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Global Location Trends

2010 Annual Report Germany

IBM

Foreword

With the global economy going through another tumultuous year in 2009, Germany has seen its position in the international market for foreign investment challenged as companies seek to restructure their global footprints. In response to a more uncertain and complex global economic landscape, companies have been reviewing how and where they operate, in an effort to organize their global operations optimally. Hence, companies are aiming to capitalize on the global opportunities for operational excellence and cost efficiency, while incorporating sufficient flexibility and dexterity into their operating models to address unexpected changes. These changes to corporate operating models have in turn given rise to considerable upheavals in the global economic landscape.

German companies are some of the leading international investors, and are transforming their operations to take advantage of global markets, talent pools and cost differentials. Whilst previously being heavily focused on Europe, German companies are now more intensively globalizing, with a clear shift in destination countries of German investment to locations outside of Europe, notably China, India and Brazil. Companies from these emerging countries have in turn also become more important sources of investment into Germany.

However, after a remarkably successful 2008, when the country experienced significant growth in inward investment, Germany saw a marked reversal of fortune in 2009, with a decline of approximately 50% in jobs created from foreign investment. The country's reliance on investment in key sectors that all experienced significant global declines, such as industrial machinery and equipment, transport equipment and business services, was hugely detrimental to the overall performance of Germany. In particular, the country had previously received several large projects in these sectors, and companies were less willing to embark on such large and often capital intensive projects in 2009 as a result of the uncertain economic environment. As such, the results for Germany illustrate more than ever the need to have a balanced approach to inward investment that combines leveraging existing strengths with efforts to establish competitive advantages in new and emerging sectors and functions. Consequently, Germany, its Länder and cities must ensure that they understand how they are positioned to take advantage of the global restructuring, which in turn requires greater awareness of their comparative and absolute strengths and weaknesses in the market for foreign investment. Indeed, as the global economy becomes more competitive, Germany will find traditional areas of strength challenged by new and emerging locations, and competitive pressures will force the country to continually improve its offer to investors.

Martin Jetter
Country General Manager
IBM Germany

Gregor Pillen
Managing Director
IBM Global Business Services
IBM Germany

Introduction

The recent turbulence in the world economy has forced many companies to rethink their business strategies and models, as the sustainability of existing operating models has been seriously challenged. A critical feature of this consideration has been an assessment of how the company is positioned in the increasingly integrated global economy. This has included reviews of existing global footprints, manifesting themselves in significant changes in how and where companies operate. These changes to corporate structures result in significant upheavals in the global economic landscape, with numerous challenges for cities, regions, and countries that aim to attract and retain companies and jobs.

The Global Location Trends report for Germany by IBM Global Business Services outlines how these changes are reflected in the most recent trends in corporate location decisions, and ascertains their implications for the global economic landscape and investment attraction and retention in Germany. The analysis is based upon data from IBM's Global Investment Locations Database (GILD), which continuously records investment project announcements around the world. With, currently, information for over 100,000 investment projects recorded since 2003, GILD allows very detailed insight into global trends in corporate location decision making (see textbox on IBM's GILD database on next page).

The GILD database is maintained by IBM-Plant Location International (IBM-PLI), a specialized service within the Strategy & Transformation consulting practice in IBM Global Business Services. IBM-PLI is a global leader in providing advice to companies on their location strategies, covering all sectors and types of business functions. Moreover, drawing on the extensive expertise and knowledge of what shapes corporate location 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.

Moving towards optimization

The global market for foreign investment has been through a roller coaster ride in recent years, with steady increases until the end of 2007, followed by significant declines in subsequent years. This decline continued in 2009, with total jobs created at more than 45% below their peak in 2006.

The number of jobs created from foreign investment in 2009 dropped by over 20% from 2008, to a total of some 680,000 jobs. The trend from 2008, when fewer job-intensive projects were announced as a result of the crisis, therefore continued for 2009 as a whole. However, an increase in these large projects was observed toward the end of the year.

IBM's GILD database monitors global location trends through new foreign investment

For many years, the only available data for analyzing **foreign investment** trends around the world were the capital investment data as published by the United Nations. These data measure the capital flows through various forms of foreign direct investment (FDI), including mergers and acquisitions (M&A). Often these FDI flows are used to measure the success of geographical entities (countries, states and even cities) in attracting foreign investment. However, this can lead to misleading conclusions on the capacity of the locations to attract foreign companies. M&As are driven mostly by an interest from the investor in a target company with the objective to gain market share, acquire technology, etc. The business location of the target company is typically not the main driver for the investment, and a location decision is rarely part of M&A investment decisions.

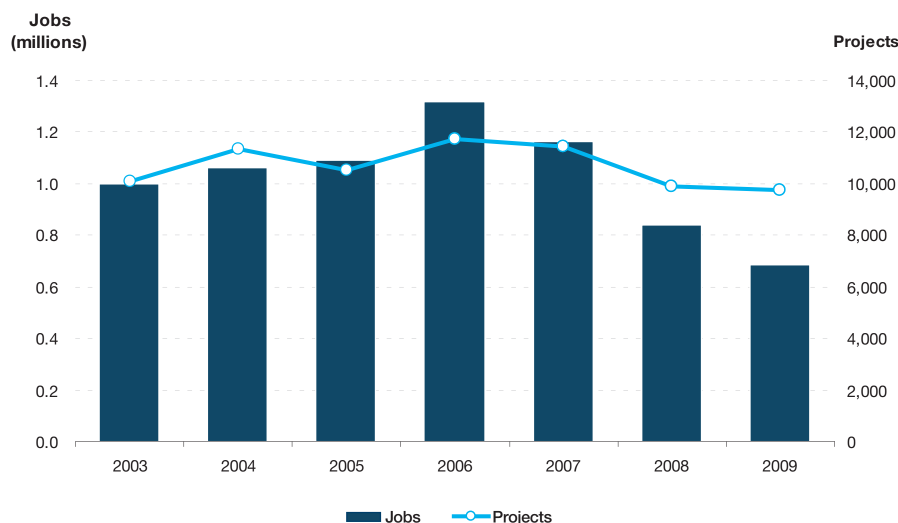
A better approach to measure the success of individual countries in attracting foreign investment is, therefore, to focus on those **investment projects** for which a clear decision on the investment location has been made. This is the case for vast majority of so-called **'greenfield' investment projects** as well as for new expansions of existing operations owned by foreign enterprises (as such expansions often can be realized in different locations owned by the company). For this reason, IBM-Plant Location International has started to develop the **Global Investment Locations Database (GILD)** in 2002. GILD tracks announced decisions of companies to locate new operations in regions outside of their HQ region/country on an ongoing basis.

Our analysis of volumes of foreign investment focuses on **job creation**. From an economic development perspective, job creation is the best indicator of the local economic impact of the investment. Job positions created through the investment are typically filled by employees in the local labor market (or staff who relocate to that market) and consequently generate income and welfare in the region around the investment location.

