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Call for Evidence
Trade and Inward Investment Wales
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1. Background and motivation of the person giving this evidence

Background

- Lived outside UK for 18 years principally in Continental Europe – Germany (10 yrs), France (3), Belgium (4) and US (1). Some experience of working in Asia. Fluent German, Good French, Basic Spanish, Basic Dutch. Born in Cardiff and stayed here till age 13. Returned to Cardiff in 2008 (6 years ago).
- Over 20 years experience in consulting – strategy, business transformation, processes, IT, post-merger integration, business development
- Over 10 years experience in entrepreneurship. Worked with ca. 30 start-ups / SMEs
- Broad sector experience: mobile telecoms (10 years), financial services (4), retail, consumer goods, packaging,...
- Education: BA in Politics, Philosophy, and Economics, Oxford; M.Sc in Computer Science, Cambridge; INSEAD, MBA

I am currently an independent consultant assisting technology and other companies in Wales and the UK with their business development activities.

Motivation

Having lived abroad for 18 years and being Welsh, I am highly interested in assisting Welsh businesses internationalise, attracting businesses to Wales, and ensuring that Wales has the optimal strategy to compete in what is a highly competitive environment.

2. Changes in the environment over the last 20 years

The EU has become larger increasing the level of competition Wales faces

The Welsh Government's current activities in trade and inward investment operate in a different environment than did the WDA's 20 years ago. In particular, the EU has become significantly larger and a number of low wage countries particularly in Eastern Europe have joined the EU. This has reduced the attractiveness of Wales as a destination for inward investment based on a quality workforce at a reasonable wage.

Emerging markets mean a wider variety of countries to be considered

At the same time with the emergence of developing markets, the breadth of opportunities for Welsh firms has widened as has the range of countries from which companies are entering Europe. While in the past, much of the entry into Wales was by American, German, or Japanese companies, today it is relevant to consider Chinese, Indian, Brazilian and Mexican firms.

A more challenging trade and inward investment support task

This means that the task facing Wales in trade and inward investment support is more challenging: more countries for potential inward investment and exports, more competition in both areas, and a need to compete more effectively in high value knowledge-based industries.

This means we cannot just go back to the WDA of old.

We need to adapt to the current challenges and opportunities and not simply manage the challenges of the past. Nevertheless, as the next section discusses, we have lost a number of strengths with the abolition of the WDA.

3. The Abolition of the WDA

South Wales business regrets the abolition of the WDA

At the same time as the environment has become tougher for direct investment, the WDA which was generally recognised to be a highly effective body has been abolished. Since returning to Cardiff in 2008, I have had a number of conversations with businessmen here. I have yet to meet one who does not regret the abolition of the WDA.

Cultural challenges and employee exits

I have also talked to a number of people who worked at the WDA and subsequently at International Business Wales. They talk about the cultural challenges of merging former WDA employees with the civil servants of the Welsh Government. As a result, many WDA employees left, and it is still the case that many high profile positions in South Wales are held by former WDA employees. Prior to the abolition, the WDA could attract employees with profiles like Technology Evangelist at Apple and Director of Strategic Planning at NEC Computers. Following the abolition this was much more difficult. Others I have talked to report in recent times a lack of business development expertise and follow-through on inward investment opportunities.

Some businesses require separate organisations, another example

I have worked a lot in post-merger integration and this is a very common problem in this type of integration of two services business. To give another example, I worked for a strategy boutique consultancy that was integrated with another similar size firm that undertook business transformation. The cultures required to undertake strategy and business transformation are very different and the sizes of the projects are very different, which puts a lot of pressure to undertake business transformation projects because they are bigger. Within a short period of time, the consultancy was focused on business transformation and many of the strategy consultants had left.

Branding

The WDA had a strong well recognised brand name. My belief is that this was superior to International Business Wales and the current arrangements. Interestingly, few people mention Wales Trade International. They always talk about the WDA.

4. Recent Personal Experience

I have been directly involved with three activities supported by the Welsh Government/International Business Wales which touch on the topic of trade and inward investment. I think there is an opportunity to raise significantly the quality of them.

International Business Wales Event in London

About three years ago I attended an event to promote Cardiff in London. There was a section on Cardiff the same day in the FT.

