

The National Assembly for Wales

Factors Influencing the Location of Mobile Service Activities

Final Report

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1 Executive Summary

1.1 Objectives

The aims of the assignment were to:

- Review the importance and development of Mobile Service Activities at a global and national level;
- Assess the contribution made by such activities to the Welsh economy and review recent performance;
- Identify the key factors driving locational decisions for such activities;
- Consider whether Wales is currently or potentially in a strong position to compete in the market for such activities; and
- Identify conclusions to inform the development of Wales' competitive position in respect of such activities.

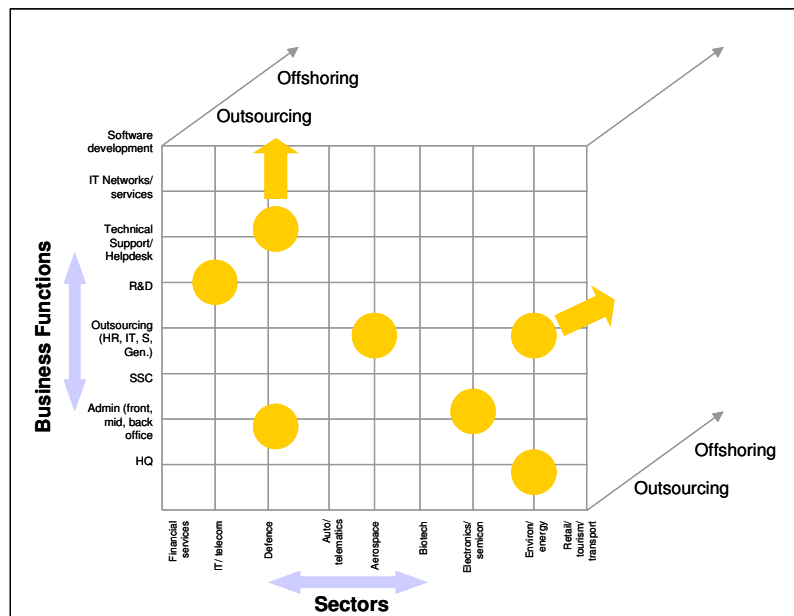
1.2 Definition of Mobile Service Activities

Mobile Service Activities:

- Involve services rather than products,
- Are fairly mobile in their location choice, although this does not mean that they can or will locate anywhere,
- Are not reliant on local markets.

Mobile Service Activities are not confined purely to the service sector, as they may exist as part of a larger, primarily manufacturing operation. There are also a broad range of functions that can be considered Mobile Service Activities, ranging from software development to headquarters operations. This is represented in the figure below.

Figure 1.1: The Breadth of Mobile Service Activities



In practice any organisation could generate a mobile services project and any of the projects can involve a high degree of complex office-based activities, requiring highly skilled staff.

1.3 The Importance of Mobile Service Activities

Following the globalisation of manufacturing, technological improvements, educational gains and the spread of more favourable regulations, service activities have become more mobile, seeking out higher productivity and lower cost locations. There has been a growth in Mobile Service Activities and this is expected to continue in the future. The trends of outsourcing and offshoring are consequences of the greater mobility of service activities.

Although lower cost locations such as India and China are in vogue, there are many service activities that whilst mobile, will not move outside the UK. Many companies are adopting what are now called ‘blended’ outsourcing solutions where they will offshore less sensitive or more repetitive tasks but retain in their home country or region more sensitive activities and activities where there is a greater degree of interaction with the management centre.

In the early days of call centres, Wales competed successfully as a cost competitive UK location for low skilled, high volume back office activities. However Wales is now well positioned as sound UK location for companies looking for a ‘nearshore’ or a blended solution. Companies will tend to think of Cardiff or Swansea rather than Wales when making decisions.

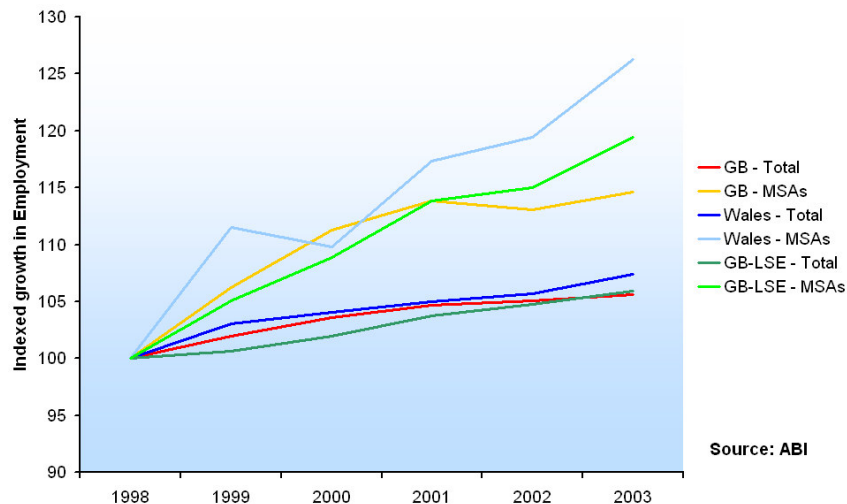
When looking within the UK, companies will tend to look at cities as locations for Mobile Service Activities rather than regions or countries, so are more likely to look at Cardiff, Swansea or Newport than they are at Wales.

1.4 The Contribution of Mobile Service Activities to the Welsh Economy

In service activities in general, Cardiff is the primary location within Wales, with 26% of Welsh service sector output and 22% of Welsh service sector employment, compared to 19% of all employment in Wales.

For Mobile Service Activities in particular, Wales has seen a higher rate of growth than other parts of the UK, but Wales still lags behind the UK in terms of the concentration of Mobile Service Activities in the economy. This can be seen in the figure below.

Figure 1.2: Rates of Growth in Mobile Service Activities v Whole Economy



There are very few sectors within the Mobile Service Activities in Wales that have a higher concentration than the UK or even the UK minus London and the South East.

Wages in Mobile Service Activity employment in Wales are lower than in the UK, and this is particularly pronounced in the higher-level occupations. Wales is trying to overcome the dual problems of lower wages by occupation, and a lower concentration of employment in higher-level occupations.

Compared to the UK, Wales performs best in Shared Service Centres, Customer Support Centres and Testing. Wales has historically attracted larger projects than the UK (in terms of jobs per project), particularly call centre projects, but there has been a decline in these larger projects in recent years, and this has been reflected in the falling average size of projects in Wales.

1.5 Key Factors Driving Location Decisions

There are some factors that must be in place before a location is even given consideration, and these include: accessibility, ICT, and political and institutional stability.

Different types of Mobile Service Activity will then have different priorities when choosing a location, but the key factors that are considered will be:

- Labour availability, at the appropriate skill level and competitive cost
- Flexibility in the labour market
- Prestige or credibility of the location
- Presence of similar firms
- A business friendly environment - taxation, regulation etc.
- Availability of property at the right cost and quality

- Accessibility by road, rail and air
- Quality of life
- Security in terms of IP, data security, asset security and ease of repatriating profits
- Financial incentives
- Ease of withdrawing from the market

The various cities within Wales have different offers for firms and the success of Wales in attracting mobile services projects will be determined by the extent to which the capabilities and competencies of Cardiff, Swansea, Newport, Bridgend and other Welsh locations match with the specific requirements of a specific mobile project.