The investment capital, however, often ends up in other regions or countries, as a result of the acquisition of plant or machinery, contracting of construction and engineering work outside the investment location, etc. Thus the investment capital regularly is an overestimate of the economic impact of foreign investment in a specific location, particularly in the case of smaller regions or individual cities.

A further positive development is that the number of individual investment projects remained almost stable, at 9,800 projects in 2009 – just 1% below the total for 2008. This shows that the downturn in publicly announced investment plans came to an end during 2009 – an observation supported by the fact that the data also show an increase in the number of projects in the second part of the year.

Figure 1. Foreign investment projects and job creation, 2003–2009



Thus the annual figure for 2009 disguises **distinct differences in the first and second halves of the year**. With the global economy still mired in recession in the beginning of 2009, foreign investment activity continued to be low. Investment projects that had been postponed (or even cancelled) from the onset of the financial and economic uncertainties in late 2007 and early 2008 were kept on hold, while companies continued to face an unfavorable economic climate. As the global economy began to recover in the middle of 2009, companies began to revisit plans for investment and look to new projects. Thus investment activity began to increase toward the end of 2009 and into 2010.

The **return to investment activity in the second half of 2009** represented a more fundamental change in corporate investment behavior. The period from 2003 to 2006 was characterized by investment focused on expansion to cater to a growing and increasingly integrated global economy, often resulting in ad-hoc additions to corporate operational footprints as companies responded to changing market conditions. A central feature of this market-driven investment growth was the continued geographic widening of investment, with expansion into emerging markets. This was partly driven by cost advantages but also the result of these countries' being attractive markets in their own right. Particularly China and India saw many foreign owned companies announce investments in their markets, creating hundreds of thousands of new jobs. Other markets also emerged as alternate locations for investment, profiting from the fact that companies started to look beyond the traditional places. Countries such as Vietnam, Bulgaria, and Romania have ranked highly as investment destinations in recent years, while South American and African countries have also gradually increased their share of investment.

As the economic environment began to weaken at the end of 2007, and deteriorate significantly during 2008 and 2009, companies faced restricted access to credit and a pressing need to manage and conserve cash-flow. Many companies responded by slashing operating costs. Larger projects that required significant up-front investment, and consequently posed higher financial risks, were often cancelled or postponed, with companies were hesitant to allocate large amounts of capital to new facilities. Meanwhile, operations and activities that could be reduced or combined without considerable cost or disruption were subject to consolidation, often in more mature, stable locations where companies were already operating.

From the latter half of 2009, we have seen a further change in corporate investment behavior towards a more **strategic optimization of global footprints**. Encouraged by signs of economic recovery and improvements in financial conditions, many companies now seek to position themselves optimally for the new economic environment. This means the building of global corporate architectures that **optimally** balance the requirements for markets, resources, talent, and cost, while being sufficient flexible to react to unexpected changes in market conditions – changes we frequently see now.

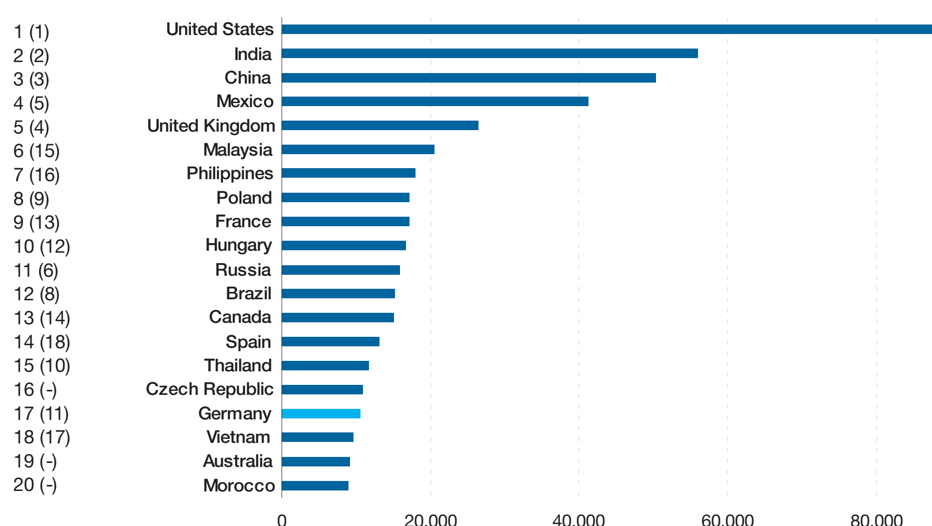
These changes have in many cases involved a **major review of how companies approach their global operations and, more fundamentally, their business models**. Faced with a more uncertain and complex environment in which to operate, companies are aiming to capitalize on the global opportunities for operational excellence and cost efficiency, while incorporating sufficient flexibility and dexterity into their operating models to address unexpected changes. This entails a shift towards a corporate architecture that is agile rather than just lean, responsive rather than just standardized, and internally and externally optimized rather than centralized. This is hardly to say that cost containment does not remain important, but rather that it is pursued within a wider set of considerations that focus on the ability to act effectively in a more complex and uncertain global environment.

Winners and losers in the new economic environment

The changing investment patterns have significant implications for how the job creation is distributed among countries and regions around the world. Accordingly, the decline in investment has not been uniform across the regions of the world, with Asia-Pacific and Europe experiencing particularly large declines while Africa and North America saw an increase in the absolute number of jobs created from foreign investment. Some individual countries that have been among the main beneficiaries of the period of growth prior to the economic crisis have seen dramatic declines in levels of investment, with, for example, China, India, Russia, and Romania all experiencing falls in job creation of more than 50% from their peaks. These are countries that have received numerous large investments in production, services, and R&D activities in the past, and have suffered as a result of these large projects being cancelled or put on hold. It is also important to recognize that these countries lack the many of the strong economic development organizations that many mature economies have. When the global economic environment is more challenging, such organizations can help to market their countries and cities as well as support efforts to retain and protect existing jobs in industries or individual companies that are threatened with downsizing or closures. China, India, and Russia are still in the very early stages of creating such economic development capacities – particularly in the area of foreign investment promotion. Romania suffered from a reorganization of investment promotion efforts, which led to an almost zero national inward investment service for a large part of the year.

In contrast, some countries that offered a stable and attractive environment for consolidated operations, notably in services, experienced growth in the overall number of jobs created during 2009. For example, the United States and Denmark both experienced growth in the overall number of jobs created. Germany experienced a significant decline in inward investment in 2009 of more than 50%, with 10,700 jobs created compared to 23,000 in 2008, resulting in a drop in the global ranking from 17th to 11th. In Europe, Germany moved from 5th in 2008 to 8th in 2009. After a very strong showing in 2008, the country thus experienced a reversal in fortunes during 2009.

