in a context shaped by faltering consumer confidence and uncertain market conditions, companies are under unprecedented pressures to adapt and reinvent themselves.

Their efforts to tailor corporate structures to the new economic realities have had profound implications for how they approach their global operational footprints. Where previously the emphasis was on gaining access to new and growing markets, the focus today is on consolidation and cost reduction. In their search for improved cost efficiency, companies have reduced their overall level of investment, but also widened the scope of their search to encompass new and more cost-efficient locations.

Consequently, 2008 was a year of declining global foreign investment levels, with 25% less jobs created from foreign investment in 2008 compared to 2007. In this context, there were 6,500 jobs created in the Netherlands from foreign investment projects in 2008, a decline of almost 20% compared to 2007. However, the country experienced an increase in the number of inward investment projects compared to previous years.

However, in order to ensure that the positive results of 2008 do not constitute a mere temporary boost to investment but an enduring improvement in the country's competitive position, Germany must continue its efforts to address competitive weaknesses. The competition in the global market for foreign investment is constantly intensifying, with countries around the world enhancing their offer to investors, and for Germany to remain an attractive location the country must continue its efforts to improve the business environment.

Indeed, Germany needs to set out a clear strategy that enables the country to take advantage of emerging sectors for foreign investment, and reduce its dependence on sectors that are gradually moving to more cost-competitive locations. If Germany is to continue to prosper in the global economy, the country should continue to develop, leverage and integrate its resources, infrastructure, technology and people into compelling value propositions for businesses.

Martin Jetter
Country General Manager
IBM Germany

Matthias Hartmann
GBS General Manager
IBM Germany

Introduction

IBM's Global Location Trends reports are based on analysis of data from IBM's proprietary Global Investment Locations Database (GILD). GILD records investment project announcements around the world on an ongoing basis. With currently information for over 80,000 investment projects recorded since 2003, GILD provides unrivalled insight into global trends in corporate location decision making.

The GILD database is maintained by IBM-Plant Location International (IBM-PLI), a specialized service within IBM Global Business Services, Strategy & Change consulting. IBM-PLI is a global market leader in providing advice to companies on their location strategies, covering all sectors and types of business function. Moreover, drawing on the extensive expertise and knowledge of what shapes corporate investment decisions, IBM-PLI works with economic development organizations and investment promotion agencies in their efforts to improve and market their locations as attractive business environments for present and new investors.

Global investment trends – A year of turbulence

Firms entered 2008 under a cloud of uncertainty about their prospects, with a financial system in crisis and the global economy on the brink of recession. The latter half of 2007 saw the paralysis of financial markets and access to credit for companies and consumers severely limited as banks aimed to de-leverage their balance sheets.

The impact of the financial crisis on foreign direct investment was already evident at the end of 2007, with a significant reduction in investment activity, notably in services. With the financial crisis developing into a fully fledged global economic recession during the course of 2008, global investment activity continued its downward trend with an overall reduction in jobs created from foreign investment projects from more than 1.1 million in 2007 to just over 800,000 in 2008, a decline of more than 25%.

.

A change in motivation for investment

The deteriorating economic situation had significant implications for how companies approached their global operations. In previous years of economic growth, a prime motivation for expanding internationally had been to gain access to growing or new markets. Accordingly, companies sought to locate their operations such that they could take advantage of opportunities in existing markets or emerging markets with growth potential, either by locating or expanding operations directly in key markets or locating operations with a view to export to the main markets. This resulted in a widening of investment activity, as companies continued to expand their geographic scope and search for opportunities to new regions and countries around the world.

With consumer confidence faltering, and market prospects deteriorating at a rapid pace, the prime concern for companies changed from one of market access to one of cost containment and reduction. Furthermore, the constraints on credit resulting from the financial crisis meant that companies found it increasingly difficult to finance their investment projects.

The concomitant changes in approach to international activities were characterized by an emphasis on consolidating existing operations, lower capital expenditures on investment projects and greater priority given to opportunities for cost savings. This manifested itself in not only a lower level of investment but also a change in where investment projects were located and the type of investment that took place.

Investors consolidating and broadening their scope of investment

The change towards a greater focus on consolidation and cost reduction rather than market entry had different implications for where investors were looking to locate their activities. On the one hand it meant that many of the large and developed economies, such as the US, UK, Germany and France, increased their share of global investment, as companies consolidated activities in stable countries where they had existing mature operations, despite these countries facing rapidly deteriorating domestic economic conditions[1]. Accordingly, the US gained a position in its overall ranking from 3rd to 2nd, ahead of China but after India, while Germany, France and Canada improved their positions in the ranking. Germany ranked 9th globally, a relative improvement of nine places compared to 2007.

---

[1] Of course, the economic difficulties faced by these countries also resulted in a number of closures and reduced activities in these countries. However, our analysis is purely focused on trends in new greenfield and expansion projects.

Furthermore, companies looking to reduce costs continued to look for opportunities in new countries as recent 'hot spots' have become overheated and costly. This has resulted in a number of emerging economies increasing their share of investment at the expense of other previously low cost locations. For example, 2008 saw significant increases in the share of jobs created for countries such as Tunisia, Algeria, Egypt, Turkey and Romania, while central European countries such as the Czech Republic, Poland and Hungary saw significant declines in their share of investment and jobs created, as did some Asian countries, such as Malaysia, the Philippines and Vietnam.

