PRODUCTIVITY

WINNING INVESTMENT TO THE UK

WHY 'COMPOUND INVESTMENT' MATTERS

Capital investment for new, increased or upgraded production capacity is central to boosting productivity. Nestlé's experience across the globe confirms that embracing new technology can deliver significant increases in output. Automation of basic tasks and integrating digital communications can combine to liberate and enable operating staff to focus on higher value activities. The UK is a relatively high wage market - so high levels of productivity are essential to maintain competitiveness.

Inward investors are a particularly important source of the UK's capital investment. They have contributed a cumulative £1 trillion to the UK stock of investment, but the type and quality of that investment is as important as the amount. Particularly effective in boosting productivity is inward investment that builds on the UK's strengths as a base of production for export.

The businesses with the best insight into those strengths are often the ones that are already here. According to UKTI, 740 of the 1,988 new investments in 2014 were expansions by existing investors.
The track record that Nestlé's British operations have built up over many decades is a crucial part of their case for fresh investment, and the most important factor in deciding where Nestlé locates investment globally. This type of investment is fiercely contested between managers inside multinational firms like Nestlé, who must champion their local operations. So much modern manufacturing depends on reliable delivery, that a clear, stable and compelling track record is often decisive in winning investment.

Understanding the 'compound investment case' for existing inward investors can help turn a history of inward investment and strong results into a future of strong productivity performance. Decisions to produce the Butterfinger product for the US market and Nescafé Dolce Gusto in the UK were direct consequences of outperforming other international locations over long periods of time, showing a track record of production and productivity, a strong base of skilled workers and support from local government and the community. In this sense, investment is won many years before it is ultimately made.

KEY FACTORS IN WINNING INVESTMENT

Demand
Domestic and international demand that can be supplied from the UK

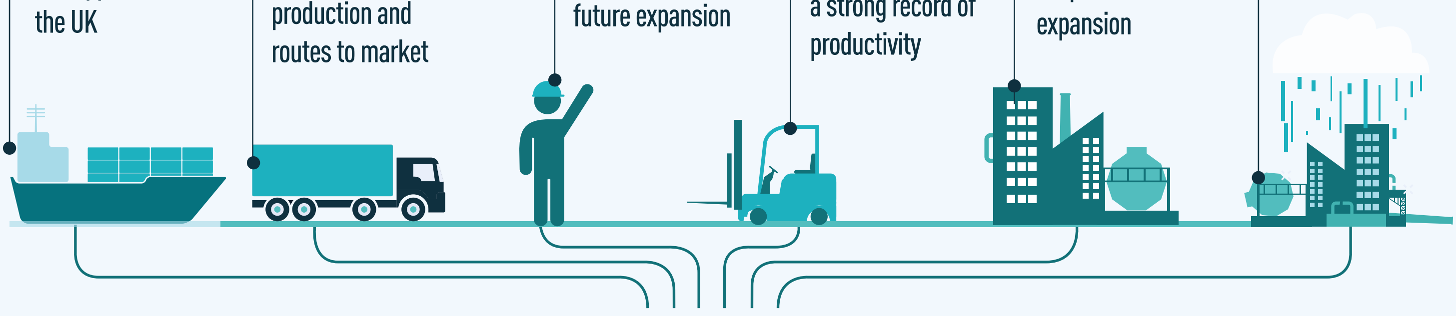
Infrastructure
This ensures efficient production and routes to market

Human resources
Local skills base and skills pipeline for future expansion

Labour costs
Important, but balanced against a strong record of productivity

Development costs
Including conversion of existing plant and scope for expansion

Mitigated site risks
Often in partnership with government



Track record
The best predictor and case for future investment is past perfomance. Strong productivity helps embed investments in the UK and raises the chance of future compounding investment.

Nestlé

50 YEARS OF COFFEE AT TUTBURY

Why did Tutbury win investment?

In 2011, Nestlé's coffee production site in Tutbury, Derbyshire, competed successfully within Nestlé to host a state-of-the-art freeze dried coffee operation and one of three global coffee centres of excellence.

This brought a total £325m of new investment in technology and skills that achieved production of 40 million cups of coffee a day from a workforce of just under 1000, a step change in productivity that places Tutbury in a world-leading position for its output per person and its output per hour worked.

LEARNING FROM THE NESTLÉ EXPERIENCE

Successive governments have prioritised business support towards attracting inward investment from new investors, to help overcome risk aversion on the part of investors who are unfamiliar with the UK.

Rising to the productivity challenge should mean applying the same drive and focus to capturing export-oriented and productivity-enhancing investment by existing inward investors. Nestlé's experience shows how these investments – by substantially upgrading existing capacity – can have an especially powerful effect on productivity.

Existing investors have a material advantage in winning investment to the UK when they are backed up by local and national government. Support might include mapping potential investment pipelines with UKTI well in advance, and careful anticipation of potential blockages such as planning consent procedures or infrastructure needs.

Government could also work to ensure and communicate a stable and predictable business environment for the relevant sector in advance of major decisions – recognising that the race for investment in the UK in 2020 has already started ...