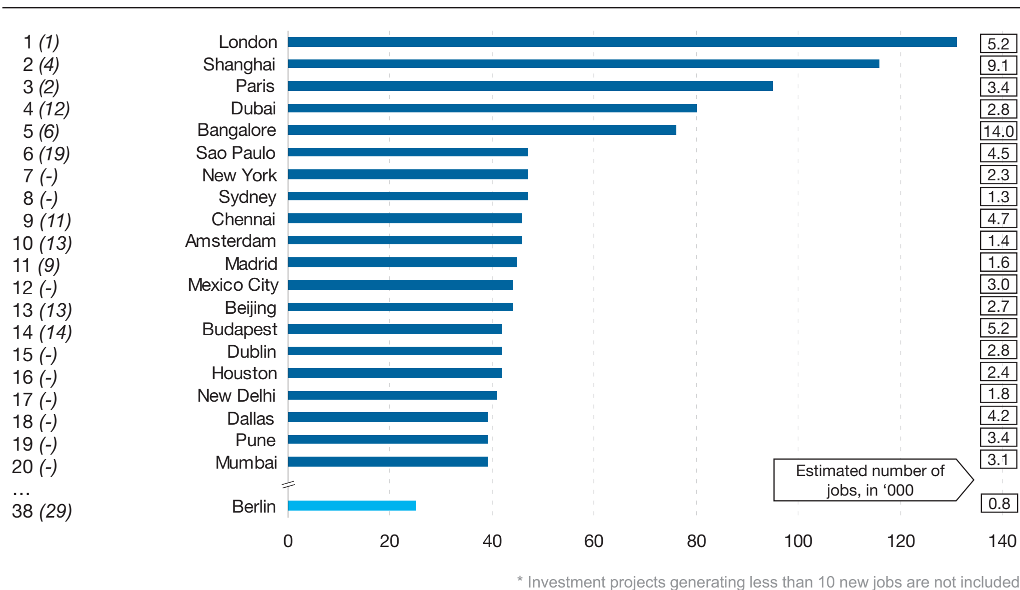
Figure 2. Top ranking destination countries by estimated jobs – 2009 (08)



At the level of **cities**, it is clear that the metropolitan areas in emerging countries are becoming ever more important destinations for investment. While London continues to be the world's top destination city measured by number of projects, the BRIC countries (Brazil-Russia-India-China) are represented by 9 of the world's top 20 cities, 5 being in India. Despite the fact that the US as a whole is the leading country for foreign investment, it is represented by only 3 metropolitan areas in the top city ranking, with New York as the leading destination. This is explained largely by investors having a wide choice of very competitive business locations among the many metropolitan areas in the US. The top ranking German city is Berlin, which is 38th globally, compared to a position of 29th in 2008. The investment going to Berlin is heavily concentrated in business services and Information and Communication Technology (ICT), and both of these sectors saw declines in 2009.

Cities are important focal points of economic activity and development for their wider regions or even countries, and their importance is likely to continue to grow in the future. In addition, cities constitute important assets for marketing the regions or countries in which they are located, simply due to the fact that the global recognition and 'brand' of cities is usually far greater than that of regions. What is more, many cities have created their own dedicated investment promotion organizations in recent years (often for the wider city region), and in various countries, city-focused economic development initiatives are gaining importance, while regional efforts are being reduced (due partly to governmental budget reductions). In Germany, this trend is less prevalent, with investment promotion efforts still primarily done by the individual Länder.

Figure 3. Top ranking destination cities by number of investment projects – 2009 (08)



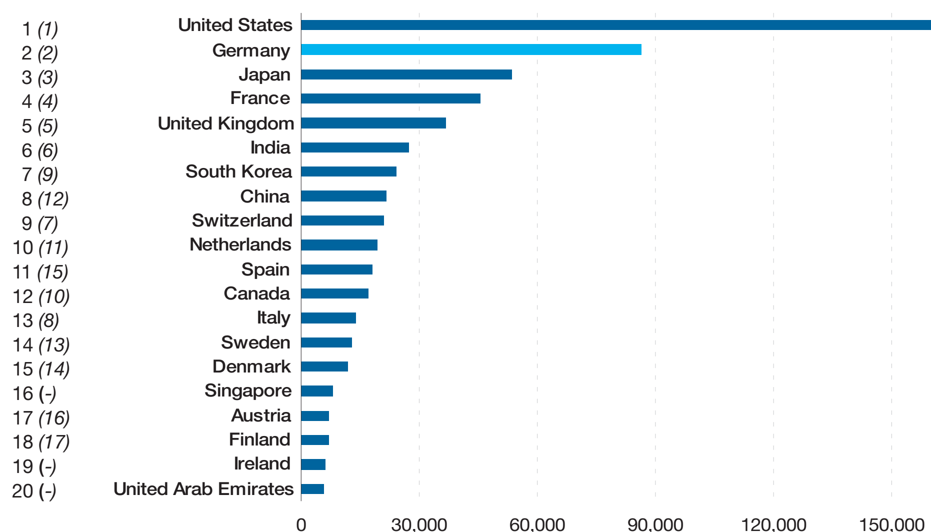
* Investment projects generating less than 10 new jobs are not included

Sources of investment

It is very noteworthy that the decline in investment activity in 2009 has primarily been among companies from the more mature source markets, such as the United States, Western Europe, and Japan. German companies thus also reduced their investment activity overseas, with just over 85,000 jobs created in 2009 compared to 100,000 in 2008. Notwithstanding this decline, the country remains the second greatest source of foreign investment globally, after the United States.

Investors from emerging economies, notably China and India, have largely maintained their levels of overseas investment during 2009 despite the crisis, and thus increased their overall share as sources of investment. Consequently, the share of jobs created from global investment by companies from non-OECD countries has risen from 14% in 2003 to 19% in 2009. This **growing role of emerging economies** in the global market for foreign investment is indicative of a more fundamental shift in the global economic landscape that has been accelerated as a result of the global economic crisis and its aftermath – for instance, throughout the recession, to which China reacted quickly with stimulus funds, China grew at around 10% a year. Accordingly, we expect to see a continued rise in importance of emerging economies as sources for investment in the future, resulting in a more balanced, but also more complex, market for foreign investment. Consequently, locations competing for investment must consider how they can best position themselves for investment in this new market with a variety of sources.

Figure 4. Top ranking origin countries by estimated jobs – 2009 (08)



The internationalization of Chinese and Indian companies

Companies from emerging countries in general, and India and China in particular, are becoming prominent overseas investors, with substantial job creation overseas as a result. With the continued rise in prominence of these countries on the global economic stage, their role as sources of investment is expected to further increase. This will not only contribute to a larger overall market for investment but also change the pattern of global investment, as Chinese and Indian companies pursue their distinct approaches to overseas investment.

Indian investment abroad has so far been heavily concentrated in the ICT and business services sectors, with the former accounting for almost half of the jobs created by Indian investors overseas in the last four years. These investments have gone to other Asian countries, such as China and Malaysia, while investment activity outside of Asia has been concentrated in the Anglo-Saxon countries, with the US, UK and Australia the main recipients. However, Germany is the second greatest recipient country in Western Europe of investment from India and ranks 19th globally.