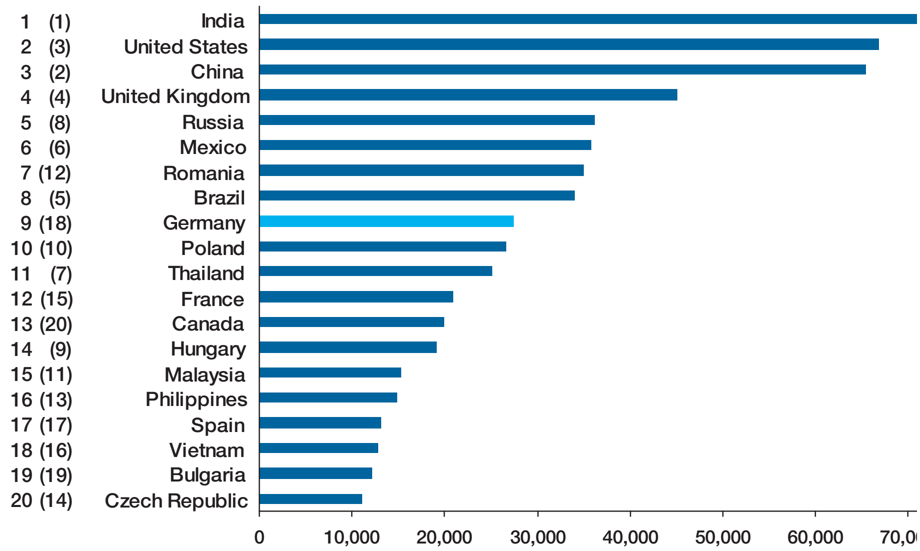


Figure 1. Top ranking destination countries by estimated jobs – 2008 (07)

Other countries that have gained from the consolidation efforts are those that have a compelling proposition to investors for those business activities that can easily be consolidated. For example, despite a rapidly deteriorating domestic economy, Ireland experienced significant absolute and relative gains in inward investment as a result of the country's strengths in services and R&D, which is reflected in the country being the top destination when taking account of population size. On this measure, Germany ranked 34th in 2008, a relative improvement from 54th position in 2007.

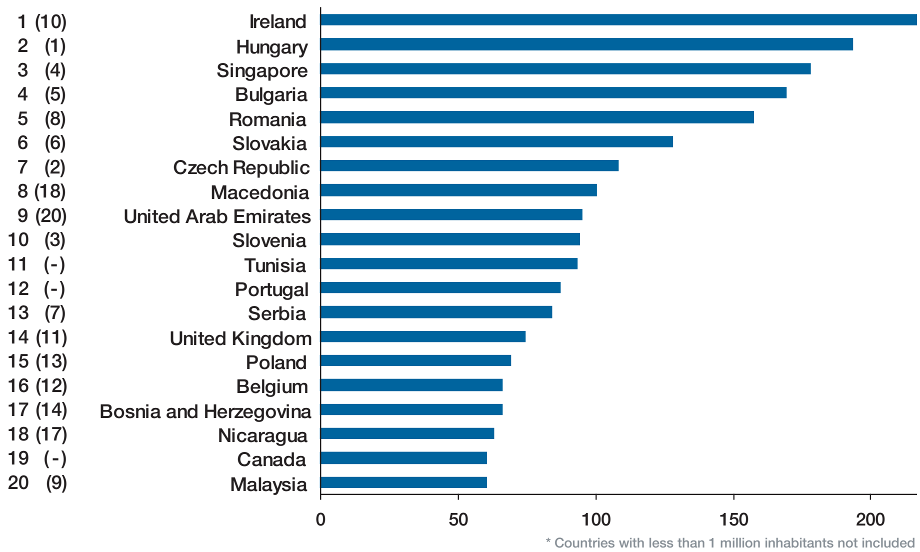


Figure 2. Top ranking destination countries by estimated jobs – per 100,000 inhabitants – 2008 (07)*

European investment trends

While Europe as a whole experienced relative gains in the continent's share of global investment, individual countries within the continent had very different experiences. The UK remains the top recipient of jobs from foreign investment, followed by Russia and Romania. Germany[2] has seen considerable relative gains, ranking 4th, while the most notable improvement has been in Ireland's relative position. Hungary, the Czech Republic and Slovakia all saw significant relative declines.

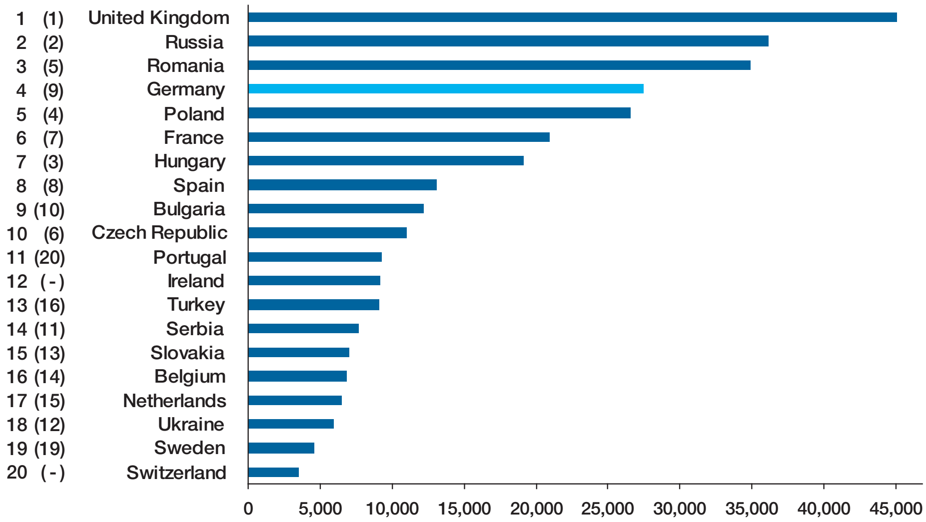


Figure 3. Top ranking destination countries in Europe by estimated jobs – 2008 (07)

[2] It has to be noted that the improvement in Germany's performance is in part explained by recently introduced improvements in regional and national governments' tracking of projects going to the country. Notwithstanding the better data, however, Germany did experience a considerable relative improvement in ranking and share of jobs created.