1.6 Wales' Competitive Position

Our review of the competitive position of Wales for attracting Mobile Service Activities has identified the following strengths, weaknesses, opportunities and threats.

STRENGTHS	WEAKNESSES
• Costs • Quality of life • Universities • Cultural identity • Positive perceptions of existing investors	• Property availability • Critical mass • Labour market skills • Graduate retention • Accessibility • Profile/image/branding
OPPORTUNITIES	THREATS
• Offshoring • Outsourcing • Changing perceptions • Saturation in competitor locations	• Offshoring/outsourcing • Labour market saturation • Skills mismatch

1.7 Developing Wales' Competitive Position

There are some key areas in which Wales can improve its attractiveness for Mobile Service Activities in the future. These include:

- Ensuring the availability of a range of property that is attractive to the key sectors that Wales is trying to attract
- Focusing on a small number of key sectors and trying to build a reputation and critical mass in these
- Looking to improve accessibility by all forms of transport to Wales, and particularly to Cardiff. Internal accessibility also needs to be in place.
- Ensuring a good supply of appropriately skilled workers – mainly through training and workforce development.
- Alignment of the educational and skills systems to business needs
- Making an effort to ensure that the positive views of businesses within Wales are spread to those outside Wales.

2 Introduction

2.1 Background

DTZ Pidea Consulting was commissioned in January 2005 by the National Assembly for Wales to undertake a review of the factors influencing the location of Mobile Service Activities.

The aims of the assignment were to:

- Review the importance and development of Mobile Service Activities at a global and national level;
- Assess the contribution made by such activities to the Welsh economy and review recent performance;
- Identify the key factors driving locational decisions for such activities;
- Consider whether Wales is currently or potentially in a strong position to compete in the market for such activities; and
- Identify conclusions to inform the development of Wales' competitive position in respect of such activities.

The impetus behind the project was an awareness of the global growth in tradable services coupled with a desire to better understand the opportunities for Wales, and ensure that any such opportunities are fully exploited. The intention was to develop an in-depth understanding of what drives the location of such activities and to consider how to ensure that Wales not only retains its attractiveness but also builds on its current position.

2.2 Research Stages

The research for this assignment comprised five key stages, namely:

- A review of literature relating to Mobile Service Activities to highlight wider trends and provide a global perspective;
- Analysis of data relating to Mobile Service Activities to compare performance in Wales with that of the UK more generally;
- Case studies of other competitor/comparator locations;
- A range of stakeholder consultations to provide a local and national perspective on the evidence gathered; and
- A survey of companies who had recently undertaken location decisions resulting in selection of a UK location, to understand the reasons behind these decisions and examine how Wales was perceived.

Individual reports on each of these stages have been produced. This report provides an overview of the key findings emerging from the research and presents these in a summary format, along with a range of policy recommendations that are indicated by the research.

This summary report comprises the following sections:

- Chapter 3 discusses the definition of Mobile Service Activities
- Chapter 4 looks at the importance of Mobile Service Activities at the global, UK and Wales levels

- Chapter 5 reviews the performance of Mobile Service Activities in Wales
- Chapter 6 gives an overview of the key factors that inform the decision about the location of Mobile Service Activities
- Chapter 7 reviews Wales' competitive position, and gives an overview of the strengths, weaknesses, opportunities and threats to Wales as a location
- Chapter 8 draws out the key issues for further consideration.

There are three appendices that accompany this summary report:

- A full review of the data that has been used to inform this report;
- A full review of literature that has been used to inform this report
- A detailed report setting out the outcomes of the stakeholder consultations and company survey.

3 Definition of Mobile Service Activities

This chapter sets out the definition of Mobile Service Activities that as been developed during the project. It also looks at the relationship between Mobile Service Activities and the trends of outsourcing and offshoring.

3.1 Defining Mobile Service Activities

In essence, Mobile Service Activity projects (also known as widely traded services) have been defined as those which:

- Relate to a service activity i.e. the ‘product’ is intangible;
- Mobile i.e. location is not restricted to a specific location by any particular requirements such as access to raw materials or suppliers. In saying that an activity is mobile, this is not to say that it is free to locate *anywhere*. Any activity’s location will be determined by a range of factors – availability of skills, cost factors, accessibility etc. – but the essential characteristic of mobile activities is that they are not tied to a single (or very few) locations, but can choose between a wide range of possible options.
- Not reliant on local markets. That is, the geographical co-location of production and consumption is not required. However, the potential market does not need to be international, it just needs to extend beyond the immediate locality. As such, service activities can be mobile within a country, not just between international borders (this is the key difference between our Mobile Service Activity definition and that of ‘offshoring’ or the more general usage of ‘tradable services’).

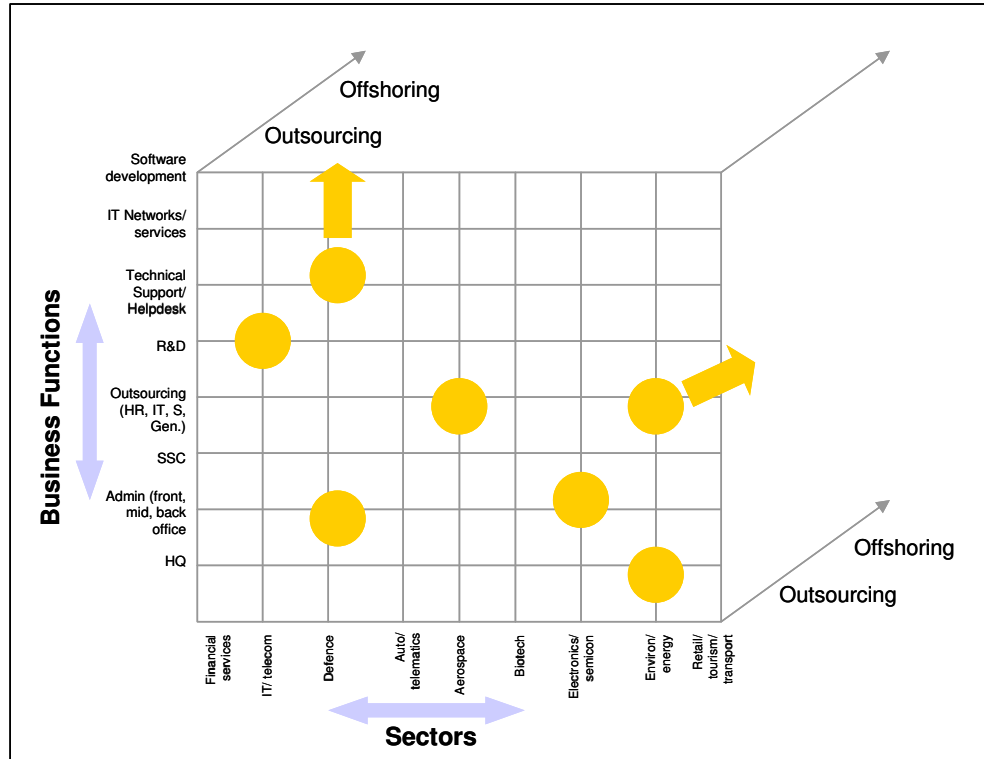
In real terms, Mobile Service Activity projects can derive from almost any sector and can involve a wide range of business functions. They can also emerge as new industries quite suddenly from any number of other business activities as a result of convergence, technology change or regulatory change. As such a matrix approach is required when either defining Mobile Service Activities or in engaging with the ‘industry’ for the purposes of investment attraction or economic development.