Chinese investment is sectorally more diverse, although transport equipment, electronics, and metals are the top sectors. This also results in greater diversification in recipient countries, with less dominance of a few destinations. Chinese companies are gradually becoming an important source of inward investment for Germany. In 2009, Chinese companies accounted for 8% of the jobs created in Germany from foreign investment, and Germany is the 13th greatest recipient of Chinese investment in the world.

Figure 5. Top ranking destination countries for investment from Chinese companies by estimated jobs, 2003–2009

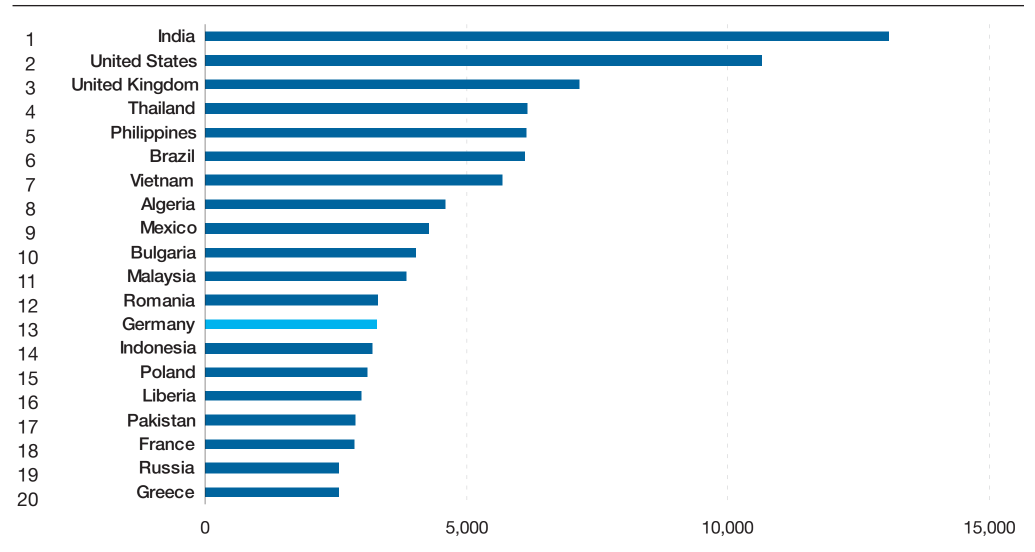
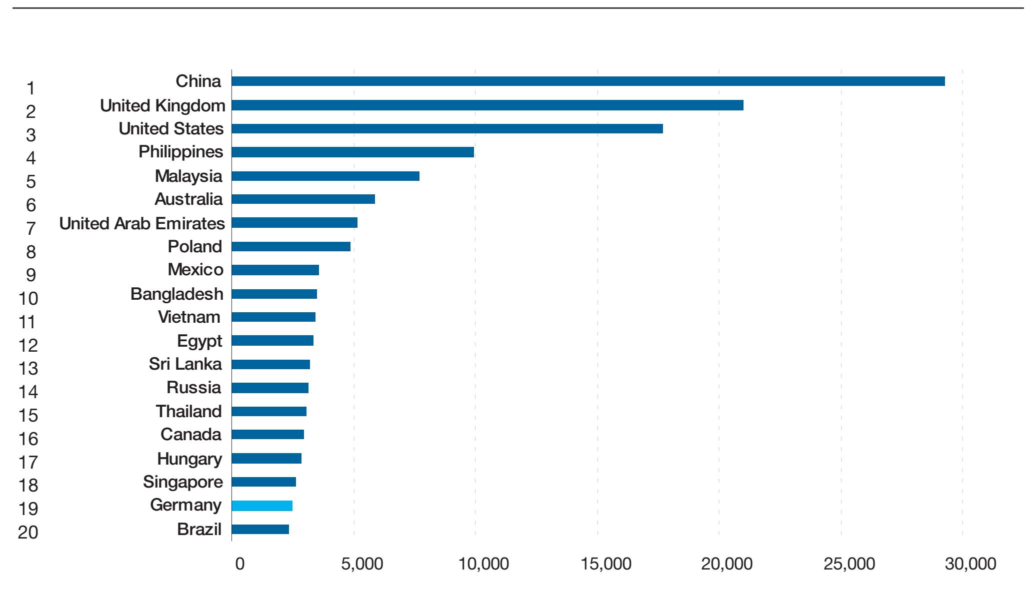


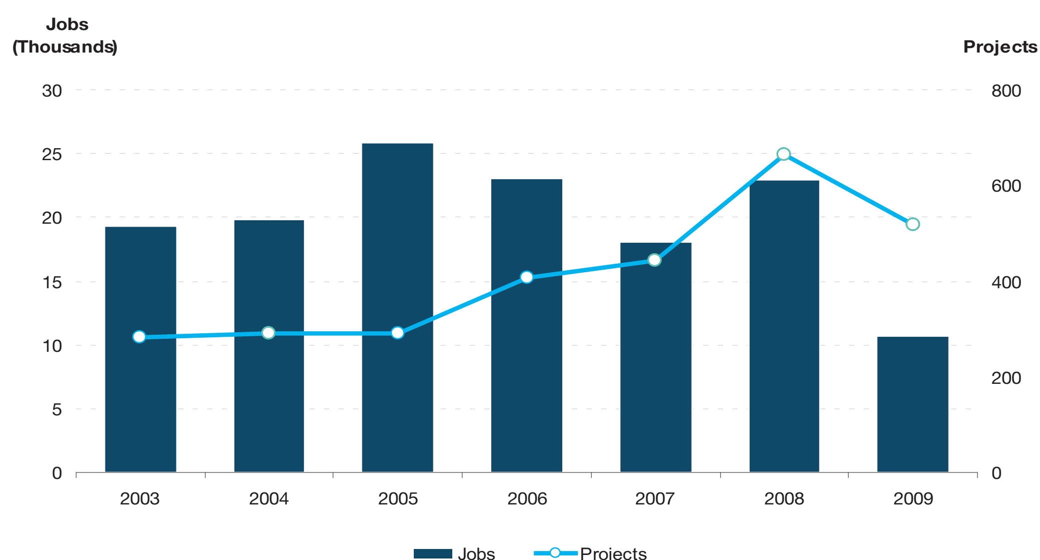
Figure 6. Top ranking destination countries for investment from Indian companies by estimated jobs, 2003–2009



Germany in the new economic environment

Within a context of global volatility and a gradual recovery of investment activity, **Germany experienced a strong decline** in overall inward investment levels in 2009. As noted above, jobs created from foreign investment in Germany dropped by more than 50% to 10,700 compared to 23,000 in 2008. The number of projects declined from 663 to 517, a decline of just over 20%. As a result, the country's global ranking as a destination country for foreign investment measured by jobs created dropped from 11th to 17th position. This is in marked contrast to the relative success of the German domestic economy, with the country being conspicuous by the speed and strength of its recovery since the second quarter of 2009, and offers further evidence that corporate location trends do not always follow wider economic trends.