Investment Example: John Deere establishes European Technology & Innovation Center

US agricultural machinery manufacturer John Deere announced that it is to open a new European Technology & Innovation Center in Kaiserslautern, Rheinland-Pfalz. The center is expected to be operational by spring 2010 and will employ up to 200 engineers. Kaiserslautern was selected due to the potential to recruit from local universities with highly specialized research operations, and because of its location between existing John Deere factories.

Foreign investment into Germany

In a global economic environment shaped by uncertainty and declining investment activity, Germany attracted substantial levels of foreign investment. With 26,700 jobs created from 709 foreign investment projects, 2008 was a year when Germany significantly improved its relative position as a destination for investment. The headline results suggest that the concerted efforts of recent years to moderate wage growth, reduce taxes and improve the business environment have enhanced the country's competitiveness, with the country now ranked as the world's 9th largest recipient of foreign investment. Indeed, in a context where companies have looked to consolidate activities in more stable and mature locations, Germany has been a key beneficiary.

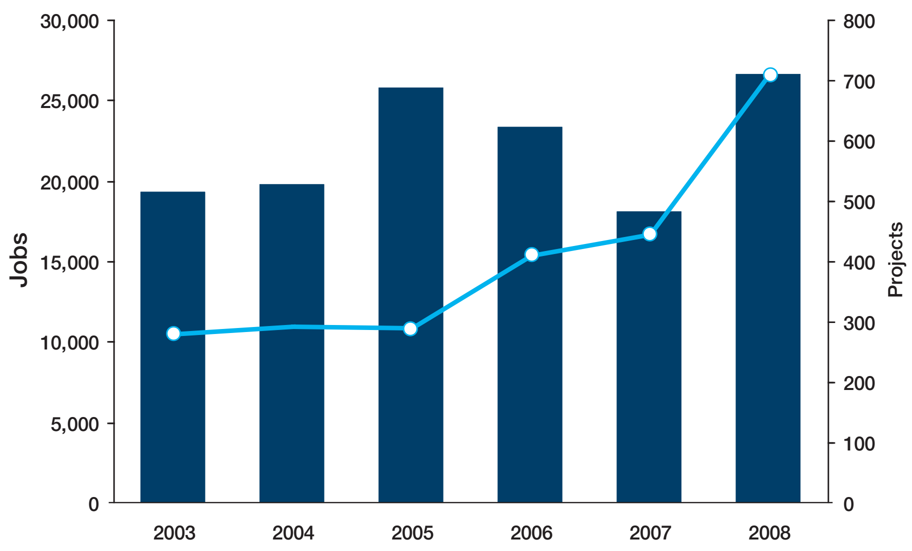


Figure 4. Evolution of approximate job creation vs. attracted projects in Germany

The improved relative position of Germany was particularly pronounced in Industrial Machinery and Equipment, with almost 4,000 jobs created in this sector from foreign investment in 2008 compared to a little over 1,000 in 2007. Business Services and ICT also saw significant growth, with job creation in the former growing approximately 40% from 2007 to 2008 and the latter growing more than 100%.

In contrast, Germany received less investment in traditional key sectors such as Electronics and Chemicals compared to previous years. In the Electronics sector, the country received just over 1,500 jobs from foreign investment in 2008 compared to almost 2,500 in 2007. Similarly, jobs created from foreign investment in the Chemicals sector decreased from more than 2,500 in 2007 to less than 2,000 in 2008.

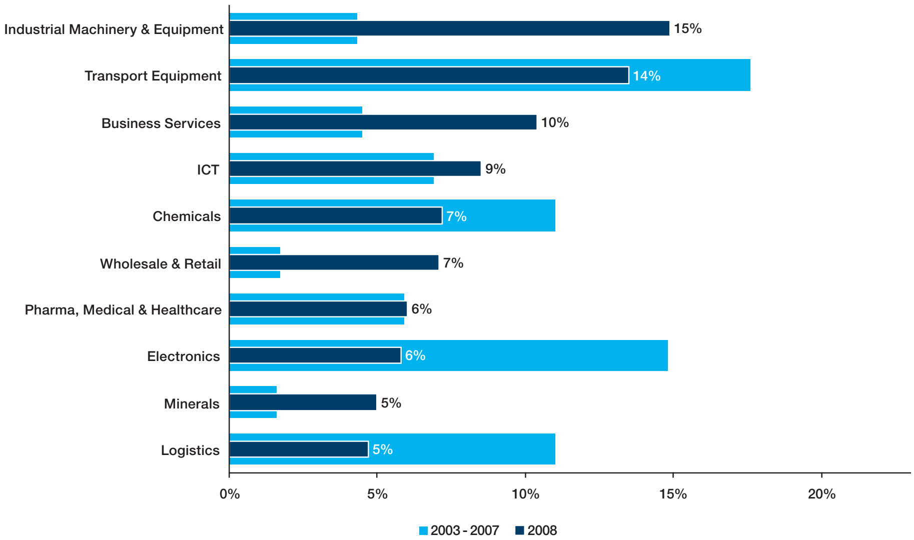


Figure 5. Changes in top sector shares in Germany by estimated jobs – 2003-2008

The different sectoral trends translated into a varied performance across the German regions. The increased investment in Business Services is heavily concentrated in the city region of Berlin, with the region receiving more than 50% of the inward investment in the sector. Consequently, the region increased the overall number of jobs created from foreign investment to almost 2,700 in 2008 from less than 500 in 2007.

Cost-quality proposition of Germany: Business Services

Germany offers a high quality proposition for Business Services operations, highlighting the country's diverse high quality offering for a variety of different sectors. The combined cost and quality assessment below illustrates the position of Berlin and Munich when compared with European competitor cities for a typical shared service center investment. Whilst the two German cities have the highest cost in this example, they also have the highest quality operating environment. Companies which are more risk-averse, regularly favor more stable environments above low cost areas. In these cases, Germany presents a strong offer.

