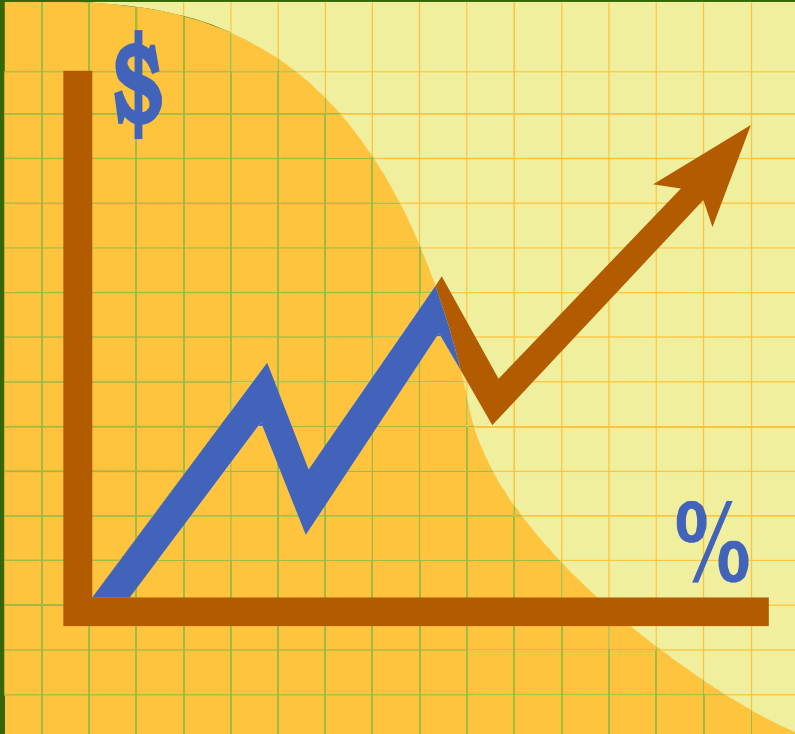


Global Direct Investment Solutions

Corporate Development for a Networked World

www.gdi-solutions.com

We all want to be irrationally exuberant again ...



Roundtable in the Rockies

April 2, 2004

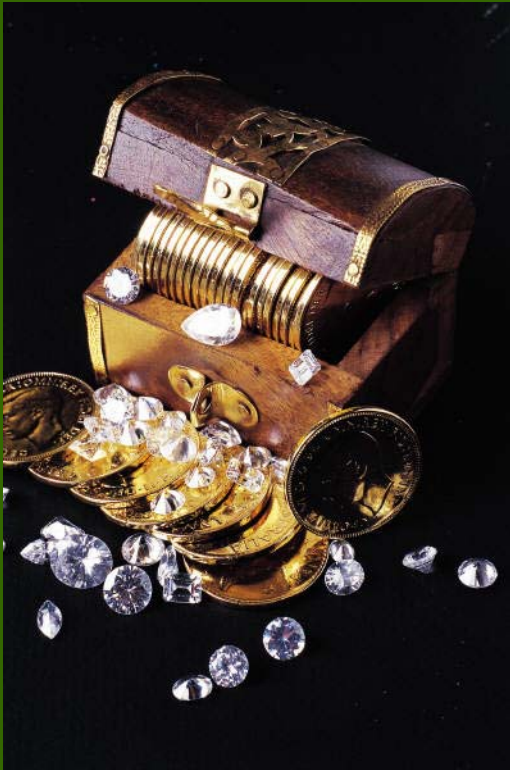
Bruce Donnelly

Global Direct Investment Solutions

TEL 847-304-4655

bruce@gdi-solutions.com

Presentation Outline



- Strategic market overview
- Recent trends, what's next
- Global inflection point
- It's not all bad news
- Finding potential investors
- Arousing investor interest
- Roundtable observations

Just another business cycle?

- “Carousel of Progress” – who can predict the future?
- Yes, this is an “inflection point”. The past is not a guide.
- The direct investment world has changed dramatically.
- Are China, India and other emerging markets a threat?
- Yes, once they prove to be reliably profitable in practice.
- Are they going to dominate global manufacturing?
- That’s what pundits said about Japan and the “Tigers”.
- Remember NAFTA and the European Union in 1993?
- Doom and gloom in the media shouldn’t drive strategy.
- Government planned economies are not unbeatable.

The world isn't going to be the same again.