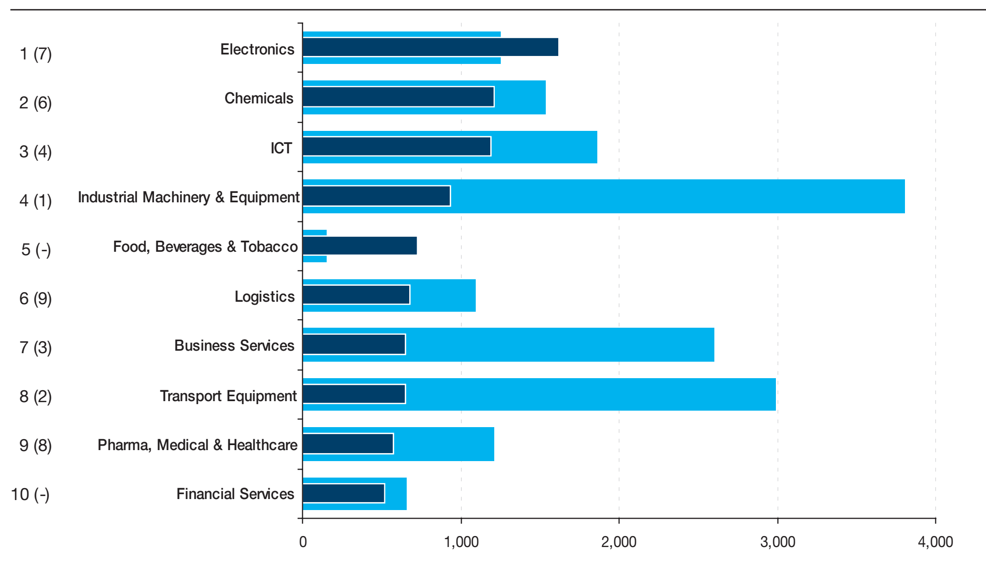
Figure 7. Foreign investment projects and job creation in Germany, 2003–2009



Hence, after enjoying a **remarkably strong year in 2008**, while most of the rest of the world experienced considerable declines, Germany saw a reversal in inward investment during the course of 2009. The large decline in investment into Germany is partly explained by the sectoral composition of investment that the country traditionally receives, with the global falls in investment in industrial machinery and equipment, transport equipment and business services severely affecting Germany. In particular, the country had previously received several large projects in these sectors, and companies were less willing to embark on such large and often capital intensive projects in 2009 as a result of the uncertain economic environment. This view gains further support from the fact that the average size of the investment projects going to Germany decreased significantly to approximately 20 jobs per project in 2009 compared to almost 90 in 2005.

In contrast to the large traditional sectors of inward investment for Germany, the country saw growth in inward investment in the electronics and food and beverage sectors, with the former topping the sectoral ranking for 2009.

Figure 8. Top ranking sectors by estimated jobs in Germany – 2009 (08)



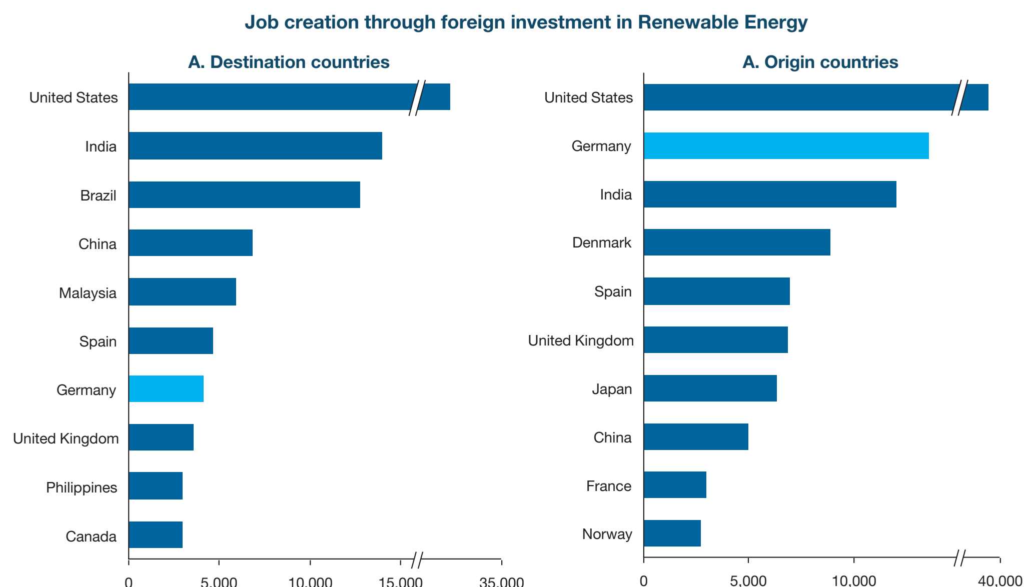
Renewable energy – powering foreign investment now and in the future?

While most sectors have seen considerable declines in foreign investment in recent years, the renewable energy cluster has stood out by its continued growth in investment activity. The cluster as a whole created more than 35,000 jobs globally from foreign investment in 2009, compared to approximately 30,000 jobs in 2008. Within the cluster, solar and wind energy have experienced particular significant growth, each accounting for about 40% of the jobs created in 2009. In contrast, bio-fuels – which perhaps have more-adverse environmental consequences – have seen a dramatic decline in investment activity from a peak of more than 21,000 jobs created in 2007, to just over 8,000 jobs in 2009.

Investment in the cluster has so far been heavily focused on production activities in key markets, with the United States, India, Brazil, and China the top recipients. Other countries that have received significant investment are those that have strived to create a domestic market for renewable energy, including Germany. Indeed, Germany is ranked as the 7th greatest recipient country of investment in renewable energy in the world in the period 2003-2009. The country has been particularly successful in attracting investment in solar energy, with this sub-sector accounting for more than 60% of jobs created by foreign companies in Germany in renewable energy during the period 2003-2009. However, it is worth noting that the country experienced a significant decline in solar investment in 2009, which may partly be a result of expected reductions to subsidies that help support the domestic market for solar energy. In addition, the global market for foreign investment in solar energy, and renewable energy more generally, is becoming increasingly competitive as more countries attempt to position themselves for investment in this emerging growth cluster.

German renewable energy companies are also actively investing abroad, with the country ranked as the second most important source country globally. As with inward investment, wind and solar energy have been particularly important sub-sectors for German outward investment in recent years. Key German investors in this cluster include Siemens and Enercon, both of which have been actively investing in key overseas markets for wind energy. Other countries that are important sources of investment for the renewable energy cluster are the US, Denmark, Norway and Spain. Moreover, Chinese and Indian companies investing overseas play a stronger role in this relatively new cluster than in the more traditional industries.