A schematic diagram which highlights the difficulties ‘pinning down’ Mobile Service Activities and showing fluidity required to define them can be seen overpage. In addition, to support the policy objectives of the public sector stakeholders involved, the focus of the study was also on those activities which have:

- Private sector origins
- Job-creation potential
- Value-added potential
- Above-average wage levels

The figure shows that there are a broad range of business functions that can be defined as Mobile Service Activities (ranging from software development to HQ functions), and these functions can fall across a range of industrial sectors (ranging from service sectors to manufacturing).

Figure 3.1: The Breadth of Mobile Service Activities



As the chart shows, in practice, a mobile service project could relate to the office activities of a manufacturer, the design and R&D functions of a manufacturer or the customer service functions, the sales or the ‘back office’ of any type of firm.

Because companies do not necessarily locate all their company activities in the one place, they may locate them in a variety of locations or outsource them to third party who may themselves locate different elements of their business in a variety of locations. Different types of business activities have different needs and drivers, which is why they tend to be located in various areas. For example, although it may make sense for a company’s headquarters to be in a major city in order to meet with clients and suppliers, its telephone support for customers does not need to be in the same place, nor its manufacturing.

3.2 SIC & Industry Definitions

By their very nature, it is very difficult to define Mobile Service Activities according to a set of Standard Industrial Classification (SIC) codes. However, to evaluate growth and performance changes (discussed later in this report) it has been necessary to arrive at an SIC-based definition. Mobile Service Activities were identified as belonging to the following 2 and 3 digit SIC codes:

- 221 : Publishing
- 223 : Reproduction of recorded media
- 633 : Activities of travel agencies and tour operators;

- 642 : Telecommunications
- 65 : Financial intermediation, except insurance and pension funding
- 66 : Insurance and pension funding, except compulsory social security
- 67 : Activities auxiliary to financial intermediation
- 72 : Computer and related activities
- 73 : Research and development
- 741 : Legal, accounting/book-keeping; consultancy, market research
- 742 : Architectural and engineering activities/technical consultancy
- 743 : Technical testing and analysis
- 744 : Advertising
- 921 : Motion picture and video activities
- 922 : Radio and television activities
- 924 : News agency activities

In practice, SIC definitions do not tell the entire story. SIC codes relate to industry definitions of overall company activity but as stated earlier, mobile services activities can come from any industry and activities that can be spun-out of the headquarters or relocated to alternate sites can be grouped in a variety of ways. Some common types of mobile services projects that have emerged in the last decade can be classified as below:

- Headquarters and Regional headquarters are generally the office that serves as the administrative centre of an enterprise. In the past, they were the location of most of a company's administrative and office-based activity. However as companies have become more sophisticated and able to take advantage of IT improvements, some activities can now be moved away from the central administrative centre.
- *Call and contact centres*- a call centre is a centralised office of a company that answers incoming telephone calls from customers or that makes outgoing telephone calls to customers (telemarketing). Such an office may also respond to letters, faxes, e-mails and similar written correspondence. However the term contact centre is often applied when such multiple functions are blended in one office.
- A variant is the *technical service centre* where customer's technical support needs for IT systems or other complex computer systems are handled. Outsourced IT help desks are a common example of these.
- *Shared service centres* combine administrative, communication and financial expertise to create central hubs for companies whose operations often have a global or multi-national dimension. Shared Services sees the bringing together of one or more so-called 'back office' functions and services often from geographically disparate areas - into a separate organization, the Shared Service Centre or SSC. The shared contact centre will usually handle operations relating to accounts payable; accounts receivable; general ledger; cash management; credit control; payroll, customer service and HR for a number of clients within one centre.
- A *data centre* is a centralized repository, either physical or virtual, for the storage, management, and dissemination of data and information organized around a particular body of knowledge or pertaining to a particular business.
- Other services activities of firms can relate to their R&D and design centres. These may or may not involve traditional laboratory space or they may use computer enabled design or software development.

Clearly any type of company can have a requirement for any of these business service centres.

Furthermore, any of these types of centres can involve highly complex activities and skills requirements. For example a shared services centre can involve large numbers of professional accountants and call centres can handle extremely complex customer service inquiries or undertake business surveys.

3.3 Outsourcing, Offshoring & Nearshoring

Related to 'Mobile Service Activities' is the terminology of 'outsourcing' and 'offshoring'. It is useful at the outset to clarify these terms and how they relate to the definition of Mobile Service Activities since these terms are often misused:

Offshoring is the transfer (relocation) of activities, within the same corporate family, to another, typically lower wage country, on a long-term basis, resulting in job losses in the donor country. There are various offshoring models but the most common is captive-offshoring where the company owns and controls the operation. Captive-offshoring is primarily cost-driven, with resource flexibility being a secondary factor.

Outsourcing is the transfer of corporate activities to a third party, which may or may not be relocated to another (not necessarily low wage) country, on a fixed term contractual basis. When referring to service activities, this is typically called Business Process Outsourcing (BPO). Outsourcing is a more widespread activity ranging from cleaning though to design, advertising and accountancy, and has been undertaken for many years. Similarly outsourcing does not necessarily involve the relocation of activity to an offshore location but can just involve the transfer of responsibilities.

Both 'offshoring' and 'outsourcing' refer to the way corporations organise their company structures and activities. Mobile Service Activities include the types of service activities that can be offshored or outsourced. Manufacturing and distribution activities can also be outsourced and offshored and within both these sectors, there are service related functions, as noted earlier.

Companies not only offshore activities but they can also 'nearshore' whereby activities are relocated to a location not particularly far from their core centers. 'Near-shoring' is often adopted by a firm that sees advantage of relocating some activities from headquarters but also wants to retain a high degree of control or retain the activities within their immediate market. This is a phenomenon that has been increasingly driven by consumer preference to 'keep jobs at home' or who find advantage in being served by their compatriots. Near shoring is also a preferred mid-step solution by firms who believe that the security of their data or information is best protected if kept close to their management center.

In practice companies are increasingly moving towards 'blended' solutions where some activities are offshored and some are near-shored. Companies are increasingly able to make sophisticated judgments on the requirements of each project and to identify tailored solutions for their various requirements. A common practice is to perhaps offshore tasks with a high degree of repetition but to 'near shore' tasks that involve more complex customer services or more sensitive data analysis.

Conclusions

Mobile Service Activities:

- Involve services rather than products
- Are fairly mobile in their location choice, although this does not mean that they can or will locate anywhere
- Are not reliant on local markets.

Mobile Service Activities are not confined purely to the service sector, as they may exist as part of a larger, primarily manufacturing operation. There are also a broad range of functions that can be considered Mobile Service Activities, ranging from software development to headquarters operations.