- EU enlargement - central and eastern Europe, May 1
- Even Turkey is hoping to join the EU within a few years
- Don't forget about NAFTA – Mexico is not going away
- They have free trade deals with 32 countries already
- That includes Singapore, and recently includes Japan.
- It already includes all of the EU – including enlargement.
- Regardless of FTAA or CAFTA, they're moving forward.
- Brazil is doing deals with India, South Africa, China, etc.
- Countries which were not serious competitors before are aggressively trying to attract investment and grow faster.

China is both an opportunity and a threat

- Following the model of Taiwan in the 1970's ? Tigers?
- Looking to dominate many industries, not just one or two
- Changing for 20 years – patient, long-term industrialization strategy.
- Trying to avoid losing control and power – Soviet Union example
- Can an authoritarian regime compete effectively? Be sustainable?
- Social pressures as economic and political expectations change.
- Still a planned and controlled economy – just following a new plan.
- What happens in a major recession? (wounded Tigers, Japan)
- Infrastructure problems (power capacity, logistics, banking system)
- Intellectual property issues – “no royalties in 3 years”.
- Long lead times for shipping = quality risks, lower market agility
- Executive burnout trying to make China operations work, profitable

Economic containment strategy?

- The Asian “Tigers” are even more worried about China.
- Some have strong cultural and business links to China.
- It threatens their attempts to recover and grow rapidly.
- It makes it hard for them to attract and retain investment
- Their local and foreign investors are moving into China.
- The European Union faces similar challenges at a time when they already have economic problems as high cost areas, plus the challenges of enlargement to the east.
- Government intervention or protection are not a solution.
- That is playing by their rules, and is not our strength.
- Nobody can reliably predict how China will change.

What can you do about China, India, etc.?

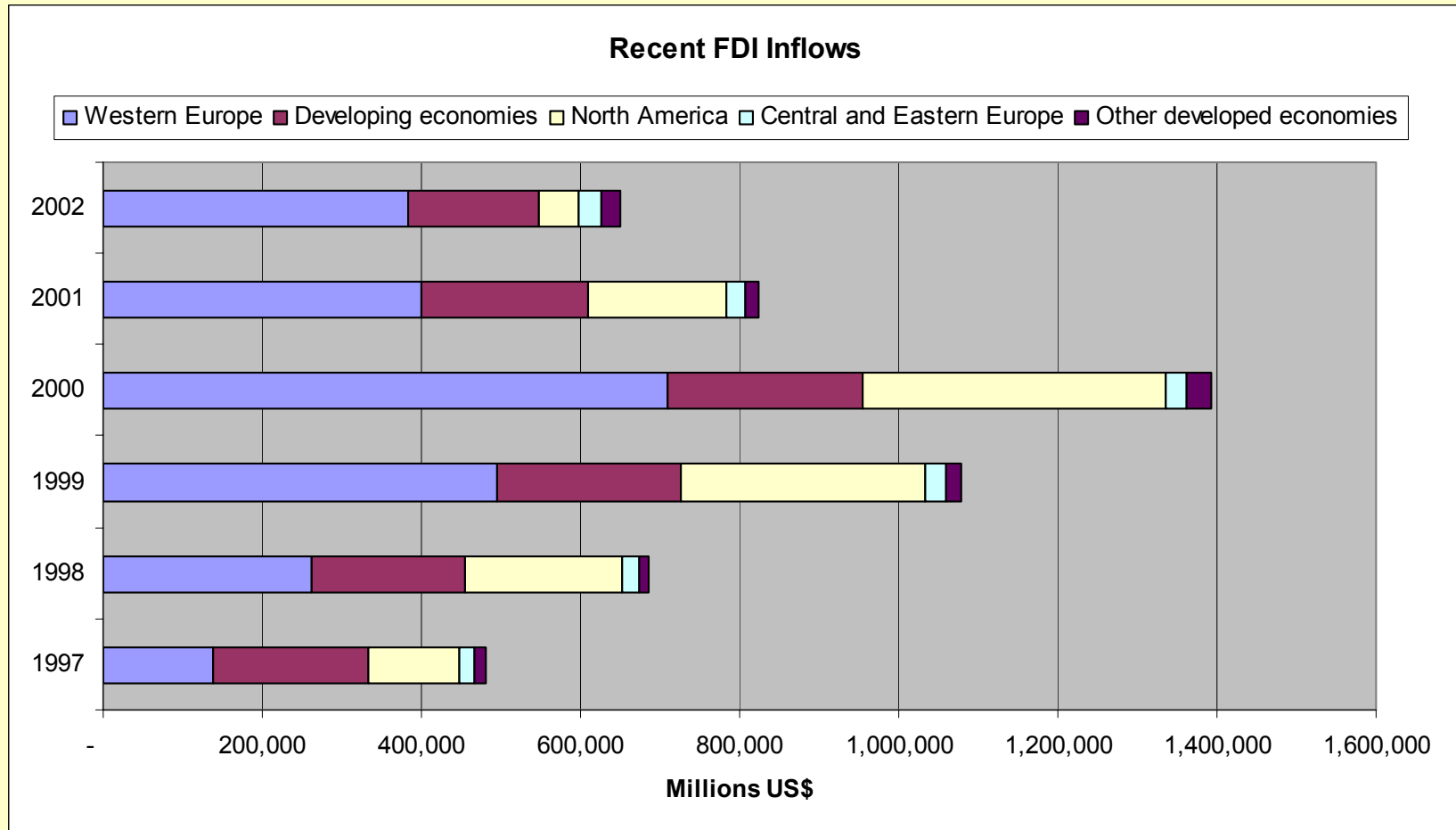
- Don't fight to keep what is clearly destined to leave.
- Get close to your investors about their foreign interests.
- Develop company-specific strategies to help your major investors seize their opportunities elsewhere in the world and benefit from that potential without moving away.
- Do you have an existing base of Asian or European investors who are also facing the same global issues?
- Can you mobilize your cluster of companies with global interests to share knowledge and seize the potential with less risk as markets like China and others change?
- Do you understand what is driving their global structure?