Figure 9. Top destination and origin countries for foreign investment in renewable energy, 2003–2009

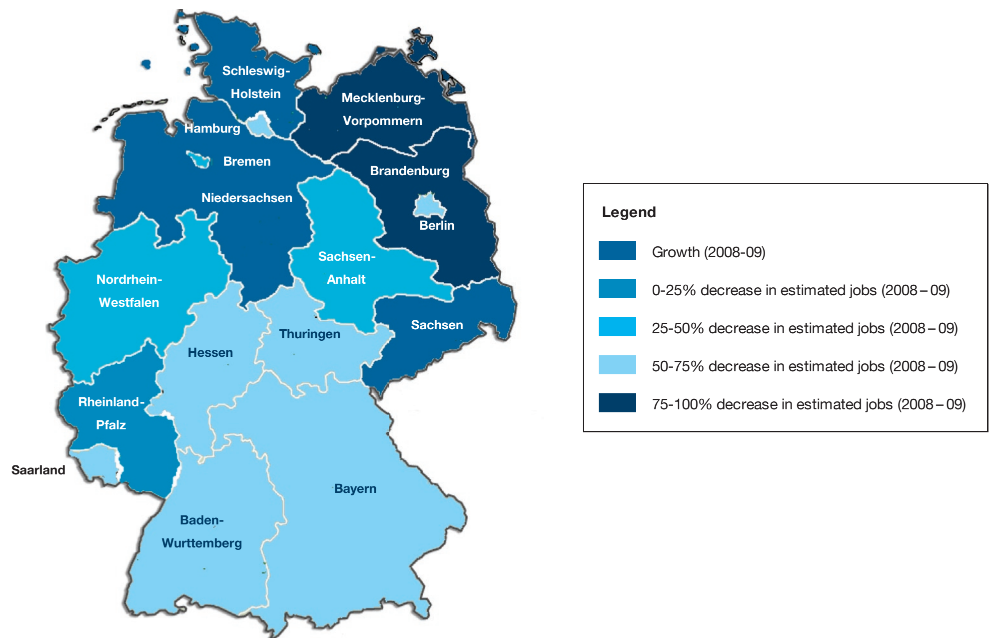


The decline in investment is not uniform across Germany. Rather, trends within Germany reflect wider trends on the European continent. Accordingly, there are **marked differences in performance between the Länder** in 2009, with particularly severe reductions in investment activity in some of the Länder in the East, notably Mecklenburg-Vorpommern and Brandenburg. These are regions that previously were recipients of the type of large projects that have been postponed or cancelled as a result of the global economic crisis in 2009. Moreover, investment into Mecklenburg-Vorpommern has been heavily concentrated in industrial machinery and equipment, and the region was particularly badly affected by the global decline in investment in this sector.

In contrast, Schleswig-Holstein, Niedersachsen and Sachsen experienced growth in the absolute number of jobs created from foreign investment between 2008 and 2009. The investment to these regions is often smaller projects and sectorally more diverse. The top recipient region in 2009 is Nordrhein-Westfalen, which benefits from strengths in several sectors, without being overly reliant on one or two dominant sectors for investment.

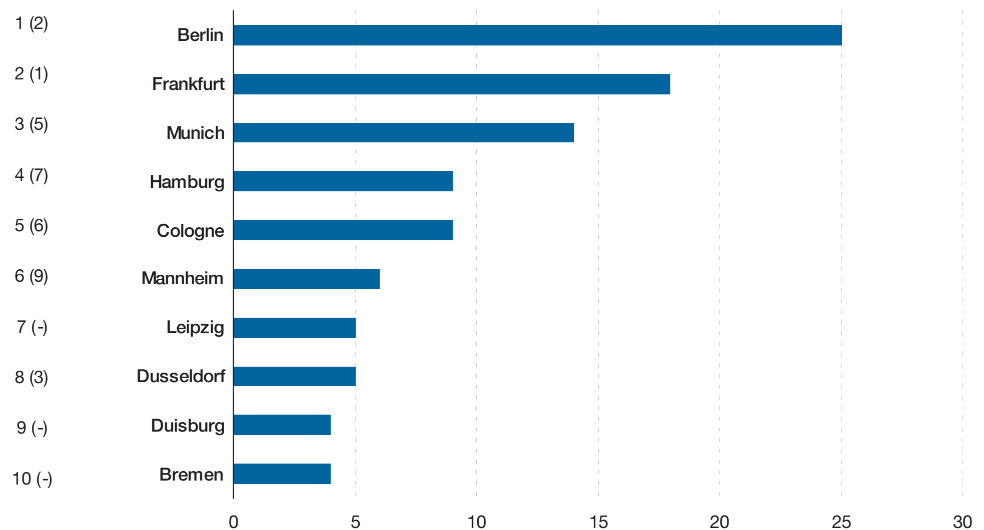
As such, the results for the different German Länder illustrate more than ever the need to have a **balanced approach to inward investment** that combines leveraging existing strengths with efforts to establish competitive advantages in new and emerging sectors and functions. Regions that are overly dependant on one or two sectors, and not adapting to market changes, will risk losing out on investment as investment patterns in these sectors change. Consequently, it is necessary to continuously be on top of how sectors of economic importance to a region are changing, and how the location needs to adjust as a result of this.

Figure 10. Foreign investment in Germany by Länder, 2008–09



At the level of cities, Berlin is the top destination city in Germany in 2009 with 25 projects, followed by Frankfurt and Munich. Dusseldorf sees a significant decline in relative ranking from 3rd to 8th, largely due to its reliance on investment in business services and ICT which dropped significantly. Germany stands out in Europe with its multiple centers of commerce, whereas most other countries see investment heavily concentrated around their capital regions. As such, the country offers multiple options for businesses seeking to invest, as well as for talented people seeking job opportunities. Indeed, the ability to attract talent is a key factor determining the relative success in attracting companies to different cities in Europe as well as within Germany. For example, Berlin benefits greatly from its international image as a vibrant place for young and creative people.

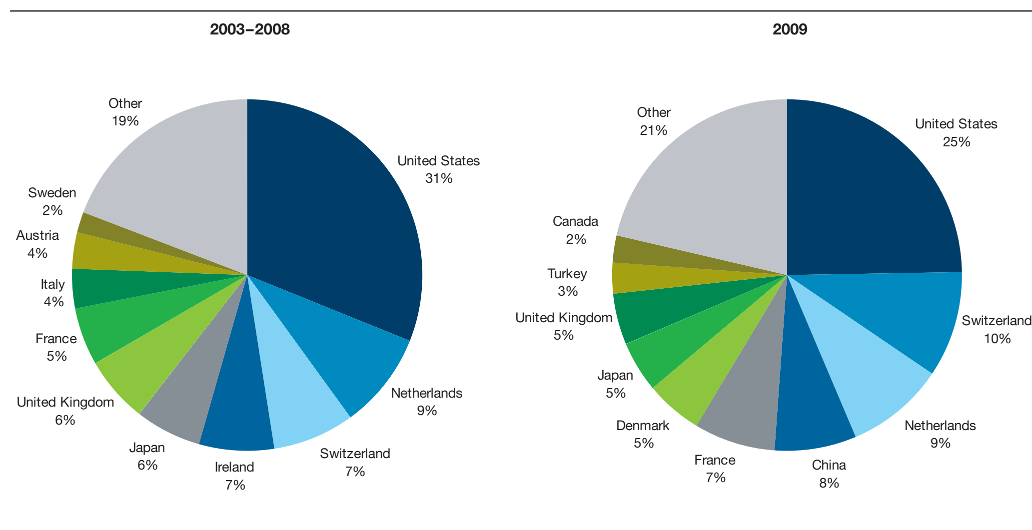
Figure 11. Top ranking destination cities in Germany by number of investment projects–2009 (08)



New sources of investment and job creation for Germany

Companies from the US continue to be the main source of investment into Germany, accounting for 25% of the jobs created. However, it is particularly noteworthy that China is now the 4th largest source of investment into Germany, accounting for 8% of the jobs created by foreign investors, with Hessen and Bayern particularly successful in attracting investment from China. This re-emphasizes the importance of companies from emerging economies as sources of inward investment not only for Germany but globally. Other important sources of investment into Germany are the neighbouring countries Switzerland and the Netherlands.

