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Research Report

Investment aftercare matters

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Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues

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Investment aftercare matters*

by

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Host economies like bragging about the number of new foreign investors they have attracted. However, the more mundane, less newsworthy, yet still important work of supporting existing investors is too often overlooked. As Gallo found when researching customer retention, “acquiring a new customer is anywhere from 5 to 25 times more expensive than retaining an existing one.”¹ Moreover, increasing customer retention rates by 5% can increase profits by 25% to 95%.²

While no one has replicated this study for FDI, the same logic probably applies: supporting existing investors is likely to generate more economic growth and create more jobs than seeking to attract the next “Big One.” The benefits of aftercare include an increased likelihood of follow-on investment, a reduced risk of disinvestment and the opportunity to maximize the impact of FDI on the local economy. Amazon, for example, estimates that “for each \$1 that Amazon invested, the city of Seattle generated \$1.40.”³ Moreover, when host countries act upon feedback from investors and update their regulatory practices, they improve the investment climate generally. When investors establish entrepreneurial hubs, such as Google Campuses, they help create an ecosystem that fosters connectedness.

However, according to the OECD, only 36% of OECD investment promotion agencies (IPAs) perform aftercare activities.⁴ The lack of resources is a common complaint within both economies that offer aftercare and those that would offer aftercare but cannot finance it. This is unlikely to change.

Nonetheless, new ways of supporting foreign investors have been adopted. In Thailand, in the context of a project that lasted more than two years, the prime minister helped secure Chinese investor Alibaba’s commitment to deploy digital skills training programs to Thai small and medium-sized enterprises,⁵ while Cargill’s no food-waste initiative for Latin America was conceived by the Inter-American Development Bank and resulted in better sustainability practices throughout the region.⁶ These actions were initiated outside of core FDI activities and illustrate that aftercare is no longer the sole responsibility of IPAs.

Moreover, the role of IPAs has evolved. While they used to manage aftercare programs, they now also have a role as ecosystem brokers. While they used to manage budgets, they now need to create partnerships to add value in a rapidly changing environment. While they used to count jobs, they are now asked to deliver social impact.

There is, therefore, a need to expand the understanding of how and why to support investors. This has three main angles. It begins with governments acknowledging and acting upon the importance of **helping investors grow their business**. According to FDIMarkets' 2017 FDI reinvestment ranking,⁷ the main expansion drivers are locations' growth potential, a skilled workforce and proximity to markets.

Another critical step is to **champion local opportunities**. There is a role for IPAs to match local opportunities with existing investors, better embed investors in the ecosystem, develop strong local linkages, and support initiatives that create a sense of a pro-investment community.

The third step is **to further develop the host economy**. Whilst most governments consider aftercare as a tool to do so, many still focus on job creation only. This is a mistake, because post-investment offers many other opportunities, such as driving an inclusion agenda, joining efforts toward a greener economy and encouraging innovation in remote locations. Such efforts maximize the value that those with a stake in the local economy gain from FDI. Unsurprisingly, this objective features high in regions facing social and political uncertainty. Unfortunately, a lack of associated key performance indicators often results in overlooking FDI's impact in these areas.

Governments need to review their aftercare activities carefully and address the three mentioned objectives. Doing so requires business intelligence to understand the investor community, creativity to identify activities that link that insight with local priorities in economic development, political will to streamline public sector support services for investors, an aftercare narrative that speaks of impact and benefits instead of jobs and flows of capital, a value proposition that secures private sector backing and, not to forget, a good dose of good will to solve conflicts as they arise. Only a few locations are currently doing this.

Implementing these steps will not only help host economies better support existing foreign investors, but also empower IPAs to play a more important role in maximizing the benefit that locations can obtain from long-established investors. Governments would be negligent if they did not increase their focus on aftercare.

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¹ Amy Gallo, "The value of keeping the right customers," *Harvard Business Review*, Oct. 29, 2014.

² Frederick Reichheld, *Loyalty Rules! How Today's Leaders Build Lasting Relationships* (Cambridge: Harvard Business Review Press, 2003), p. 1.

³ Indrid Lunden, "Amazon is looking for a 2nd headquarter city, a 'full equal to Seattle,'" *Techcrunch.com*, Sept. 7, 2017.

⁴ OECD, *Mapping of Investment Promotion Agencies in OECD Countries* (Paris: OECD, 2018), p. 10.

⁵ IDB, "Business leaders and the IDB issue call to reduce food waste in Latin America and the Caribbean," *News release*, Apr. 12, 2018.

⁶ Angaindrankumar Gnanasagaran, "Alibaba-Thailand partnership to open up lucrative business opportunities," *The Asean Post*, Apr. 29, 2018.

⁷ Naomi Davis, "Singapore retains FDI reinvestment crown," *FDI Intelligence*, June 15, 2018.

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