4 Importance of Mobile Service Activities

This chapter looks at the trends that are influencing the market for Mobile Service Activities. These trends are considered at the global, UK and Wales levels.

4.1 Global Trends

As with the globalisation of manufacturing production, improvements in communications technologies, education gains and the spread of more favourable regulations have meant that services have become more tradable and more globally mobile as companies seek to take advantage of the ability to search the globe for productive and well-trained personnel at competitive costs.

The globalisation of services is a two dimensional phenomenon: companies can now trade services to a greater degree but they can also service markets remotely. These two aspects contribute to the increasing degree to which services activities are foot-loose. An increasingly wide range of services can now be traded from almost anywhere and the 'home market' bias or advantage is diminishing. As such, locations outside key global markets can now access these markets and compete directly against 'home' competitors.

This offers significant opportunities to a location such as Wales, which in the past was restricted by its small national market size and peripheral location to the large English and European markets. Now companies can access most international markets from a Welsh location. The large numbers of contact centres that have relocated to Wales are proof of this as are the numerous R&D and design centres that are supplying international markets from Wales.

The Mobile Service Activity market is growing, and is expected to continue to grow in the future. Although the service sector is much larger than the manufacturing sector, only some 10% of its output enters international trade, compared with over 50% for manufacturing.

Offshoring is a sub-set of the mobile services phenomenon. It is the natural child of a global economy where services can now be internationally traded. This brings opportunities as well as risks to Wales. On the one hand, it allows a developed, skilled and relatively low cost economy like Wales to attract projects from places like the US, London or Europe but it also increases the risk that projects could relocate to even cheaper locations with a suitable workforce.

As previously stated, companies are increasingly moving towards 'blended' solutions where some activities are offshored and some are near-shored. Wales has been very successful in attracting the higher value elements of blended business process outsourcing. While in the early days of the more basic call center industry, Wales attracted a large number of high volume projects, it has been able to build on this to capture the high value, highly skilled elements of blended solutions, with the volume work now tending to go to locations offshore.

The World Investment Report 2004 shows that South and South East Asia has been a dominant recipient of globally mobile services projects to date. The region accounts for

around 80% of all IT services projects outside industrialised countries. Call centre projects show the greatest geographical dispersion, with most going to developed countries in 2002-03, but the share going to developing nations is rising.

A fine balance between cost and quality is required, but India has become a compelling location for Mobile Service Activities projects because of its unique (to date) balance between cost advantages and the availability and quality of skills in that country.

Likewise the pace of offshoring is set to continue. A recent survey by Hewitt¹ found that approximately 53% of respondents were already offshoring services to low cost, high quality hubs around the world, and a further 11% said their companies intended to do so within the next year. Companies are increasingly willing to locate elements of their service activities offshore to take advantage of well-trained personnel at competitive costs. The potential is immense because, as UNCTAD reported, only 1-2% of all business process outsourcing to date is done internationally², with most outsourcing currently taking place in home economies.

The growth of Mobile Service Activities is set to continue as its growth is primarily driven by the enabling factors identified above, cost savings and staff quality. Improved competitiveness - through cost reduction or improved quality or both - is the main driver of Mobile Service Activities and offshoring. Cost savings associated with offshoring or relocating are estimated to be in the region of 40-70%.

There is a complex relationship between cost and quality with regards to the location of Mobile Service Activities. Some projects are predominantly cost driven but not to the extent that quality of staff and other drivers are ignored. Other drivers are:

- Efficiency;
- the quality and availability of relevant manpower;
- tax savings;
- incentives; and
- a surprising number of companies have said that their decision would be swayed by other organisations doing similar work nearby.

In summary, although cost is a core driver for most projects, staff quality is also key. The two factors tend to underlie all investments. In most projects, neither factor by itself is sufficient to attract the investment. Although cost is a key driver in relation to attracting Mobile Service Activities, other factors do enter into play and for locations such as Wales which are firmly within higher cost developed economies, the importance of skills becomes more important when securing and retaining investors.

The fact that cost is key but not king means that a comparatively cost effective location in the UK, such as locations in Wales, has opportunities to attract offshoring projects. If the skills quality can be maintained, then the attraction of projects could be sustainable.

India and China are expected to attract large amounts of new investment in Mobile Service Activities projects. However it is also expected that a large proportion of work will be

¹ Hewitt Quarterly, Asia Pacific, Volume 3, Issue 4.

² UNCTAD, 2004, p xxvi.

retained in the key source countries of the US and UK, and the UK continues to rank among the preferred offshore locations for corporate investors over the next three years.

4.2 UK Context

Only a fraction of services are actually being offshored but the trend is picking up. It is also thought that in the future, more offshoring is likely to be located in emerging markets. There are, however, real barriers to the increased mobility of services and these tend to be consumer-led, technology-led or regulatory-led.

There are various estimates on how many UK jobs will be lost or contested by lower cost locations, but they run as high as 1.5 million. It is hypothesised that cities that have a high concentration of call centre workers are most at risk of job losses. Cardiff has been included in this list.

As mentioned above, India and China are expected to attract large amounts of new investment in Mobile Service Activities projects. However it is also expected that a large proportion of work will be retained in the key source countries of the US and UK.

For economies such as Wales, this means that there are almost no activities that cannot be relocated outside the region, nor are there any activities that could not potentially be attracted. There are strong opportunities as well as certain threats. The UK continues to rank among the preferred offshore locations for corporate investors over the next three years³.

Conversely, UK companies have experienced a backlash against offshoring and are increasingly adopting blended solutions which involve substantial nearshoring. In the UK, companies have found that nearshoring facilitates greater control over more sensitive business activities and better public relations.

Wales is ideally placed to benefit from 'near shoring'. It attracts a high proportion of those projects that are mobile within the UK or European markets. Wales is able to leverage its skills and its credentials as a secure location to attract these more consumer or security sensitive projects.

For locations within the UK, the challenge will be to recognise those areas where there is competitive or comparative advantage and to search for projects and activities where there is likely to be sustainable commercial advantage. UK locations cannot compete on cost against locations like India and China but there are projects that do make commercial sense in the UK context. Significant numbers of companies want and need a UK location. Similarly, because distance to central business locations is now less of an issue, or a non-issue, locations like Wales are now on an equal footing with centres such as London, New York or Frankfurt for certain types of business activities, although clearly skills availability is a limiting factor for many activities.

Locations such as Wales need to capitalise on the appeal that the UK market per se has for corporates and should be aiming to secure increasingly high value projects. This will require an ongoing up-skilling and retention of the local labour force as well as IT

³ AT Kearney, FDI Confidence Index, 2004.

infrastructure in order to keep pace with corporate needs. Market openness and regulatory competitiveness is also important.

4.3 Wales Context

From a global perspective, Wales is at an advantage because UK & US companies are in the vanguard of outsourcing, offshoring and nearshoring. The large financial service sectors of these countries commenced offshoring and the English language bias does offer opportunities for Wales. So while UK companies may want to reduce cost, Wales may remain a viable option for a significant proportion of projects and Wales is an attractive option for companies wanting the security of a UK presence. Even if intra-UK mobility is not technically offshoring, Wales can capture projects that are simply being relocated from high cost centres like London to cheaper, but not necessarily offshore locations.