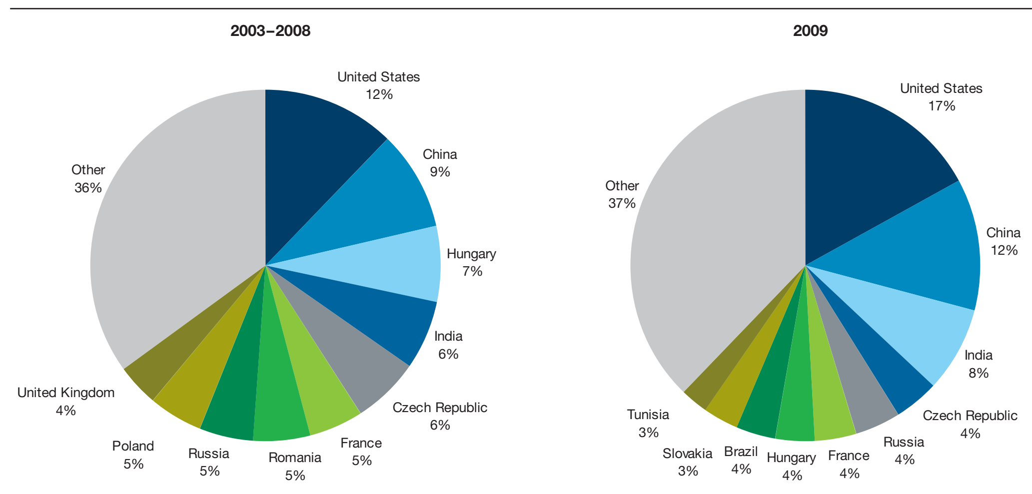
Figure 12. Share of estimated jobs created in Germany by origin country, 2003–2009



German companies abroad

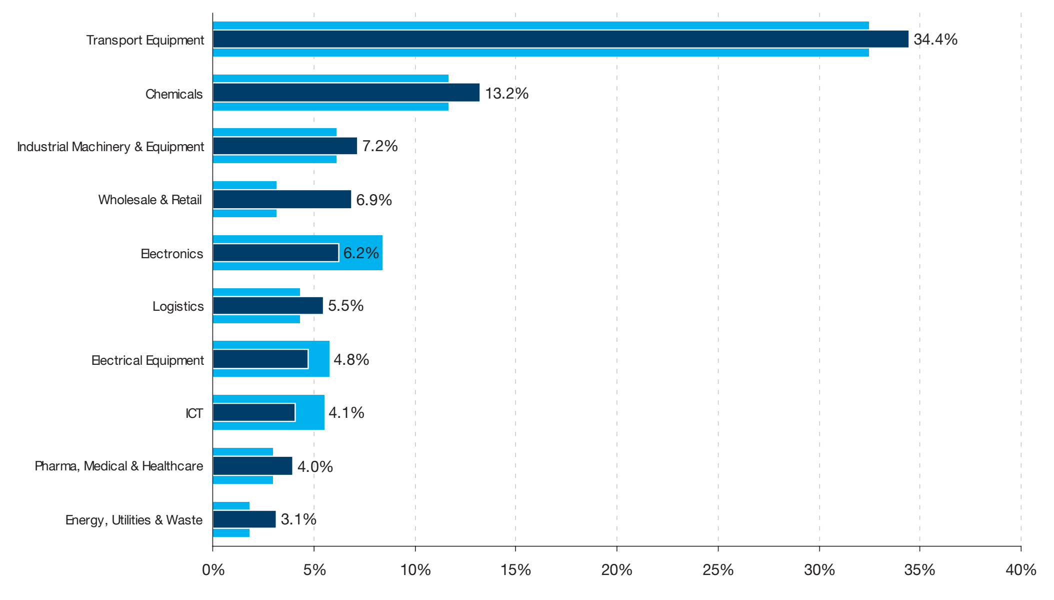
The data for 2009 shows a **marked shift in the internationalization efforts of German companies.** Whilst previously being heavily focused on Europe, German companies are now more intensively globalizing, with a clear shift in destination countries of German investment to locations outside of Europe. German companies are now investing globally, with emerging countries such as China, India and Brazil all increasing their share of German investment abroad, while Eastern European locations are reducing their share. German companies are thus, more than ever before, transforming their operations to take advantage of global markets, talent pools and cost differentials.

Figure 13. Share of top destinations of German outward investment by estimated jobs, 2003–2009



Sectorally, German investment abroad is heavily concentrated in transport equipment, and companies within this sector have been among the most prominent 'globalizers' in 2009 (see textbox). While global investment in the sector was significantly reduced in 2009, German companies active in this sector maintained a relatively high level of investment activity, with growing investment going to emerging markets. Other important sectors are chemicals and industrial machinery and equipment.

Figure 14. Top ranking sectors for German outward investment by estimated jobs, 2003–2009