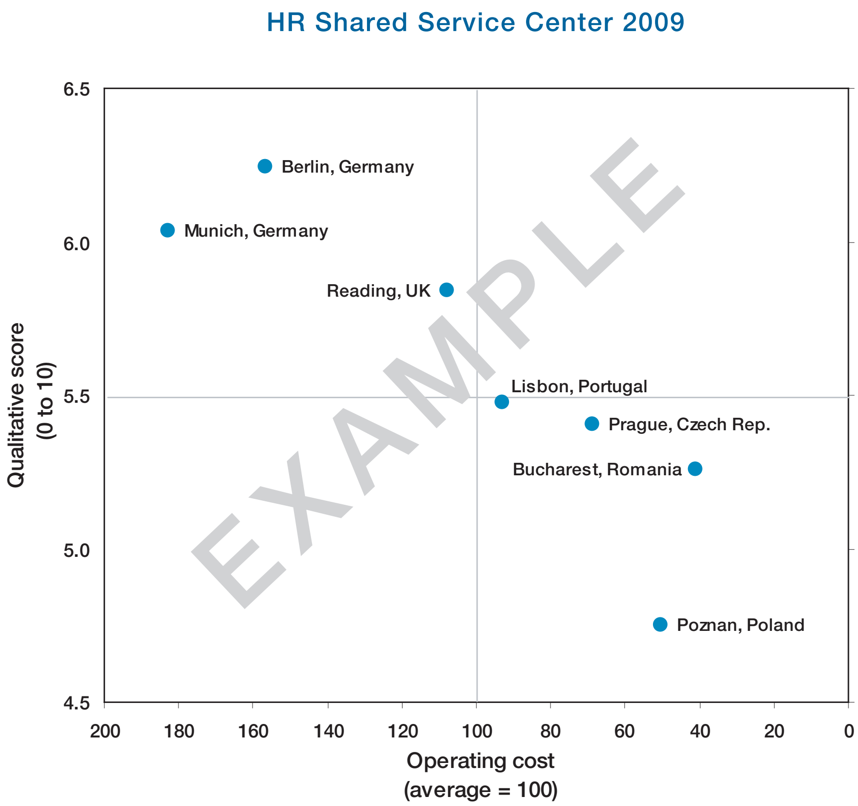


Figure 6. Example Location Cost-Quality Trade-off: Business Services

Investment Example: Sitel establishes new Customer Care Center in Berlin

American company Sitel, a global provider of outsourced customer contact center services, announced that it is to open a new customer care facility in Berlin. The investment is expected to create 1,000 jobs. The German capital was selected for its excellent communication infrastructure, multilingual workforce and the opportunity for future growth.

Similarly, Baden-Württemberg and Mecklenburg-Vorpommern were both beneficiaries of the significant growth in Industrial Machinery and Equipment, with the two regions experiencing growth of more than 100% in overall jobs created from foreign investment compared to 2007.

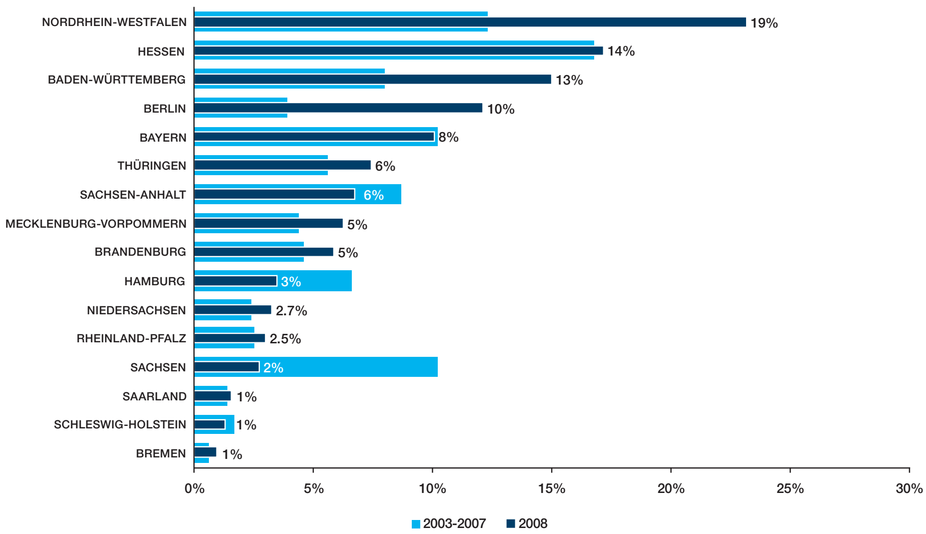


Figure 7. Evolution of regional share of attracted FDI by estimated jobs – 2003-2008

In contrast, the Eastern regions of Sachsen and Sachsen-Anhalt witnessed an overall decline in investment, influenced by the large decrease in investments in the Electronics sector compared to previous years. In 2008, Sachsen saw a 90% decrease in jobs created from Electronics sector investments, notable in relation to the solar energy cluster, with Sachsen-Anhalt registering no projects in this sector from which it received 550 jobs in 2007.

Globally, 2008 has seen much less activity than previous years from solar energy companies. However, Germany's overall proposition remains strong with various locations, notably Eastern Germany, a well-positioned region to take advantage of new projects as the economy picks up.

Cost-quality proposition of Germany: Solar Energy

Germany is recognized as a global leader in solar energy with various German cities offering competitive operating environments for companies in this sector. Whilst the economic downturn has affected the sector, German locations still maintain their high quality offers for companies wishing to establish solar energy operations thanks to the presence of relevant experienced staff, an established solar energy industry, proximity to market and raw materials as well as – in the case of regional locations in Eastern Germany – attractive operating costs. Germany's proposition is evident when analyzing locations in a combined cost and quality assessment – an analytical method developed by IBM-PLI – which provides a tailored assessment of the relative attractiveness of locations for particular business activities with respect to the quality of the business environment along the y-axis and financial attractiveness along the x-axis. Locations further up the y-axis offer relatively more favorable business environments while locations further to the right offer a more attractive financial proposition. A location's position in the map indicates the cost-quality trade-off available to investors.