Cost of labor isn't everything.

- If it were, manufacturing and many services in the US, Japan, and Europe would have disappeared long ago.
- There are many places with cheap and talented labor.
- Business location decisions are far more complex.
- High product mix or market customization vs. low mix.
- High pace of change or innovation vs. stable product.
- High pricing power vs. commodity products.
- High intellectual property value vs. open technology.
- High volume low value vs. low volume high value.
- Rapid response vs. long lead times.

What about recent trends?
What's next?

How are the FDI inflow trends changing?



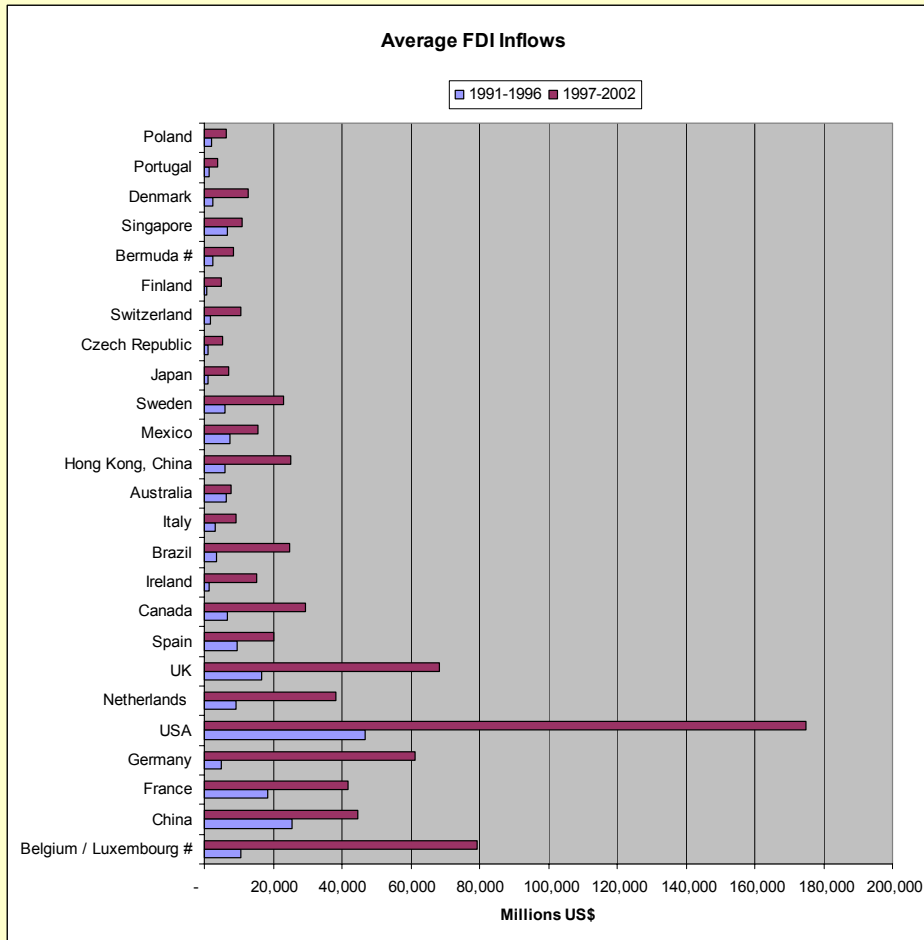
"Other developed" = Japan, Israel, Australia, New Zealand