Areas within Wales, rather than Wales as a whole have become a significant MSA locations. Key projects have included:

- Marketsafe.com to Bridgend to provide financial and business information via the Internet.
- Logica CMG who invested in Bridgend⁴.
- ING Direct opened a new call centre facility in Cardiff⁵.
- Pennsylvania-headquartered power semiconductor specialist Vishay Siliconix is to open a design centre in the Digital Technium at Swansea University.

OMIS has found that for contact centres, Inner London remains the dominant UK location with Glasgow second, Birmingham third and Manchester fourth (they account for 600 call centres between them). Cardiff was ranked eighth of the larger cities and Swansea was fourth for the 'second tier' smaller cities.

In practical terms, companies chose their location on the basis of cities rather than regions. Regionalism is a political imperative with most governments because they are keen to disseminate wealth throughout their economies. However this is not on the corporate agenda and investment attraction and economic development strategies should be sensitive to this overriding fact.

Companies will tend to think of Cardiff or Swansea rather than Wales when making decisions. The various cities within Wales have different offers for firms and the success of Wales in attracting mobile services projects will be determined by the extent to which the capabilities and competencies of Cardiff, Swansea, Newport, Bridgend and other Welsh locations match with the specific requirements of a specific mobile project.

Cardiff is in the same position as most regional cities in developed economies. They are not poor locations for business and have a strong offer for companies. Their challenge is that they do not have the unique mix of cost competitiveness and skills availability that the developing but increasingly sophisticated and immense markets of India and China offer. The Welsh offer is not sufficiently differentiated to make it an obvious location of choice

⁴ March 2004, reported in IPA World. This project received grant assistance.

⁵ Announced October 2004, reported in IPA World.

against other regional cities in both the UK and overseas. However, for companies seeking a UK base, it is a strong contender for projects that are cost sensitive but which also have moderate skills requirements.

Maintaining a strong inflow of skilled staff (through training programmes etc.) and managing workforce churn (through improved conditions and incentives for staff) will be key to retaining competitiveness and reducing the risk of company withdrawals.

Conclusion

Following the globalisation of manufacturing, technological improvements, educational gains and the spread of more favourable regulations, service activities have become more mobile, seeking out higher productivity and lower cost locations. There has been a growth in Mobile Service Activities and this is expected to continue in the future. The trends of outsourcing and offshoring are consequences of the greater mobility of service activities.

Although lower cost locations such as India and China are in vogue, there are many service activities that whilst mobile, will not move outside the UK. This is where Wales can compete, as a relatively low cost location within the UK.

When looking within the UK, companies will tend to look at cities as locations for Mobile Service Activities rather than regions or countries, so are more likely to look at Cardiff than they are at Wales.

5 Performance of Mobile Service Activities in Wales

The purpose of this chapter is to look at the data concerning the impact of Mobile Service Activities on Wales. The chapter looks at the performance of Wales compared to that of the UK. It then goes on to look at some of the more detailed activities with Mobile Service Activities and their performance in Wales.

5.1 The Service Sector

The service sector in Wales has seen phenomenal growth in recent years but it continues to lag behind the UK as a whole. Overall service sector employment and its share of employment is increasing in Wales, at a similar rate to that across the UK - but from a lower base. Service sector activity in Wales has grown 53% from 1995 to 2002. This compares to 60% for the UK. In terms of wages, Wales is well behind the UK (15% less) and to a lesser extent, the UK excluding London and the South East (5% less).

Within Wales, Cardiff is the engine of the Welsh service economy, with:

- 26% of Welsh service sector output,
- 22% of Welsh service sector employment and
- 19% of total employment.

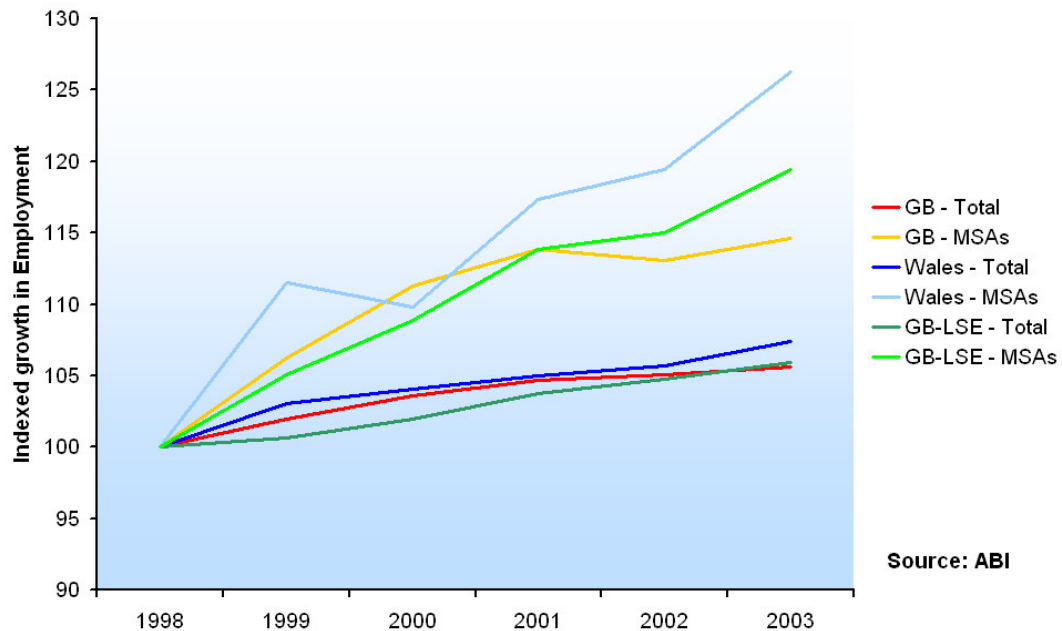
In terms of the number of jobs in services (excluding Public Administration, Education and Health) the areas of Cardiff (87,000 jobs), Swansea (46,000 jobs), Newport (32,000 jobs), Rhondda Cynon Taff (22,000 jobs), and Flintshire (21,000 jobs) lead⁶. This clustering is likely to continue.

5.2 Employment and Output in Mobile Service Activities

Mobile Service Activities are growing faster in Wales than other areas. Employment in Mobile Service Activities in Wales has grown by 26% from 1998 to 2003, compared to growth of only 15% in GB and 19% for GB minus London and the South East (LSE). By 2003, Mobile Service Activities accounted for 8% of all jobs in Wales. However, this compares to 14% of all jobs in GB and 11% for GB minus LSE. The chart below shows the differing rates of employment growth in these different geographies, and in different parts of the economy. Clearly, Mobile Service Activities in Wales have seen the highest growth rate over the period, and Mobile Service Activities in all geographies have seen a higher rate of growth than the economy as a whole.

⁶ See Table 4 at Appendix 1.