Berlin's position highlights its high cost in comparison with other locations – but this in turn is offset by the highest quality in the analysis. Dresden offers a unique cost-quality trade-off, offering solar energy companies a high quality operating environment at a competitive cost level.

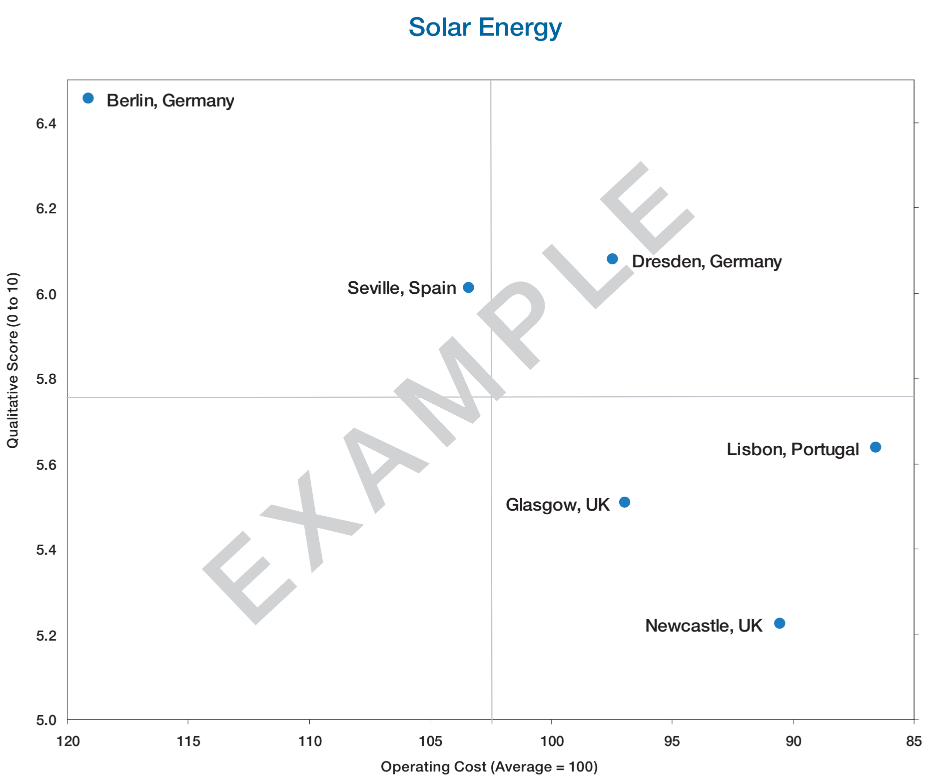


Figure 8. Example Location Cost-Quality Trade-off: Solar Energy

Overall, Nordrhein-Westfalen remains the top destination within Germany for foreign investors with more than 5,000 jobs created during 2008. The strength of the region is also reflected in Düsseldorf being the top destination city for inward investment measured by number of projects, with Frankfurt and Munich second and third. However, as Figure 9 highlights below, it is Frankfurt which has witnessed the most job creation, with Düsseldorf now third. Düsseldorf has benefited from a large number of small projects by Chinese investors in recent years, with projects from China now representing 40% of all foreign investment projects in the region.

The behavior in location selection of Chinese companies is reminiscent of Japanese companies several decades ago when they started to invest in Europe. Just like those initial Japanese investors, Chinese companies are concentrating their investments heavily in one region, around the cities of Düsseldorf and Cologne, resulting in a cluster effect. As these projects are typically smaller in size on the outset, focusing on sales-related functions, Düsseldorf therefore does not top the ranking in terms of job creation.