Central & Eastern Europe includes many new EU members; Western Europe not limited to EU members

Western Europe totals reflect intra-EU flows (while North America doesn't reflect US interstate flows)

Source: UNCTAD, World Investment Report, 2003

High-level perspective : FDI inflow trends



Source: UNCTAD, World Investment Report, 2003

Sorted by 2002 FDI inflow ranking

For example, Ireland did better in 2002 than these historical averages, and thus appears lower on the list.

Data is 2 sets of 6 year averages

FDI statistics are heavily influenced by M&A deals (often 50 – 75%)

These are global statistics, not US

1990's "bubble" in US is obvious

Inflows may be offset by outflows

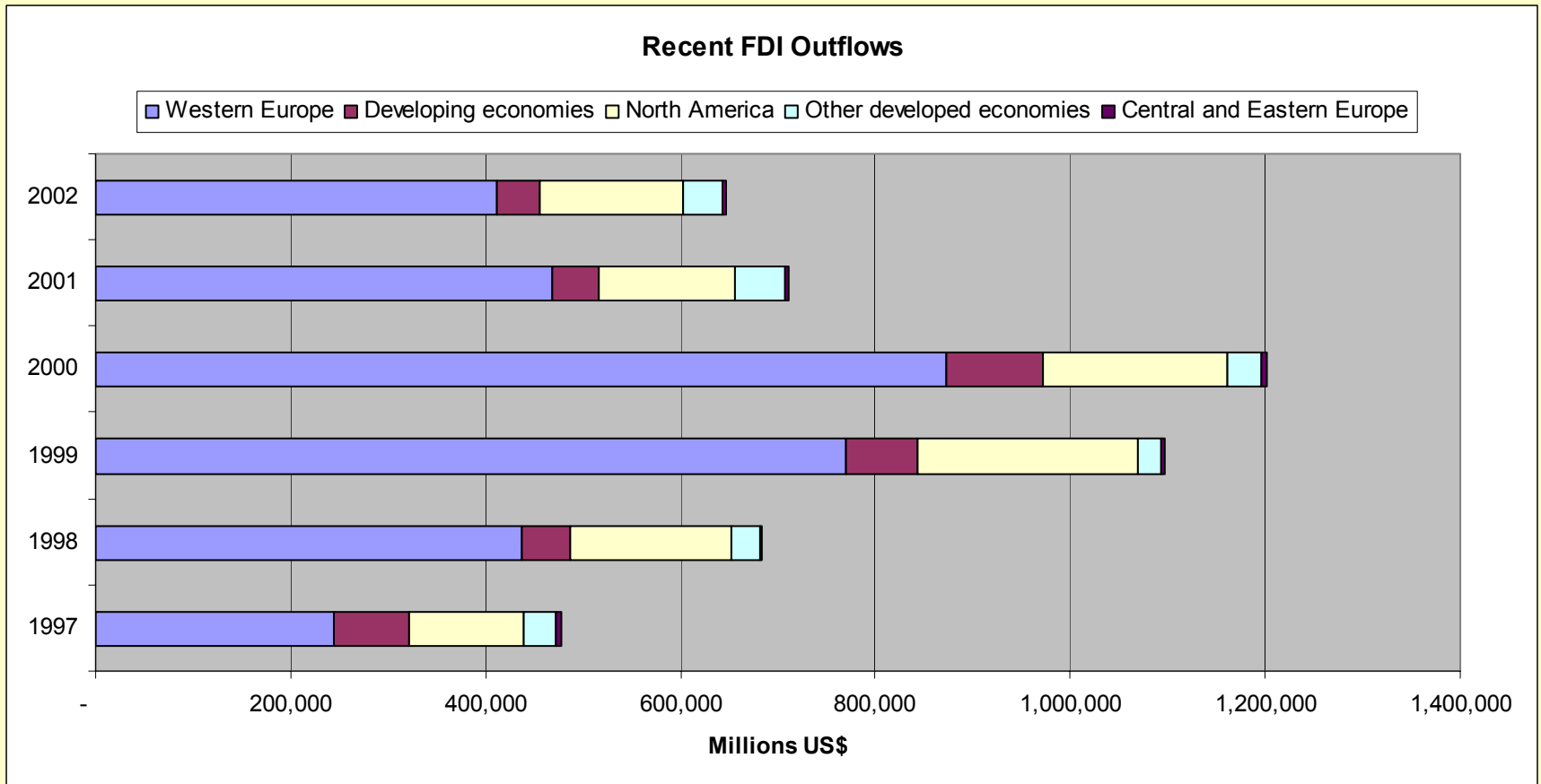
Data for 2003 not released yet

Not much in new EU members - yet

Note : UNCTAD data for Belgium/Luxembourg may be distorted by capital flows through Luxembourg.