Figure 5.1: Rates of Growth in Mobile Service Activities v Whole Economy



By 2003 Mobile Service Activities employment accounted for 11% of all service sector employment in Wales, but this compares to 20% in GB and 16% for GB minus LSE. The above average growth in the last five years has not succeeded in eliminating this gap. Although Mobile Service Activity employment growth in Wales outstripped that in GB and GB minus LSE, this is not the case for output. This suggests that it is high-employment, low-value activities that have accounted for the high employment growth.

Output from Mobile Service Activities in Wales has grown by 20% from £6.1bn in 1998 to £7.3bn in 2003, which compares favourably to a 9% growth in output for all sectors. This compares with growth for the whole of the UK over the same period of 21% in Mobile Service Activities and 11% across the whole economy; and 24% in mobile services and 10% in the whole economy for GB minus LSE.

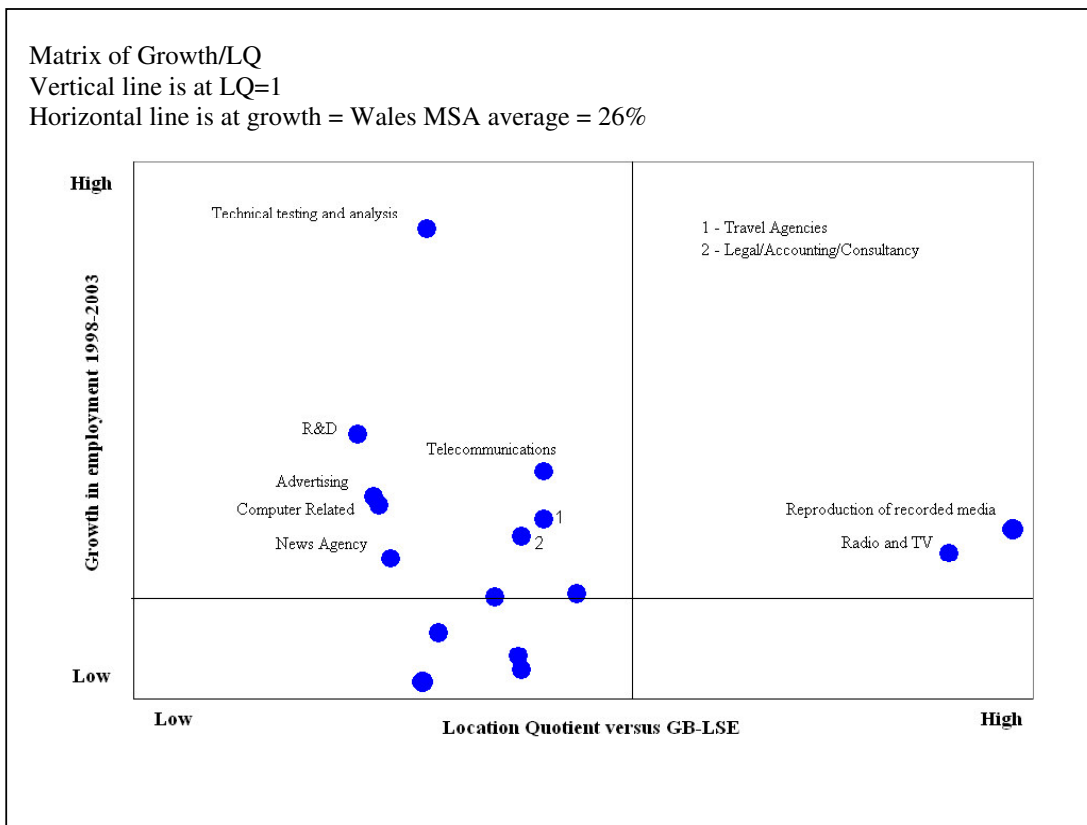
While output growth has been strong, the relative contribution of Mobile Service Activities to total output in Wales is also growing. Mobile Service Activities' contribution to total GVA in Wales has increased from 22% to 25% over the period. But once again, this compares to a growth from 31% to 34% for GB overall; and from 28% to 32% for GB minus LSE.

The figure below shows the Location Quotients (LQ)⁷ for each of the main measurable industrial sectors within Mobile Service Activities in Wales. Only two sectors have an LQ

⁷ LQ is a measure of the concentration of employment in a sector in Wales versus the concentration of employment in the same sector in a comparator geography – in this case GB minus LSE. An LQ less than 1.0 means a lower concentration in Wales than in GB minus LSE, whilst an LQ greater than 1.0 means a higher concentration.

greater than 1.0 - Reproduction of Recorded Media and Radio & TV. The vertical line on the figure shows an LQ of 1.0. The vertical axis shows the recent growth in employment in each of the sectors, with horizontal line indicating the average level of growth across all Mobile Service Activities during the period. The sectors of greatest interest are those with an LQ greater than 1.0 and higher than average growth. As there are only two sectors that meet these criteria, it is worth looking also at those with above average growth, and these can be seen in the figure below.

Figure 5.2: Industry Concentrations and Employment Growth



The highest levels of output growth have been in 'Banking & Finance' and 'Other Business Services'. Output growth in 'Insurance' and 'Transport & Communications' is well below the levels seen in the UK.

It is only in the 'Other Services' sector that relatively speaking, the level of GVA in Wales exceeds that in the UK minus LSE area. The lowest comparative level of GVA of any of the sectors is in Insurance or Transport and Communications, for which the concentration of GVA in Wales is less than 60% of that in the UK minus LSE.

5.3 Wage Levels

There remains a large wage differential between Wales and the UK as a whole. Mobile Service Activity wages in Wales are 28% below the average for the UK, at £24,600 per annum compared to £34,100. This relates to the fact that wages in Mobile Service

Activities in Wales are just 7% higher than overall wages, whereas wages in Mobile Service Activities in the UK are 27% higher than overall wages.

Importantly, when occupational levels are considered, wages in Wales are over 95% of corresponding wages in the UK for Elementary, and Process and Plant occupations, but just 77% of UK wages for Senior and Manager roles. There is a skew in the distribution of jobs by occupation towards low value jobs in Wales. Wales not only has less senior jobs but they are lower paid – 29% of jobs in Wales are Manager, Senior Official or Professional roles, compared to 34% in the UK and 12% of jobs in Wales are Process and Plant Operatives, compared to 9% in the UK.

5.4 Wales Attractiveness to Mobile Service Activities

Wales is not a driver of the growth of UK services exports. Wales does export services, but at a lower proportion of GVA than the UK average. The highest levels of service exports are in Cultural Services (via royalty payments), Legal, Accounting & Management Services, R&D and Property & Business Services. However these represent less than 1% of UK exports in these areas.

Figure 5.2 – Estimated Exports of Services, 2001, Wales & UK, £millions

		Wales	UK
Business Services	Legal, Accounting, Management	15	3,265
	Advertising, Market Research	0	1,507
	Research & Development	10	2,523
	Property & Business Services	15	3,466
Telecommunications Services	Computer, Information	5	2,824
Technical Services	Architecture, Surveying, Construction	5	259
Cultural Services	Current account royalties	20	4,501
Trade Related Services	Commission from trade in goods	N/A	2,230
Other Services	Affiliated Services	10	1,434

Overall UK service exports are increasing, although unevenly. The sectors exhibiting the fastest growth in exports are computer and insurance related activities, both sectors in which Wales has made significant gains in employment over the past 5 years, but in which there is still a low concentration of jobs relative to the UK.