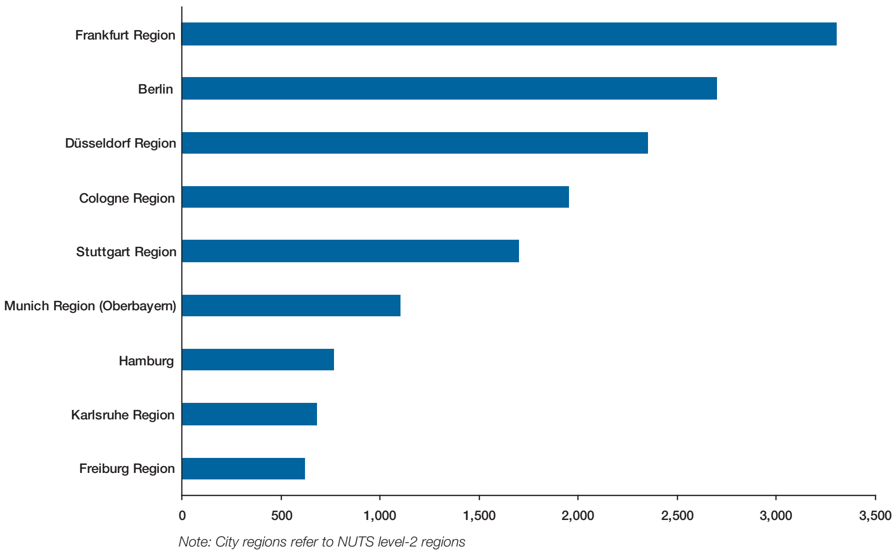


Figure 9. Top destination city regions in Germany by estimated jobs – 2008

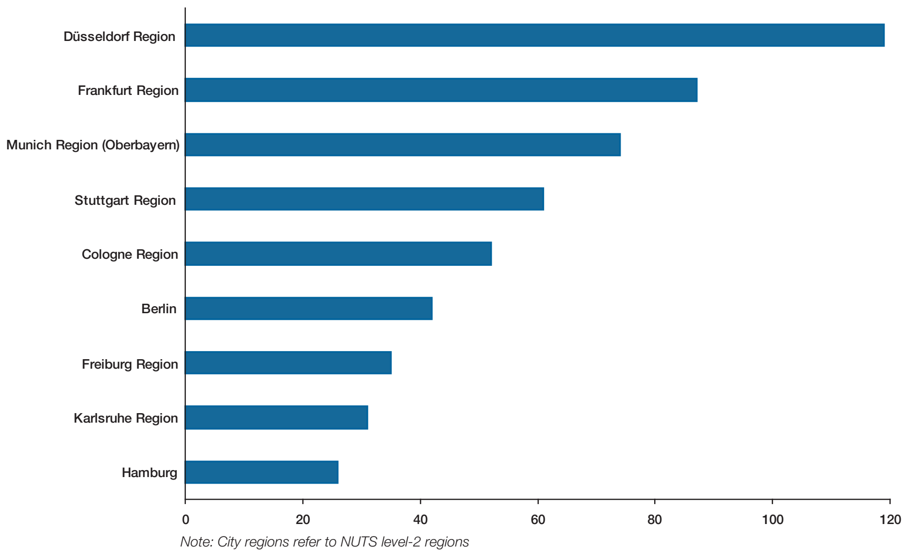
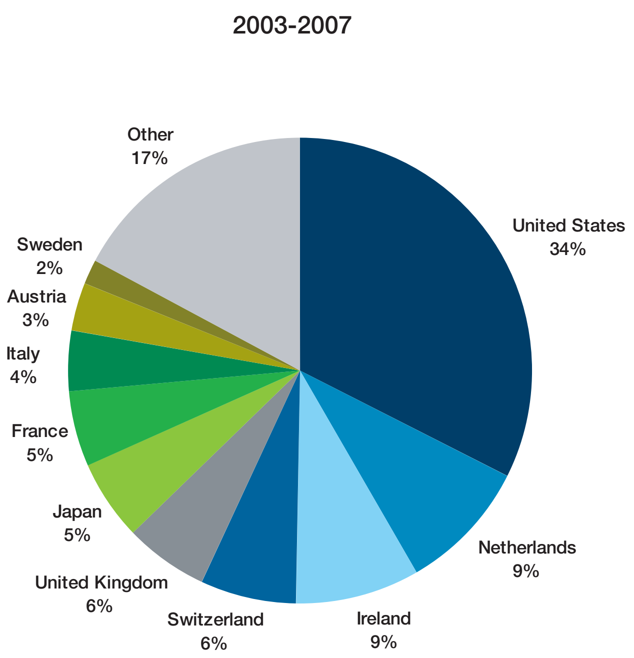


Figure 10. Top destination cities in Germany by number of projects - 2008

Overall in 2008, investment from China and India each accounted for 3% of total inward investment into Germany, with over 70% of Chinese companies deciding to invest in Nordrhein-Westfalen. During the past year, China increased investment into Germany by just over 50% in absolute terms of jobs created, and companies from India created eight times as many jobs compared to 2007. With emerging countries becoming increasingly important as global sources of investment, the role of these 'new' sources of investment for Germany is likely to increase.

Whilst it is interesting to note the rise of emerging economies as sources for investment, the bulk of investment into Germany continues to come from the United States, Japan and neighboring countries in Western Europe. In 2008 this pattern continued, with almost 90% of investment into the country coming from the developed economies of North America, Europe and East Asia.



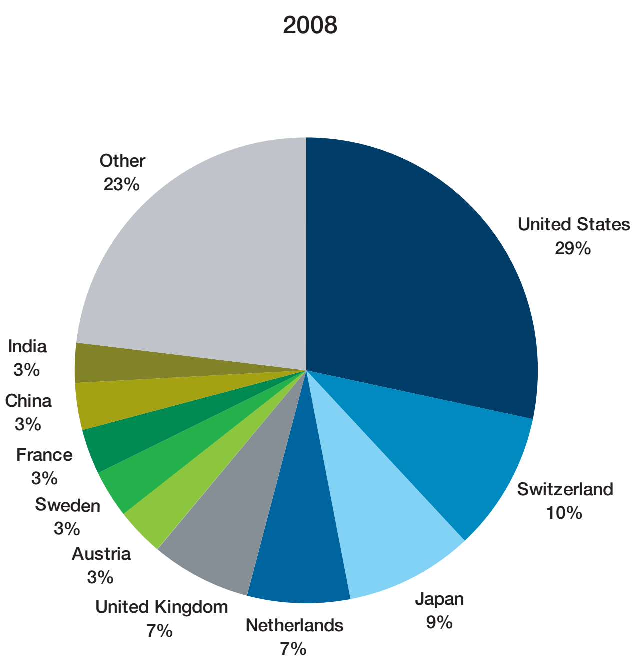


Figure 11. Share of top origin countries in Germany by estimated jobs – 2003-2008

Outward investment from Germany

In contrast to the high level of inward investment to Germany, outward investment by German companies abroad reduced considerably in 2008. Just over 93,000 jobs were created compared to more than 130,000 in 2007, as a result of German companies seeking to reduce operating costs and conserve working capital.

