Trade and investment promotion – not a match made in heaven!

In the last decade, we see more and more national and municipal trade promotion organisations (TPOs) and investment promotion agencies (IPAs) joining forces by placing their services under one roof, meaning to cut down on financial resources and personnel, aiming at maximisation of FDI and export results. Quick question: is this truly the best thing since sliced bread, or are we looking at a monstrous marriage destined to eventually end-up in a devastating divorce? In practice, it turns out to be much more complicated than that. In fact, a fruitful merger is far from carved in stone.

Large national agencies such as UKTI in the United Kingdom already started putting functions together at the turn of the century, especially with regards to their offices abroad. In the meantime many national, regional and even municipal agencies have followed suit and bundled FDI and export services. In the Netherlands, some regional IPA's now have begun to actively take up trade promotion activities as well with the Dutch Chambers of Commerce retracting. According to the International Trade Centre (ITC) in 2014, almost 55% of all investment promotion agencies around the world were álso responsible for export promotion activities. Often TPOs and IPAs have merged in order to save costs by sharing support services (such as personnel, financial, public relations, IT) and office accommodations. Moreover, both organisation types could possibly benefit from potential synergies in knowledge building and (overseas) branding. Finally, some of the agencies believed that 'policy coherence and coordination' was achieved more easily in a 'one-stop-shop' concept within just one single organisation.

Irreconcilable differences

So, at first glance, the novelty of combining the two types of promotion looks very appealing and promising. In practice, however, usually these mergers fall under the category "It seemed like a good idea at the time", which may inflict internal frictions over time. Fact is that FDI and export services are far more different than they initially appear to be. Investment and export promotion agencies aim at totally different target groups to begin with: respectively (generally) larger foreign companies with plans to set-up shop abroad, and indigenous (small and medium-sized) enterprises with the ambition to export to foreign countries – different executive levels to talk to, as well. These foreign markets may not even be the exact same countries! Therefore, each type of promotion requires very different skills and qualifications of employees, and needs its own, specific and tailor-made value propositions. Marketing tools vary tremendously, business networks are quite different from one another and planning horizons of the targeted companies are usually far from similar: export decisions are made much more quickly than investment decisions – the latter affecting the company's rate of success for a far longer period of time. And last but not least, performance indicators of both activities differ significantly. While FDI is measured in volume, jobs and number of projects, trade performance is laid down in (increase in) export volume and the number of new clients. The table below shows these and other striking differences in more detail.

	Investment Promotion	Trade Promotion
Target groups	Multinational companies (global/regional) – industry wise	Exporting companies (mostly SMEs) – country wise
Target countries	Specific countries	Larger number of countries
Employee skills	Location and specific industry knowledge	General marketing and sales skills
Value propositions	Location factors such as tax climate, accessibility, labour market	OEMs and suppliers, business services
Marketing tools	Road shows, workshops, networking, investor development	Trade missions, trade shows, networking
Direction of business	Always inbound	Mostly outbound, but also inbound occasionally
Joint resources	Smaller share of budget	Larger share of the budget
Planning horizon	Longer term (strategic, investment decisions)	Shorter term (purchasing decisions)
Performance indicators	Number of projects, number of jobs, investment volume	Number of clients, export volumes

Source: UNCTAD (2013); adaptation by ARCUS*plus*

Marriage settlement

Most of the agencies our own firm works for or talks to, mention that so far a marriage of the said functions is not always a match made in heaven. Although in some cases investment promotion agencies extensively use export promotion agencies' specific knowhow to load propositions for websites, bid books or presentations, and occasionally jointly organise business events or missions in foreign markets – be it with their messages and target groups strictly separated – still often one and the same brand is used. UKTI is a good example of a joint agency that presents the UK abroad by a strong and recognisable brand, "the obvious choice for companies interested in either trading with or investing in the country". Another factor that stands in the way of a close cooperation, as we see it in practice, is that trade promotion is often influenced by ad-hoc opportunities and political agendas, and as a result is just not able to stay focussed in terms of target countries or industry sectors. Bundling trade and investment activities then results in a total turmoil or even a nasty nightmare.

Look before you leap

It is beyond any doubt that the synergies of merging export and investment promotion services are not clear-cut, and (some of) the expected advantages at first sight are outweighed by numerous, substantial operational differences, that need explicit attention in order to make a combination of functions work properly. Putting general, 'non-technical' functions together under one roof is a good idea, but functions such as marketing, promotion, sales, account management should be kept strictly separated in a 'classic split', except maybe the function of overall branding activities abroad. Cross pollination is possible when business and market intelligence is shared, at best on a case-by-case basis, and used for image building regarding business functions (for example: manufacturing), industry sectors (for example: agro food) or countries (for example: the Netherlands – Gateway to Europe). And it should be given ample time: it takes more than the blink of an eye to at least arrive at the general cost savings that were intended by merging in the first place. In this matter, a 'one-size-fits-all' solution definitely does not fly. Maybe a marriage like this should be preceded by a longer engagement period, in which the spouses-to-be have more opportunities to adapt, adjust (or simply break-up…), in order to act as a happy couple later in life.

In short, before you start considering, as an IPA, to partner with a TPO:

- take a close look at the feasibility of cutting sufficient cost or personnel;
- assess whether your (future) staff has got what it takes to do the job both ways;
- try to make sure to get credits for the right results – a new client abroad is definitely substantially different from an investor fróm abroad.