There are various reasons why Wales does not register as a major services exporter. Primarily because those companies that do export services are overwhelmingly headquartered in London and the South East so any Welsh contribution is generally accounted for at group level, which is at the headquarters address.

In terms of direct investment, Wales does figure. Based on project level data collected by OCO Consulting's Locomonitor database⁸ for the period 2002-2004, Wales attracted only 0.3% of global MSA projects while the UK as a whole attracts 7% (particularly to London and the South East).

⁸ Note that these international databases, as with those of the UK government, tend to group projects at a relatively high level. They do not differentiate within broad categories between projects that involve highly skilled activities and those that are more basic. This is particularly the case for Customer Support Centres and Shared Services Centres.

Given its population size, Wales has performed strongly and although the databases do not support qualitative analysis, the complexity of activities or the requirement for advanced skills associated with projects has been increasing over time.

The UK has been very successful in attracting the following types of projects:

- Headquarters (11.3% of global projects of this type);
- Technical Support Centre (9.8% of global projects of this type);
- Sales, Marketing and Support (7.6% of global projects of this type);
- Customer Support Centres (7.6% of global projects of this type); and
- Business Services (6.7% of global projects of this type).

Wales has been successful in the following areas:

- Shared Services Centres (20% of UK projects of this type),
- Customer Support Centres (17.6% of UK projects of this type),
- Testing (14.3% of UK projects of this type),
- R&D (8.5% of UK projects of this type), and
- Headquarters projects of UK projects of this type).

Looking at MSA investment trends in the UK in more detail, databases held by UK Trade & Investment⁹ show that in the five years from 1999-2000 and 2003-2004, of the 916 projects directly facilitated by Government, 18 were attributed to Wales.

In the UK there was an extreme clustering effect around London and the South East where London received 34% of projects and the South East attracting a further 25%. Beyond this there was not a great deal of variations between the regions except that there is a second tier including East of England, the North West, West Midlands, South West, North East and Scotland. Wales, the East Midlands, Yorkshire & Humber and Northern Ireland all attracted only 2% of the UK total. The actual pattern of investment tends to correspond quite closely to population centres- the greater the population, the greater the tendency to attract additional business/.

As the chart below shows, the pattern changes slightly when job numbers for MSA projects are considered:

⁹ Interpretation of this database requires caution because it is compiled from reports by regional agencies and Scotland and Wales with classification terminologies varying across agencies. Furthermore it appears that categorisation of projects has changed over time and classification terms have also evolved over the past 5 years.

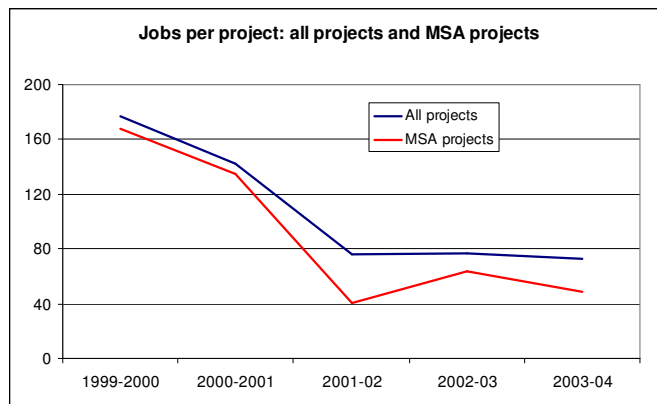
Figure 5.3: Ranking of UK Regions by MSA Projects, Jobs and Jobs per Project

Location Rank by Projects (1999/00- 2003/04)	Location Rank by Jobs Numbers (1999/00- 2003/04)	Location Rank by Number of Jobs per Project (1999/00- 2003/04)
1.London	1.South East	1. Wales
2.South East	2. London	2. East Midlands
3.East of England	3. North West	3. Scotland
4. North West	4. Scotland	4.Y'shire & Humber
5. West Midlands	5. North East	5.North West
6. North East	6. East Midlands	6.Northern Ireland
7.South West	7. Wales	7.North East
8. Scotland	8. West Midlands	8.South East
9.East Midlands	9. East of England	9.West Midlands
10.Wales	10. South West	10.South West
11.Y'shire & Humber	11. Y'shire & H	11.East of England
12.Northern Ireland	12.N. Ireland	12.London

Source: UKTI

For the UK, there was a trend across the five years for the number of jobs per project to decline. This marries with experiences across all investments but the decline was somewhat sharper for Mobile Service Activities projects. UKTI reported that a total of 84,829¹⁰ MSA jobs were created in the period. Of these some 4,957 or 5.8% were attracted to Wales. This is an average of 991 jobs per year to Wales.

Figure 5.4: Jobs per Project



Source: UKTI

The picture slightly changes when WDA data is analysed¹¹, 127 Mobile Service Activities projects were attracted to Wales in the five years to 2004, and 18,133 jobs were created or retained. The number of projects attracted per year has steadily increased from 17 in 1999-2000 to 33 in 2003-04. However the number of jobs attracted and created each year has

¹⁰ This excludes a number jobs which came to the UK but were not attributed to a specific UK region.

¹¹ WDA databases include a wider number of projects than UKTI's and also more detail about individual projects.

been falling. This is due to the changing nature of Customer Support Centres and Shared Services Centres projects.

The high number of jobs per project for Wales can be largely explained by Wales' strong performance in attracting Customer Support Centres and Shared Services Centres- which tend to have higher staff requirements than some other types of projects. In the past, this was because Wales, like Scotland (Glasgow), was attracting projects that required high volumes of low skilled staff. However this has now changed and projects of this type are becoming more rare. Similarly while projects are now smaller, they now have a range of skills requirements ranging from low skilled to those requiring tertiary education and professional qualifications.

In line with the overall results, the vast majority of shared services and contact centre type projects have originated in the UK: 55% from England and 7.5% from Scotland; 15% were from the US; and 12.5% from the Republic of Ireland. Switzerland, Norway, Germany and Australia were also investors. The majority of these projects are therefore 'nearshoring' projects and are nationally rather than globally mobile.

Call Centre, Customer Support Centres and Shared Services Centres investments have been key to Wales' overall investment performance over the past five years. They have provided the greatest number of projects (40 over the five years) as well as jobs (10,798 over the five years)¹².

Wales' performance in attracting MSA projects can be explained by several contributing factors:

Historically Wales has been underrepresented in services sector activities such as general business services, banking and finance as well as other knowledge economy sectors or activities. Other areas in the UK have more diversified portfolio of inward investors, from small-scale office projects to large headquarters and call centre projects.

Investment trends show a heavy bias towards services sector clustering with the South East and London attracting disproportionate headquarters investments.

Global MSA trends bear this out, if companies consider the UK as a market for mobile services investment, they tend to locate projects by default in London or the South East. To overcome this and get companies to consider alternative UK entry points or locations is extremely difficult. Foreign companies do not operate under conditions of perfect information and have limited knowledge of other business location in the UK. It also demonstrates the general risk aversion of companies when they enter mature markets such as the UK. Companies like the comfort of knowing that they are following well worn paths when it comes to international investment.