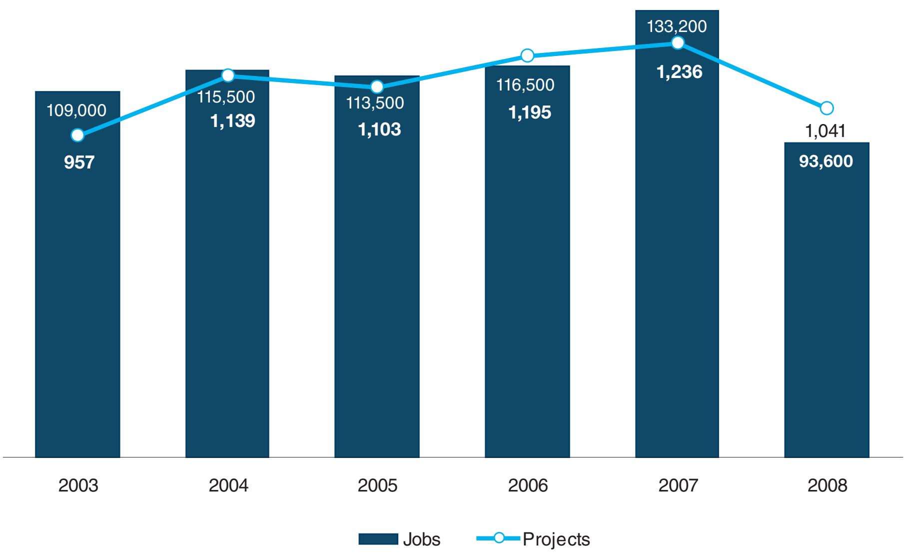


Figure 12. Evolution of approximate job creation vs. projects of German companies abroad

Outward investment from Germany is heavily concentrated in major industries and sectors such as Transport Equipment, Chemicals, Electrical Equipment and Electronics, which are the four largest sectors in terms of jobs created from German companies investing abroad.

Many sectors witnessed a decline in outward investment by Germany, notably ICT and Logistics. However, this was offset by growth in other sectors such as Industrial Machinery and Equipment, and Electrical Equipment which recorded growth in numbers of jobs created by just over 3% and 5% respectively. Highlighting the propensity for German companies to invest in emerging economies, some of the largest outward investments by German companies were made in these two sectors, in countries such as Tunisia and Mexico.

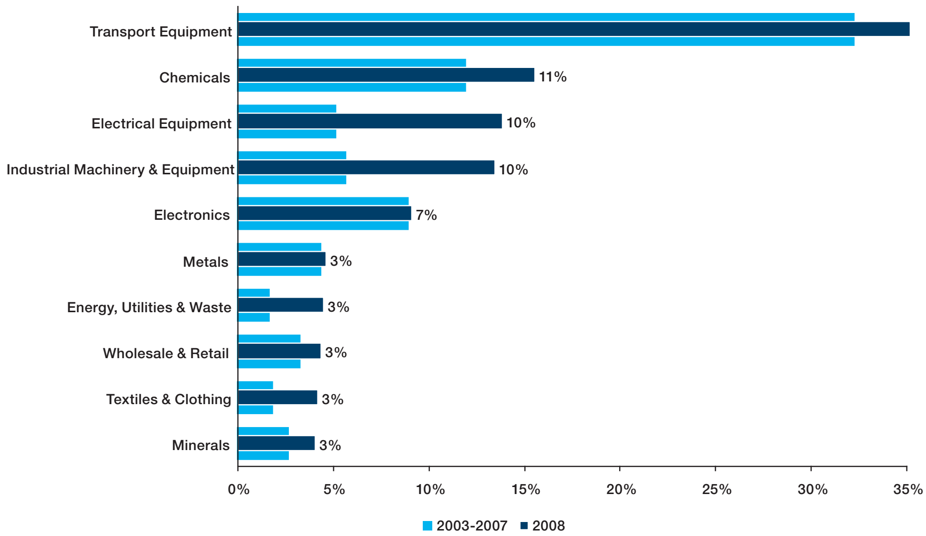


Figure 13. Top ranking sectors of German outward investors by estimated jobs created – 2003-2008

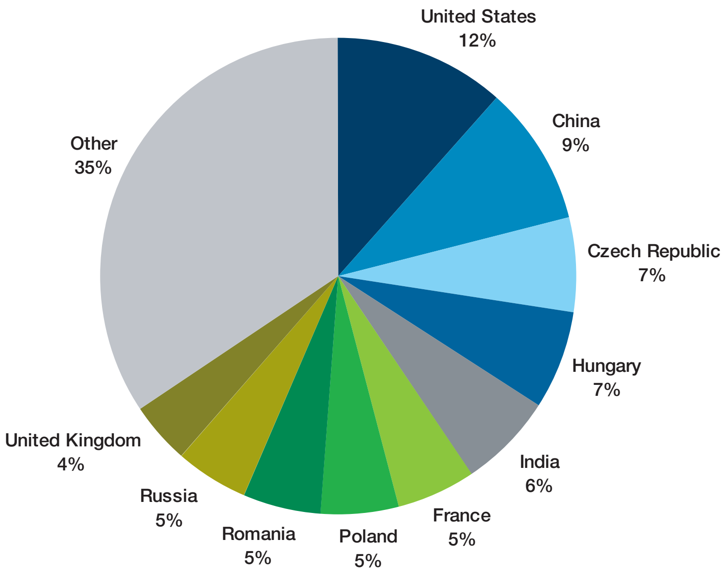
Investment Example: Leoni opens new production plant in Mexico

Leoni, a German company specializing in wire, cable and wiring systems, opened a new production facility in the Mexican state of Durango to supply US commercial vehicle manufacturers. The plant is expected to employ more than 1,000 people by the end of 2009. The company highlighted that Durango was selected due to the good infrastructure, availability of suitably skilled staff and favorable operating costs.

In 2008, the United States accounted for 13% of German foreign investment, a slight increase in share from the previous year, ensuring it remained the top destination for German companies investing abroad. The United States are subsequently followed by a host of countries in Eastern Europe, Asia and Latin America, highlighting the importance of these economies for German companies. Together, China, Hungary, India, Romania, Turkey, Russia and Mexico accounted for 41% of outward investment from Germany.