One of the questions posed by someone from I think Citibank was what was the real economic advantage of moving to Cardiff. While the senior manager asked could give the average salary in Cardiff, he could not give a more detailed cost-benefit analysis for a financial institution moving from London to Cardiff. In my view, it is necessary to be able to answer questions such as these precisely.

Workshop – Exports

I attended a workshop on exporting in late 2012 in Cardiff. There were two presenters and only four attendees. The two presenters were a gentleman who had written a book on recognising cultural issues in export countries and a lady who had worked with the Welsh Government for a significant period who had substantial experience of exporting to the UAE. They both focused on their respective areas of expertise.

I would have preferred a much bigger event with more focus on how to devise an export strategy e.g. which country, how to choose a distributor, issues in managing distributors, and export finance. It would have been good to have had a case study of a really successful Welsh exporter who presented, e.g., Mike Plaut, Managing Director, Northmace & Hendon. There are a number of books that give a good overview of this area.

The two presenters gave out business cards for a company outside Wales. There are a number of cases where the Welsh Government could support and build up competences with Welsh consultants where it chooses to reach outside the country. While sometimes this is inevitable, it happens more than is necessary.

Business case – start-up

Luckily, at the workshop among the attendees I met a gentleman who had an interesting if high risk venture manufacturing in China and selling to Africa. We met several times and negotiated an agreement to work together. A cause of significant delay was that he had a person from a business support agency working on a business plan for him. I reviewed the business plan and the formats were tired and it did not represent best practice.

I read five books on raising finance for this Chinese / African project. Three of them discussed writing business plans and there was no consistent view among them. I have a strong view based on my business school education and working on a number of business case projects. I would be happy to provide coaching or hold a workshop in this area if desired.

5. Trade and Inward Investment – Where to Focus Resources

In Section 2, I noted that the environment had altered for Welsh inward investment due to the enlargement of the EU and the accession of low-wage countries. Whereas in the past, there had been a focus on (manufacturing) companies from developed countries (Germany, Japan, US), now there is a case for focusing on knowledge-based companies from developed countries as well as internationalising companies from emerging markets. Both of these, however, are highly competitive.

There is thus a case to be debated for focusing more on exports rather than inward investment. Exports to developed and emerging markets are themselves in general not straightforward, and there is a need for Wales to focus in order to achieve results.

Where to Focus Resources

My suggestion for the current environment for Wales for allocation of effort is:

Exports: 60-70% i.e. the majority of the focus

Inward investment: 30-40%

Country Priorities

The following is a suggestion of priorities for countries:

Country	Priority	Comments
US	1	Highly competitive. Open. Native English speakers
Canada	2	Open. Native English speakers
Brazil	2	Potential was high, reduced somewhat
Mexico	2	Significant opportunities currently
Oth. Americas	3	
China	1	Difficult environment. Significant opportunities. Assistance often essential
India	1	More difficult than appears given English-speaking
Indonesia	2	
Australia / NZ	2	Open. Native English speakers
Japan	2	
Malaysia/Singapore	2	
Oth. Asia	3	Growth
Germany	2	Difficult to enter
Russia	2	Difficult environment. Opportunity needs detailed assessment
Nordic	2	English-speaking
Benelux	2	English-speaking
Eastern Eur	2	Good standard of English
Oth. Europe	2/3	For debate. Higher as Eurozone improves
Saudi/UAE	2	English-speaking
Turkey	2	Assuming remains stable. English quite widely spoken
South Africa	2	English-speaking
Nigeria	2	English-speaking in urban areas
Oth. Africa	3	Africa is fragmented with potential: 60 countries, population 1bn, rapid growth

As judged necessary, in a further step, the countries' potential can be assessed in terms of their potential for exports, imports and inward investment.

UK and Foreign Multinationals based in the UK

It is also important to identify UK companies with significant exports which can be targeted by Welsh SMEs. Examples include Rolls Royce and Jaguar Land Rover. Appendix A provides information on Enterprise Ireland who are forming relations between indigenous Irish companies and multinationals based in Ireland, with the aim of supplying initially the Irish arm of the multinational and later the global operations of the multinational. This seems worth considering for Welsh companies and multinationals based in the UK.