The rank order for Belgium alone is between Brazil and Italy for 2002 FDI inflows of \$18.2 billion

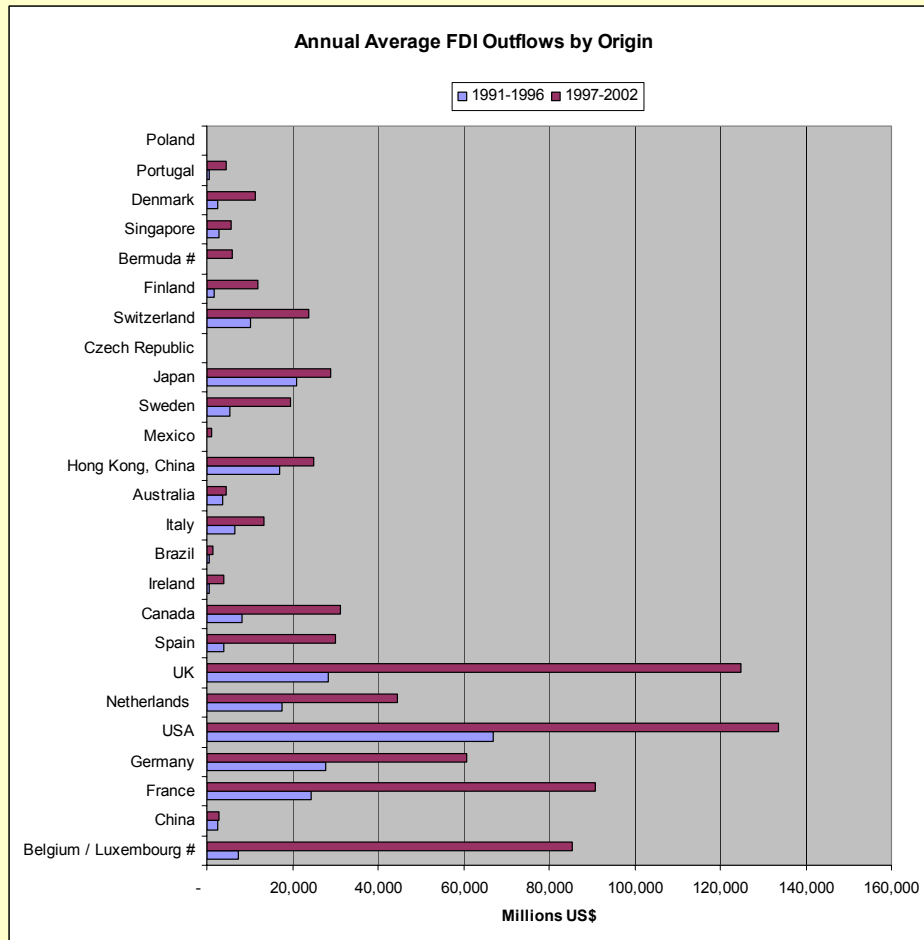
How are FDI outflow trends changing?



Western Europe totals reflect intra-EU flows (while North America doesn't reflect US interstate flows)
Data is heavily influenced by M&A deals

Source: UNCTAD, World Investment Report, 2003

High-level perspective : FDI outflow trends



Source: UNCTAD, World Investment Report, 2003

Note : UNCTAD data for Belgium/Luxembourg may be distorted by capital flows through Luxembourg.

Sorted in same order as inflows
Heavily influenced by M&A deals
Hong Kong flow out into China?
Not shown : Taiwan and Korea into China, on a smaller scale
Distorted by late 1990's "bubble"
US has been a major foreign investor – this is nothing new.
That is necessary to compete.
More markets are viable now.
Early market entry is important.