Top destinations of German companies, by estimated jobs

2003-2007



Top destinations of German companies, by estimated jobs

2008

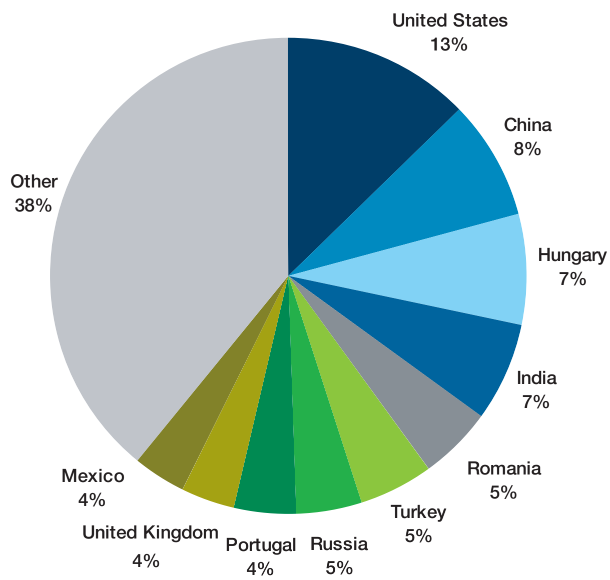


Figure 14. Top destinations of German outward investors

Final observations

2008 was a turbulent year for the world economy. A central feature of the corporate response to the crisis has been for companies to critically review and adapt their global footprints in attempts to reduce costs and consolidate operations. This has, on the one hand, involved reducing the number of sites that companies operate from and, on the other hand, exploring opportunities for reducing operating costs by moving operations to cost-efficient locations. In this context, as one might expect, some countries have gained relatively and in a few cases in absolute terms, while others have seen considerable declines.

Despite the global decline in investment, Germany attracted an impressive number of inward foreign investment projects and associated jobs created. In particular, the country managed to increase inward investment in Industrial Machinery and Equipment, Business Services and ICT. This impressive performance has in part been the result of the country managing to improve its competitive position through concerted efforts to keep wage growth moderate, reduce taxes and enhance the attractiveness of the general business environment. Furthermore, the country has benefited from companies seeking more stable and mature locations for their consolidated activities.

For the country to build on the positive performance of 2008 and further enhance its competitiveness, Germany must continue to address competitive weaknesses and develop its strengths. The competition in the global market for foreign investment is constantly intensifying, with countries around the world enhancing their offer to investors. For Germany to remain an attractive location, the country must continue its efforts to improve the business environment.

In view of these and future developments, Germany, its regions and cities that aim to position themselves for investment are facing a set of interrelated challenges.

Firstly, they need to tailor their offer and value propositions to investors' immediate needs for cost reduction and consolidation, and ensure that their location is seen as part of a solution for companies. Secondly, German regions and cities must ensure that they are well-positioned to take advantage of the opportunities arising from an eventual upturn in the global economy. Accordingly, it is necessary for locations to understand how they are positioned for investment in sectors that are likely to grow as a result of a forthcoming upturn, and take concerted action to improve their offer to investors in these sectors.

For the longer term, Germany needs to set out a clear strategy that enables the country to take advantage of emerging sectors for foreign investment, and reduce their dependence on sectors that are in structural decline (sectors where decline was occurring even before the current economic crisis) or gradually moving to more cost-competitive locations. More generally, the turbulence of the last couple of years has highlighted the importance of locations being adaptable and resilient in the face of a more disruptive global economic environment. Cities and regions must therefore think more widely about how they can maintain a competitive position and secure job creation and prosperity in a global economy that is increasingly characterized by change.

Not only is the global economy as a whole experiencing greater volatility, but individual sectors are constantly subject to transformation, with new technologies, processes and business models creating new business needs and thus location drivers. In such an environment, Germany needs to continuously develop, leverage and integrate its resources, infrastructure, technology and people into compelling value propositions for businesses. This should include more investment in education and training, infrastructure and telecommunications coupled with targeted support for key growth sectors such as renewable energy.

About IBM Global Business Services

With business experts in more than 160 countries, IBM Global Business Services provides clients with deep business process and industry expertise across 17 industries, using innovation to identify, create and deliver value faster. We draw on the full breadth of IBM capabilities, standing behind our advice to help clients implement solutions designed to deliver business outcomes with far-reaching impact and sustainable results.

IBM Global Business Services offers one of the largest Strategy & Change practices in the world. Strategy & Change fuses business strategy with technology insight to help organizations develop and align their business vision across four strategic dimensions – business strategy, operations strategy, organization change strategy and technology strategy – to drive innovation and growth.

About Plant Location International

Plant Location International (PLI) is a global service of IBM Global Business Services' Strategy & Change practice, specialized in corporate location and economic development services. Operating as a fully globally integrated service – with a global center of excellence in Brussels, Belgium, supported by dedicated Global Delivery resources, and satellite teams in key markets – IBM-PLI provides expert services to corporate clients for analyzing international business locations for expanding or consolidating companies to select the optimal location (country/city). IBM-PLI also advises economic development organizations on improving their areas' competitiveness, strategic marketing, developing value propositions, and marketing tools, etc.

IBM-PLI is a leading innovator in location strategy and economic development tools and techniques, which are constantly being improved based on latest insight in corporate location decision making. Examples are:

- Cost-Quality location screening methodology, assessing the trade-off between cost and quality of communities as investment options for companies
- IBM-PLI's Location Benchmarking Tool, based on this methodology, allowing regions and cities to test their location's value proposition for targeted activities and successfully market their communities to investors
- The Global Investment Locations Database (GILD) which tracks location decisions for contestable investment projects around the world.

Further information

To find out more about this report or to speak with experts of IBM-Plant Location International, please contact:

Roel Spee
Office: +32 2 416 5928
Mobile: +32 475 915 832
E-mail: roel.spee@be.ibm.com
Web: **ibm.com**/gbs/pli

Dr. Frank Zurlino
Office: +49 211 476 1182
Mobile: +49 151 151 66226
E-mail: zurlino@de.ibm.com
Web: **ibm.com**/consulting/de

IBM Deutschland GmbH
IBM-Allee 1
71139 Ehningen
ibm.com/de

GBL03011-DEDE-00