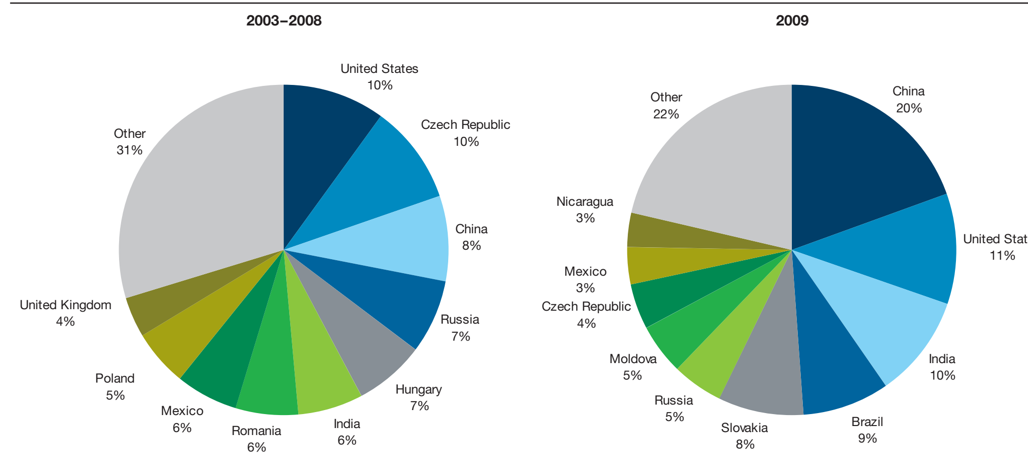


German transport equipment goes global

German companies in the transport equipment industry account for more than a third of German outward investment in 2009, measured by jobs created. Investment activity within the sector is primarily driven by the large German automotive companies, such as Volkswagen and Daimler Benz. Whilst these companies were previously focused on markets in Europe and North America, with the US and Eastern European countries the top destinations, the data for 2009 reveals a significant shift in investment activity towards emerging markets, with all the four BRIC countries among the top destinations and China alone receiving 20% of the investment. The data thus clearly shows a greater interest among German transport equipment companies to take advantage of key growth markets in emerging economies. Indeed, this shift in location patterns is a clear indication of companies making strategic choices about where they need to be in the future to serve their key growth markets.

Figure 15. Examples of German automotive investment in China

Figure 16. Share of top destinations of German investment in transport equipment, 2003-2009



Looking forward

Investment trends in recent years have shown that **as the global economy becomes more integrated it also becomes more complex and uncertain**. This is in line with the findings of IBM's recent CEO Study 2010, which highlighted that "Increasingly interconnected economies, enterprises, societies and governments have given rise to vast new opportunities. But a surprising number of CEOs told us they feel ill-prepared for today's more complex environment. Increased connectivity has also created strong – and too often unknown – interdependencies. For this reason, the ultimate consequence of any decision has often been poorly understood. Still, decisions must be made. As CEOs turn their attention to growth, a significant number said their success depends on doubling their revenue from new sources over the next five years. (…) Finding these new categories of growth is not easy in an environment characterized by an untold number of discrete markets, proliferating product and service categories, and ever-individualized customer segments. This means CEOs must shake up their portfolios, business models, old ways of working and long-held assumptions. They have to address what customers now care about and reassess how value is generated."[1]

Hence, as companies continue to adjust to the opportunities offered by global value chains and markets, they will seek to radically change their operating models towards **global footprint optimization**. Understanding **where to operate** is thus becoming an increasingly important element of corporate strategy, as companies seek to take advantage of global markets, talent, and cost efficiencies. Accordingly, the expected recovery in investment activity in 2010 and onward does not merely constitute an increased volume of investment, but also investment driven by different corporate considerations and priorities.

In view of companies' more strategic pursuit of location advantages, the comparative and absolute advantages of individual locations are being brought to the fore. Indeed, the processes of creative destruction embodied within the developments of recent years have at their core a wider restructuring of the global economy: toward a new geographic distribution of economic activity. Central to this transformation is a **greater awareness among companies of the opportunities for accessing markets, talent, and cost differentials around the world** in a manner that has hitherto not been possible. As a result of companies grasping these opportunities, the degree of specialization in individual locations is likely to increase.

Consequently, Germany, its Länder and cities must ensure that they understand how they are positioned to take advantage of the global restructuring, which in turn requires greater awareness of their comparative and absolute strengths and weaknesses in the market for foreign investment. The sectors and functions in which Germany's Länder and cities already have a competitive position should be targeted for investment promotion efforts. Moreover, wider economic development and cluster development efforts should be aligned to support the location's competitive position in these target sectors and functions. Such efforts at sector and cluster development should also involve support for German companies in their globalization efforts.

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[1] IBM CEO Study 2010, p. 14

Furthermore, it is important to recognize that **the market for investment is very dynamic and subject to constant change**. New sectors and clusters emerge as a result of, for example, technological developments, and locations that were previously ignored by corporate investors suddenly become contenders for investment. In addition, investment is being sourced from an increasingly diverse range of countries, with, for example, companies from countries such as China and India emerging as important sources of global investment. German locations need to ensure that they are responsive to such changes and market dynamics, and be willing to continuously monitor and reassess how they are positioned for investment in existing and emerging sectors and functions. This should be complemented with **awareness of where investors in these sectors and functions are coming from** now and in the future. Indeed, the findings for Germany as a whole and for the individual German Länder illustrate the importance of having a balanced inward investment strategy that leverages existing strengths in key sectors whilst also looks forward and develops opportunities in sectors and clusters of the future. As the global economy becomes more competitive, Germany will find traditional areas of strength challenged by new and emerging locations, and competitive pressures will force the country to continually improve its offer to investors.

In so doing, Germany needs to persist and continue with the improvements in the labor market and cost competitiveness the country has achieved in recent years. While the current recovery will leave room for improved rewards for companies and workers alike, it is important that any increases in costs are measured and in line with advances in productivity and economic growth. An excessive upward adjustment in labour costs may well jeopardize Germany's competitiveness in the future.

It is also important to keep in mind that the new more-uncertain and -volatile economic landscape, with unpredictable changes in technologies, industries, and value chains, results in shifting locales of economic activity. In other words, a more complex and uncertain economic environment will result in constant rises – and falls – in where and how value is created around the world. Such volatility will place **flexibility and adaptability** at a premium, with locations that can help companies take full advantage of the changing economic environment gaining competitive advantage. Cities and regions that provide the infrastructure, connectivity, skills-base, and innovation support required for agile corporate architectures will benefit as preferred locations for value creation. This means that as companies seek to optimize their global footprints, so German cities and regions must increasingly optimize their support systems and infrastructures to meet the needs of business and people. It follows, of course, that political units even smaller than cities – such as towns – can optimize and market their infrastructures.

IBM has captured the optimization of city systems and infrastructures in the concept of the Smarter City, referring to the ability of cities (and the wider city regions) to use a number of new technologies and solutions for instrumenting, interconnecting, and exploiting intelligence in their core services and infrastructures. As part of their efforts to improve the local business environment for new and established companies, German cities and Länder thus need to understand how they are positioned for providing the support systems and infrastructure required for successful future economic development. Based on such insight, each city can identify key priorities and set out a road map for improvement, and in so doing enhance the competitiveness of Germany as a whole.[2]

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[2] See IBM Institute for Business Value – How Smart is Your City? – 2010

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 & Transformation practices in the world. Strategy & Transformation 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 & Transformation practice, specialized in corporate location and economic development strategies. 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.

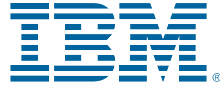
IBM-PLI is a leading innovator in location strategy and economic development tools and techniques, which are constantly being improved based on latest insight in corporate location decision making. Examples are:

- *Cost-Quality location screening* methodology, assessing the trade-off between cost and quality of communities as investment options for comp
- IBM-PLI's *Location Benchmarking Tool*, based on this cost-quality 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
Phone: +32 475 915 832
Office: +32 2 339 7928
E-mail: roel.spee@be.ibm.com



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IBM-Allee 1
71139 Ehningen
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