2004 : Starting a new FDI project cycle

- Project planning activity is picking up again - cautiously
- Growth strategies coming off the shelf as profits return
- Consultants getting busier with real projects again
- Signs of life again in the M&A market, bargain-picking
- Outsourcing is nothing new despite media, political hype
- FDI flow to China consistently high for a decade now
- Excess corporate real estate, “shadow” space all over
- EU enlargement will soon call attention to those markets
- Many large markets are “emerging” at the same time
- Parallel recovery in US, Japan, Europe, Americas, Asia?
- Limited resources = focus on highest-growth priorities?

Finding potential investors

- Back to basics. The sky is not falling.
- Project activity is picking up, but is very competitive.
- It won't be a "jobless recovery". Jobs lag investment.
- It won't be like the late 1990's "bubble".
- Sustainable, viable projects are better than dot-bombs.
- Focus on strong companies, not "hot markets".
- Focus on your strengths, not chasing market trends.
- Focus on what you can win, not activity-level metrics.
- Don't neglect foreign investment into the US market.
- Keep it in perspective – business retention & expansion

The needle isn't looking for you.



You have to attract it.

In which haystack?

Is it the needle you want?

How many do you throw back?

You will attract junk, too.

The cost of an inefficient investment market

- Only a small percentage of projects use site consultants
- That means a large percentage are potential clients
- Good consultants deliver high value to their clients
- They can also reduce investment risks and timelines
- Faster timelines seize market opportunities, earn more
- Better location choices can yield much higher returns
- Higher returns feed more growth and job creation
- What is the cost of a thousand major projects developing slowly or in sub-optimal locations with lower returns?
- Many thousands of people are needlessly unemployed.

So, how do we find more leads this time?

- Review of prior approach for Northern England (1991 – 1996)
 - early years of the last cycle of investment, following a recession
 - included investor interest in the “single market” changes in the EU
- Review of prior approach at PricewaterhouseCoopers (1996 – 2001)
 - from mid-cycle through peak and the end of the “bubble”
 - further EU integration, Euro, rising interest in Eastern regions
 - collapse of Asian markets helped to divert investor interest during peak
- The market for direct investment project planning has changed
 - Growing use of the Internet has fundamentally changed this business
 - Investors and advisors do research and location selection in new ways
- Back to basics
 - Focus : What is critical to find more projects which you can actually win?
 - Innovation : How can the global changes be used to your advantage?
 - How will your area fit into the global configuration strategy of investors?

Does targeting actually work?



- The “random walk” test
- More effort = more leads
- Know your strengths and focus on those, rather than on “market” trends.
- Seek what you can win.
- Don’t worry about the rest.
- Develop a very clear and consistent message of benefits for investors

Targeting : less strategy, more action.

- Targeted work generates leads among chosen targets.
- Random work generates a flow of unexpected leads.
- Conventional wisdom is that targeting must produce better results.
- There is little evidence to actually substantiate this assumption.
- Consistent hard work and persistence may be far more important.
- Greater effort tends to produce more results than more selective targeting work. Pick up the phone and call. Get out and meet them.

- *Only investors can tell you whether they are a real prospect or not.*

- Database screening and desk research adds little real value beyond avoiding dumb mistakes (calling bankrupt firms or retired contacts) and preparing to ask good questions which can qualify the potential.
- Cold call rejection is not fatal. Who will remember if you handle the rejection gracefully? If at first you don't succeed ... do it next time.
- Cold calls can refine your focus. Learn from actual, relevant trends.

1991-1996 : UK regional investment promotion

- Old-fashioned research and telephone cold call, follow-up work
- Virtually no use of events (attended a few to gather information)
- No advertising or significant PR activity; region not well known here
- Many glossy brochures produced in the UK – not designed for US
- Minimal collaboration between regional and national representatives
- Performance metrics based on activity levels, not sales results
 - number of leads pending, outward visits per year, inward visits, etc.
 - Not : level of investment achieved, real job creation, tax flows, etc.
- Superficial targeting – shoot at anything that moves
- Minimal supply chain linkages among existing investors
 - early business retention and expansion program; survey work
 - not coordinated with field offices to cultivate HQ relationships
- No sales training for the project managers handling visitors
 - Many horror stories from blown inward visit sales opportunities
 - Cross-cultural issues : How British sell, vs. American expectations

1996-2001 : PricewaterhouseCoopers PLI

- Very basic research work to select who to call next.
- Common-sense industry targeting; nothing elaborate.
- Monitoring investment trends to validate targeting ideas.
- Not wait for referrals from PwC relationship partners.
- Pre-call contact by fax or mail to prepare for cold calls.
- Respect, but get past, “gatekeepers” to the top people.
- Get their help to find the most relevant decision-maker.
- Ask for a meeting if there seemed to be real potential.
- Bring in the consultants only after more qualification.
- Consultant time is too valuable for exploratory meetings.
- Try to move quickly – before initial interest goes cold.