Organisation

Given the principle of focus for success, countries with a 1 or 2 priority should be supported directly by Welsh Government staff, with the distribution of resources between Wales and the country to be debated. The UKTI should also be involved as is necessary and desirable. Countries with a 3 priority should in general be supported by the UKTI. The Welsh Government needs to adopt strong relationship management with the UKTI in order to make this work well.

6. Trade and Inward Investment – Benchmarking

To further inform resource allocation, priorities and organisation, the Welsh Government needs to benchmark against other UK regions and other countries. These include London/Silicon Roundabout, East of England/Cambridge, Scotland and Ireland. There is evidence to suggest that Scotland and Ireland have outperformed Wales recently.

7. Communicating and Selling Wales

Sectors, Clusters and City Regions – Making it Vibrant, Keeping it Simple

The Welsh Government has a number of knowledge-based and other sectors which it supports including ICT, biotech, and advanced manufacturing. A company entering from the US wants to know and have clearly communicated that it is joining a vibrant cluster of international companies in the same sector. The initiatives in biotech around Sir Chris Evans look to have this ambition. In addition, Bio Wales is an event that brings the biotech community together, both from inside Wales and externally.

We need more of this approach in other sectors. I think in ICT there is too much fragmentation, but I am not really sure which is perhaps the point. Why is there not one single web-site that one can go to which lists all the ICT events in Wales?

We may also need to focus on priority sectors for trade and inward investment, e.g. biotech, ICT.

Communicating to foreign companies needs to be simple. “This is what is happening in the Cardiff (Region) ICT Hub, this is what is happening in the Swansea (Region) ICT Hub, this is what is happening in the North Wales ICT Hub, these are pan-Wales ICT initiatives, or even more simple, this is what is happening in ICT in Wales”.

I take up the themes of this section again in Section 14.

Research – Using Cardiff and Swansea Universities

Wales is also sub-scale in research (ca. 2% of the total research spending against 5% of UK population). This is the result of not having enough large scientifically-oriented companies.

However, again, there are some very good examples of the Welsh Government setting up research alliances with major companies, e.g. Cassidian. Universities again must be part of the solution, with the Welsh Government organising research partnerships for companies relocating to Wales.

Educational performance – “We produce great graduates”

Recently following the publication of the PISA results there has been further negative publicity about educational attainment in Wales. The South East Wales Economic Forum Report of November 2013, A Business Voice, also highlights worker skills as a major issue.

It is critical that the Welsh Government address these issues including with participation from the private sector, people and businesses of Wales. At the moment, it is not clear how an interested and concerned person can contribute positively to a turnaround.

However, there are also a number of positives. Welsh universities are strong performers and produce a number of able graduates. In general, there are a high number of intelligent people in Wales that can be hired. A web-site that makes this point well is that of Capital Wales, a partnership of nine local authorities to attract inward investment - <http://www.investinsouthwales.com/>.

8. Identifying Companies that are looking to move to Europe

Developed Markets e.g. US

As far as US start-ups /SMEs entering Europe are concerned, the Welsh Government needs to consider monitoring start-up activity and maintaining relations with:

- Silicon Valley (mobile/ICT, biotech, ...)
- Seattle (Microsoft, mobile/ICT, ...)
- Los Angeles (entertainment, ...)
- San Diego (Qualcomm, mobile/ICT, ...)
- North Carolina/Research Triangle Park (biotech, ...)
- Boston (mobile, biotech)
- New York (mobile, internet)

Many of these cities maintain organisations for start-ups and SMEs through which the Welsh Government could address these companies. When I visited the San Diego organisation in 2008, East of England was already a member.

Developing Markets e.g. China / India

A number of large companies have already moved to the UK like Tata in steel, car manufacturing and IT consulting. There are a number of mid-sized and large companies that have yet to seek opportunities in the UK / Europe. These can be identified in a variety of ways including by, for example, looking at companies quoted on the various stock exchanges in Asia as well as state-owned firms and analysing their activities to see which are likely to seek market entry into Europe. They can then be approached directly. I am more than willing to train people on how to undertake the required analysis if necessary.