Qualified Project Leads for PLI - Examples

- Tenneco Automotive
- Parker Hannifin
- Meritor
- Eaton
- TRW
- Johnson Controls
- Dana Corp
- Ingersoll Rand
- Owens Illinois
- Amgen
- Baxter
- Boston Scientific
- Chiron
- Medtronic
- Merck
- Quintiles
- Alaris Medical
- NuSkin International
- Lucent Technologies
- Bay Networks
- Qualcomm
- APAC Teleservices
- Xircom
- Primestar
- IBM
- HJ Heinz
- Anheuser Busch
- Marchon Marcolin
- Procter & Gamble
- Bristol Myers Squibb
- Colgate Palmolive
- SlimFast
- Prologis
- United Airlines
- General Dynamics
- DFS Group
- Disney
- Kohler
- Nova Chemicals
- Union Carbide
- JM Huber
- Ashland
- Mosel Vitelic
- Intel
- Lattice Semiconductor
- Hemlock Semiconductor
- Analog Devices
- Applied Materials
- Texas Instruments
- Motorola
- CTS Corp.
- Oak Industries
- Cabot Corporation
- Raychem
- United Technologies
- AlliedSignal

Arousing interest in your area
among major investors and
their professional advisors

Back to basics

“The *only* way to influence someone is to find out what *they* want, and show them how to get it.”

Dale Carnegie

Selling isn't about pushing what you want to sell.
It is about delivering the benefits the buyer wants.
Focus on what they want, not what you want.
Highlight their benefits, not your product features.
This is even more important for “intangible” services.

“Give the lady what she wants!”

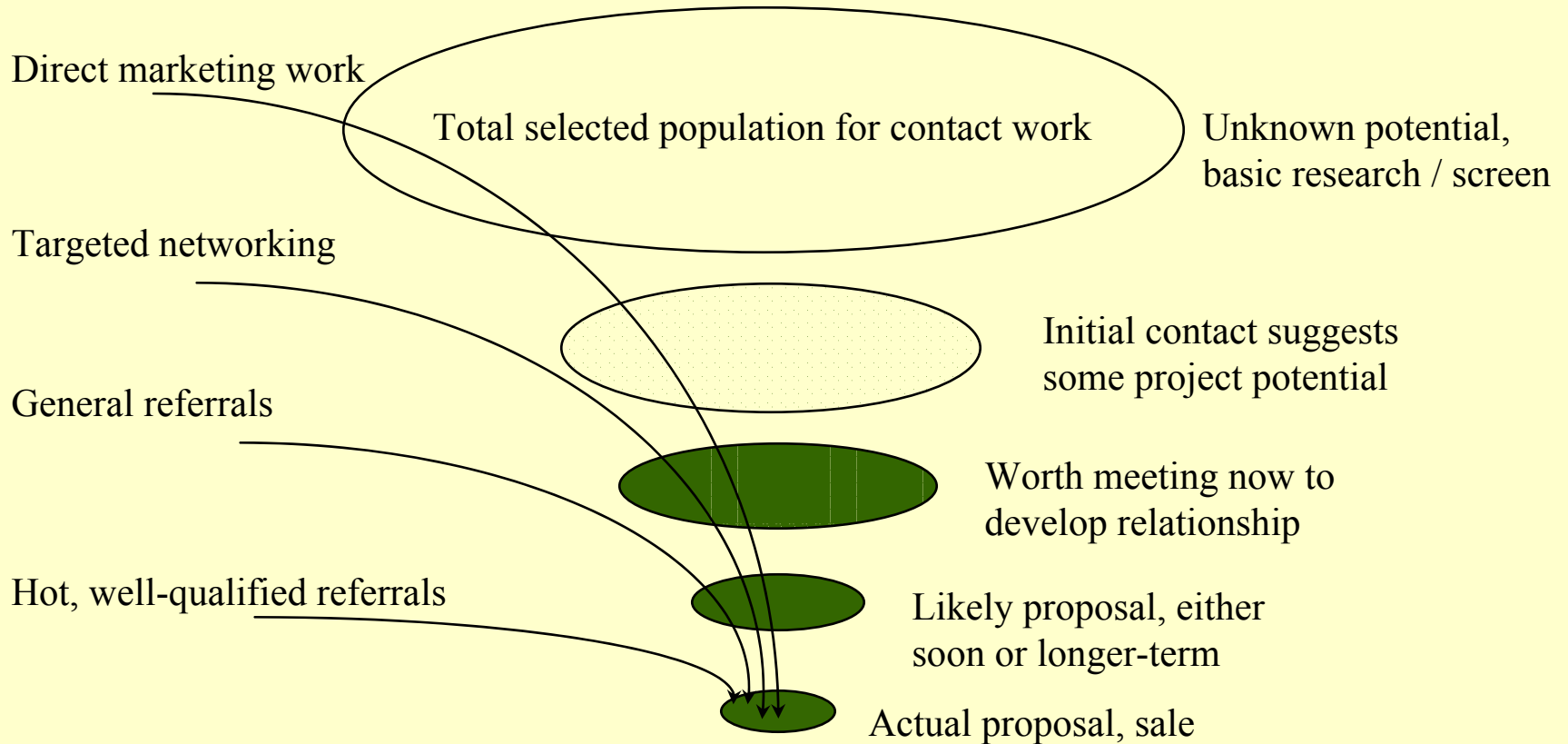
Marshall Field (1834-1906)

- What have all the consultants been telling you?
- When they contact you, the project potential is real.
- They work under tight time and budget constraints.
- Their need for confidentiality must be respected.
- Respond quickly. Address exactly what they are seeking.
- Their requests probably require your local knowledge.
- Talk to them. They are human. They need your help.
- Don't waste their time. They shouldn't waste yours.
- Don't hide the negatives. Keep them in context.
- Follow up. Debrief whether you win or lose. Improve.
- They love their work. It is fun helping companies to grow in places where they will be appreciated and succeed.

How do you get in the door with investors?

- No single solution – find the mix that works for you
- Cold calling – telephone or even physical walk-in
- Networking – passive and active (seeking referrals)
- Professional referrals
- Giving speeches
- Writing articles or being quoted as an expert source
- Advertising and PR to reinforce response, contact efforts
- Organizing or co-sponsoring seminars, other events
- Direct mail (including fax or e-mail, simple postcards)
- Website and search engine optimization
- It all works to varying degrees with different “targets”.

The Prospecting Funnel



Am I missing something?

- Suppose \$500,000 is invested in investment promotion (staff and all marketing costs and overheads) to develop 25 good inward visits.
- That means each inward visitor reflects an average investment of \$20,000. The actual values may vary, but this illustrates the point.
- Inward visits typically last only a single day. If longer, that provides a better selling opportunity to build a closer relationship than during brief office visits and follow-up phone calls to a company executive.
- The people handling a \$20,000 visitor responsible for a multi-million dollar investment project should be well-prepared as “C-level” sales professionals who will make effective use of each such opportunity.
- If only 10-20% of inward visits lead to sales, that 10-20% success rate means the area is losing 80-90% of good prospects who visit.
- In this hypothetical case, the real value invested in getting a top prospect to visit the region and invest is thus **\$100,000 - \$200,000**.
- That is a high “cost of sales”, before even considering incentives.
- Sales performance can drive down costs (more visits, more wins)
- What is the real “cost per job” to identify, attract, and win projects?

Moral of the story?

- Reaching and meeting executives costs a lot of time and money.
- Each inward visit reflects a huge marketing investment to develop that brief sales opportunity. You have one chance to make the cut.
- There is sales work at each stage of the process :
 - Selling yourself and your services to get in the door originally.
 - Selling the executive on working together once in the door.
 - Selling a growing relationship through agreed follow-up work.
 - Selling the executive on visiting the region to work on specific plans.
 - Selling the executive on the regional services during the visit.
 - Selling the executive on investing in the region (vs. tough competitors).
 - Closing that sale, keeping it closed, and keeping the investor happy.
 - Business retention and expansion, following supply chain linkages
- The really critical sales work is in those latter stages to win the deal.

Other Roundtable Observations

- Incentives are more important in the final negotiations.
- Some credits and incentives are simply too complex.
- It needs to be easier to identify the potential benefits.
- Site consultants have different industry and geographic specialties, as well as somewhat different processes.
- The profession has fragmented further in recent years.
- All together, they still may only serve 20% of projects.
- Their work can achieve faster and better outcomes for their clients as well as the communities involved.
- The flow of projects is finally picking up again.
- Inexperienced advisors will be a growing problem.

Global Direct Investment Solutions

Corporate Development for a Networked World

www.gdi-solutions.com