9. Positioning in the intensely competitive inward investment market

Inward investment has become intensely competitive. Companies entering Europe can locate in different parts of the UK, Ireland, Germany, Benelux and other countries. Thus, as discussed in section 7 there needs to be a strong generic case for Wales, but for specific inward opportunities there needs to be carefully tailored cases showing the benefits of locating in Wales for that particular company.

While I am sure the Welsh Government can provide some of this, I and a number of other private sector consultants would be interested in providing both a sounding board, detailed analysis, as well as business development and sector experience as necessary

10. Implications for the team the Welsh Government requires

There are several implications of what is proposed in terms of skills that the team needs:

Languages:

- Mandarin, Portuguese (Brazil), Russian, Spanish (Mexico, Spain), German, other European languages as necessary. Either native speakers or graduates can be recruited provided the graduates are very fluent. Much work potentially needs to take place on the telephone which is a harder challenge than talking to people face to face.
- The Welsh Government also needs to be in a position to advise Welsh companies on how to acquire easily the appropriate language skills and people for their needs

Analysis:

- Inward investment. Range of analytical skills to identify when and how it makes sense for a company to expand in Europe and locate in Wales
- Exports. Ability to formulate an export strategy for priority countries

Business Development and Relationship Management:

- Strong need for business development and relationship management skills. Shaping opportunities for companies considering locating in Wales.
- Ability to understand the UKTI offering and develop relationships to exploit

Sector experience

- Useful to have. Supplement with private sector consultants as necessary

Building a high performance team

- Although both exports and inward investment are challenging areas, these challenges are highly interesting and this should be an exciting and motivating place to work

11. Fragmentation of institutions who are addressing exports in Wales

There are at least six organisations who may be addressing exports in Wales. These are:

- The Welsh Government
- Enterprise Europe Network Wales
- Confederation of British Industry (CBI)
- Chambers of Commerce
- Federation of Small Businesses (FSB)
- Institute of Directors

Certainly the first four of these are addressing exports. Besides the Welsh Government, the CBI has had a relatively recent initiative to encourage exports, including I believe in Wales, although I do not believe in Wales it was made public to smaller companies / non-members. They had some good ideas about how to transfer expertise among export leaders in different parts of the country like Northmace in Wales. The Chambers of Commerce have also I believe had an event focused on exports.

While clearly each organisation must be free to pursue its own initiatives, Wales is a small country and there is a need to distribute methodology and learning efficiently among potential exporters. Maybe, the Welsh Government could coordinate across the various groups to highlight export events and make them open for a fee as opposed to restricted to members.

12. Foreign alumni of Welsh universities

There are significant numbers of Asians attending Welsh universities. Some of these could assist exports by Welsh firms on graduation by joining them. Others some years later could locate the firms they have developed back at home which want to enter Europe in Wales. To make the second possible, the relevant Welsh universities need to maintain excellent alumni relations, maintain in regular contact, and have meetings in the local countries. The feasibility of this needs to be investigated with the alumni departments of the universities and foreign alumni themselves. As

necessary, we could benchmark against some business schools that have excellent alumni programmes like INSEAD (France, Singapore, Abu Dhabi) and Vlerick (Ghent, St. Petersburg).

13. Welsh alumni of Welsh universities living abroad

Welsh alumni of Welsh universities living abroad could be approached to recommend companies who would be interested in expanding in Europe. This could be done as a pilot for some alumni by Cardiff, Swansea, or the University of South Wales.

14. Ambition: Building a Vibrant Wales based on the model of Silicon Valley

It turns out that success in trade and inward investment for a developed country is in 2014 related to success of the underlying economy. To look at Silicon Valley as a potential model for success, its success is based upon a number of factors including:

- World leading universities in science and technology
- Access to finance
- Business building skills
- Access to the US Markets (larger than the fragmented markets of the EU)
- Americans' belief in themselves to succeed

The implications of this for Wales are:

- We need to continue to develop Cardiff and Swansea Universities as major research centres, and verify that the arrangements for commercialisation and spin-outs are optimal and ambitious
- The Welsh Government needs to ensure that besides arrangements for a Development Bank, Welsh start-ups and SMEs have access to other sources of capital from business angels (including outside of Wales) and venture capitalists (principally located in London)
- Welsh universities and their business schools need to focus on teaching their domestic and international students how to create significant/large businesses. There are several important parts of this:
 - o There needs to be a research programme/common agreement into the factors that drive the creation of large businesses by entrepreneurs (US, UK)
 - o There needs to be research investigating the lessons learned from alumni's entrepreneurial businesses (Cardiff, Swansea, University of South Wales, ...)
 - o Cardiff Business School both needs to establish an Entrepreneurship Department and enhance its brand name recognition, which is not as strong as Cardiff University
- The Fast Growth 50 Initiative needs to focus not just on which firms are growing fast but why they are and consider establishing a programme of learning based on this
- Other similar activities like accelerators and Welsh Government initiatives should also take part in the entrepreneurs' lessons learnt approach
- We should take an aggressive approach to the US market so that Welsh start-ups / SMEs can take advantage of the potential economies of scale present there

- We need to teach people to believe in themselves – Sir Terry Matthews is good at this

15. Should we go back to the WDA?

There is fairly strong evidence that a smaller ambitious organisation focused on trade and inward investment would be more successful than the current arrangements. There would be a decision as to whether this should be called the Welsh Development Agency, but many considerations seem to favour it. There is still strong name recognition for the Welsh Development Agency, both in Wales and around the world. Any new name would require very significant promotion to reach the same level of awareness. The reaction to the relaunch of the Welsh Development Agency by many could quite possibly be: “Wales is back”. If agreed, we would need to communicate that a significant part of the energy will be focused on promoting exports.

This then raises the question of whether there need to be two agencies as in the past. My gut reaction is that one would suffice. This can be further discussed with experienced people.

The alternative is to carry on as at the moment and try to make this approach successful. Hiring a number of new people is probably necessary, particularly for emerging markets (see the experience of Enterprise Ireland, Appendix A).

16. Areas where I could help

As I mentioned at the beginning I care passionately about the success of Wales in trade and investment. There are some areas where I could help, which include:

- Further refinement and debate of some of the ideas in this paper
- Assistance with market entry into Germany for ICT companies and potentially others (Lived there 10 years)
- Use of INSEAD network to understand opportunities in other developed and emerging markets (INSEAD has 46000 alumni in 171 countries)
- Coaching Analysis Skills. The challenges faced for trade and inward investment as I have detailed in this paper place significant demands on analysis skills. At the start of my career, I spent four years working for a strategy consultancy where my key activity was company, market and industry analysis
- Coaching Business Plan Skills. As mentioned, I have worked on a number of business plan projects, both strategy and financials
- Providing private sector and consulting input to work with Welsh Government staff to acquire specific FDI projects (where there is some probability of success but a need to position strategically against competition)

Please feel free to contact me if you would like to discuss any of the content of this paper further. I would ideally like to pass it on to some friends and colleagues of mine in mid-January, but would be interested in any feedback before that.

Appendix A: Some information about Ireland

Ireland has two agencies: Enterprise Ireland and IDA Ireland. Enterprise Ireland is the agency responsible for assisting Irish companies internationalise. IDA Ireland is the agency responsible for FDI, although Enterprise Ireland also appears to be doing some of this.

The following represents excerpts from an article from the Irish Times, December 27th, 2013, p.6: Enterprise Chief puts priority on jobs with exports the key

Enterprise Ireland and IDA Ireland moving closer together in recent years

She (Julie Sinnamon, CEO) says Enterprise Ireland has experienced a shift in the last two to three years to working with IDA Ireland, something which is helped by the fact she previously worked for the State agency. "There has been a major focus to ensure we have a joined up approach with the IDA. In some cases, that means Enterprise Ireland offices overseas help in IDA companies.

Enterprise Ireland, although focused on assisting Irish companies grow abroad, has several other activities

...It is hard to gauge from her exactly what Enterprise Ireland does...the organisation seems to have its fingers in a lot of pies...

On paper, the Government agency is charged with supporting the development and growth of Irish enterprises in world markets, However, it is also pumping money into attracting foreign entrepreneurs to Ireland, commercialising third level research and investigating the feasibility of new products.

It also supports programmes and initiatives such as CoderDojo, Kids in Tech, and Think Outside the Box student enterprise awards. "The short-term view is really about jobs. Jobs are the number one priority and Ireland must grow exports if it wants to grow jobs," Sinnamon says.

Trade missions to emerging markets

This year, the agency has led more than 18 trade missions abroad, to countries such as Mexico, Brazil, Japan, South Africa, India, Nigeria and China, and helped a number of Irish businesses achieve new export sales.

We are working with over 3500 companies and 50% of their turnover is export-based. "If you want to become a company of scale, you really have to export into the US and European markets."

As the list of trade mission destinations indicates, she says developing markets will be critical, adding that it is important for the agency to get into them now.

Medium term aims

In the medium-term, the agency's focus remains improving Ireland's competitiveness and building links between indigenous Irish companies and foreign multinationals.

“A lot of work we are doing is on the lean manufacturing side, in terms of helping companies look right across all parts of the business system and become more effective and efficient at what they are doing.

As part of this, Enterprise Ireland recently brought 29 companies on a trade mission to Japan to see Toyota’s manufacturing facility, where the lean model was pioneered.

Helping Irish companies target Irish-based multinationals

Another medium-term ambition is increasing the level of sourcing by multinationals from domestic suppliers which, Sinnamon says, could be a lot better. The agency has set up a team to focus on building links between multinationals and indigenous companies as a result.

“We have the top multinationals in the world located in Ireland. Once Irish companies get into supplying the Irish division of the multinational, the opportunity is to supply the wider corporate base. It’s about helping the multinationals based in Ireland to source Irish products for their global operations. They tend not to work country by country, so if you’re supplying them in Ireland and you meet all their specifications, the opportunity is to supply global operations.”

Long-term ambition and funding

The agency’s long-term view seems to be that Ireland needs to concentrate on scaling up mid-sized companies and encouraging more IPOs. However, issues with bank credit make it more difficult for mid-sized companies to scale.

“If we really want to scale companies, we need to look at the funding instruments that are available in other countries. For example, development bonds are available in Germany for funding the growth of their mid-sized companies. This is something I believe could have a significant impact in Ireland in funding the scaling of companies.

Building competence in emerging sectors at banks

However, Sinnamon is quick to note that the agency is not giving up on Irish banks following the property crash and economic downturn. The agency “has been doing quite a bit of work with the banks” in facilitating their understanding of markets and sectors of the future...” We have put some people into the banks and have some bank staff seconded into Enterprise Ireland to help them become more comfortable in new technology areas like software.”

Skills shortages

As well as funding, among the main issues facing Enterprise Ireland client companies is skills shortages. “Therefore our support of CoderDojo is part of a long-term initiative to try and address that issue.”

New staff to target emerging markets

While the agency has been criticised in the past for an over concentration in established markets, she says the sanctioning of 20 new positions should help break into more emerging markets...The 20 additional posts are going to be focused on the developing markets and the high growth markets.

High growth markets are typically markets that you have to be committed to. They are not markets where you are going to have short-term successes so you really need to be committed. We are working to help companies understand how you do business in those markets.”

Summary – key aims: finance and emerging markets

While it is still difficult to understand all the various facets of Enterprise Ireland, one thing that is clear is that the issues of getting finance for companies and getting into developing markets will be critical for Sinnamon.

Implications for Wales

- Organisation. Separate agencies focusing on inward investment and the internationalisation of Irish businesses, but recent merging of activities. Agencies appear to have an entrepreneurial charter to solve issues they see
- Emerging markets. 18 trade missions and in the process of hiring 20 new staff
- Helping Irish companies target Irish-based multinationals. Discussed in Section 5 of the main paper. Needs to be assessed to what extent this can be applied to Welsh companies and the UK
- Building competence in emerging sectors such as technology at banks through two-directional secondment with Enterprise Ireland. This is an interesting idea which may be applied by Finance Wales to some degree. Whether it is relevant for mainstream banks can be debated. This may be an idea to pass to Dylan Jones-Evans’ review of access to finance in Wales
- Skill shortages. Ireland appears to have this problem as well. It would be interesting to review the Irish initiatives in this area, e.g., CoderDojo