Similarly, a large proportion of projects are actually expansion projects and these almost always indicate an expansion of activity either at an existing location or at one geographically close. As such, traditional centres and those with a critical mass of existing companies tend to be seen as logical choices for new investment projects.

¹² WDA databases

There has also been an ongoing cluster effect occurring with new generation services (call centres, contact centres and shared services centres). The key area of exception here is in relation to call centre and shared services activities. Companies pursuing these activities are more likely than others to select locations outside London or the South East. The primary reason for this is due to their cost sensitivity in terms of wages. However, while these companies will locate outside the London-South East cluster, they also tend to locate in locations with a strong track record, company presence and work force experience and availability. These companies tend to locate in Scotland (especially Glasgow), Ireland (Dublin), the North (Manchester) and Wales (Cardiff, Swansea and Newport).

There has been a bias towards reinvestment and new investment going towards those 'early mover' locations such as Glasgow and Dublin where the earliest call centres were located. These areas have tended to capture a disproportionate amount of later investments. More recently, this status quo or herd phenomenon has broken down to a certain extent due to the need on one hand for companies to find ever more cost efficient or effective locations and also due to the 'tightness' in the labour markets in these locations as well as the competition between operators for the same pool of experienced labour.

While there is a clear clustering effect occurring in relation to the UK, there is also clustering occurring within Wales. Certain types of projects are disproportionately locating in specific centres.

A company looking to establish a regional headquarter in the UK will naturally think of London or the South East but projects have also gone to Cardiff. Where customer and supplier relationships need to be services face-to-face, companies will largely only consider Cardiff in Wales (or other locations with good M4 access) but where services can be digitalised (such as in shared services and contact centre operations), companies will also locate in areas such as Swansea and Newport where there is good skilled labour supply. The smaller or more cost sensitive operations of this type will consider other Welsh locations.

As the skills requirements for contact centres and shared services centres continue to rise, to continue to attract these type of projects a location not only needs to retain a comparative wage advantage but also to be able to provide healthy volumes of staff with the right type of skills.

Conclusions

In service activities in general, Cardiff is the primary location within Wales.

For Mobile Service Activities in particular, Wales has seen a higher rate of growth than other parts of the UK, but Wales still lags behind the UK in terms of the concentration of Mobile Service Activities in the economy. There are very few sectors within the Mobile Service Activities in Wales that have a higher concentration than the UK, or even the UK minus London and the South East.

Wages in Mobile Service Activity employment in Wales are lower than in the UK, and this is particularly pronounced in the higher-level occupations. Wales is trying to overcome the dual problems of lower wages by occupation, and a lower concentration of employment in higher-level occupations.

Compared to the UK, Wales performs best in Shared Service Centres, Customer Support Centres and Testing. Wales has historically attracted larger projects than the UK (in terms of jobs per project), particularly call centre projects, but there has been a decline in the number of these larger projects in recent years, and this has been reflected in the falling average size of projects in Wales. Wales has recently been successful in diversifying its appeal for investments and is now competing for complex shared services and other business activities requiring advanced skills.

6 Key Location Factors

The purpose of this chapter is to identify the key factors that influence location decisions for Mobile Service Activities. The next chapter then looks at Wales' competitive position in respect of these factors.

6.1 Location Factors

As a precursor to this discussion it is clear that investors will not consider locations without the threshold requirements of access to good information communication technologies, and an acceptable level of sound political and institutional governance. Although the importance or relevance of various factors will alter according to the type of activity and individual company, for a location to be attractive to Mobile Service Activities investors, it needs to have a competitive offer in respect to:

- The availability of productive and well-trained staff at competitive costs (not necessarily simply low cost but even with projects requiring highly skilled workers, relative salary costs can be an issue);
- Hiring and firing flexibility;
- Prestige or credibility of the location as a destination for relevant business activities;
- Presence of like or related firms, suppliers or customers as most companies do not like to be 'first movers' but the presence of like companies assures them that the workforce will have experience and that there is a viable pipeline of new entrants. This aspect can erode over time as more entrants to the market begin to cannibalise the same workforce, driving up costs;
- Business environment (taxation, regulation etc);
- A sound property ladder with a variety of property solution on offer. Property can be a 'deal breaker' since firms with Mobile Service Activities projects want to commence operations quickly. Unless the right properties are on the market, firms will seek other locations;
- Accessibility by air, rail or road. Depending on the project, factors such as international connectivity, proximity to major business centres or public transport and parking will be of significant importance;
- Quality of life is a factor but its significance can vary greatly. Factors relating to the profitability and business performance usually take precedence;
- Security in terms of company intellectual property, data security, asset security and ease of repatriation of profits.
- Incentives from grants to training support and other forms of assistance are also important and sometimes key;
- Ease of withdrawal from the market is also a factor. Companies are increasingly looking at exit strategies and asset disposal when they are evaluating locations for new investments. Companies realise that they need to react quickly to change in the market and are wary of locations that 'penalise' companies wanting to relocate from their markets.

6.2 Differing Priorities

The relative importance placed on individual factors changes depending on the type of activity or function or according to the individual investment drivers of the company in question. However, companies tend to place significant importance on the following factors according to the following broad project types (ICT and a general level of economic health is a given):

Corporate HQ and RHQ Functions	'Higher Value' Back Office Activities	'Lower Value' activities	R&D activities
•Prestige of location •Business environment (taxation, regulation etc) •Skills •Property •Accessibility (esp international air) •Presence of competitors, customers •Quality of life	Eg Technical Service Centres, Complex Shared Services, Admin Back Office •Skills (graduates and specialists) •Property •Accessibility •Sustainable business cluster for workforce & skills feed •Quality of life •Incentives (grants & training)	Eg call centres, data handling and repetitive processing activities •Wage costs •Labour pool •HR flexibility •Property availability (low cost, flexible premises and rental) •Presence of similar operations •Skills •Security (IP, data and repatriation of profits) •Incentives (Training)	•Specialist Skills •Academic Institutes •Research Centres •Taxation incentives •Suitable premises & infrastructure

6.3 Views of Companies Inside and Outside of Wales

Our survey of Welsh and UK investors confirmed that the drivers of investment and company needs are clear and simple: cost, labour pool, skills, infrastructure, accessibility (local, national, international, public transport and private transport), property and advice/support. Of these, cost, labour availability and skills availability are the primary issues for most investors. However, property can be a 'killer factor' i.e. if nothing suitable is readily available, the location will not be considered. Similarly, transport links can be a killer factor for some investors – the need for US air links being particularly crucial for certain companies. IT infrastructure is usually taken as a given.

For companies that came to Wales, the main motivating factors tended to be related to property, the labour market, and the availability of incentives, although they also rated quality of life and cost of living as important. They were likely to have sought advice from an agency, either for incentives or help in finding a location or property. They rated Wales highly as a location, both in a UK and global context.

Companies outside Wales generally rated labour market issues, transport links and access to a customer base as important. They were far less likely to have sought advice on their investment, and generally did not rate Wales highly as a UK or global business location.

Conclusion

There are some factors that must be in place before a location is even given consideration, and these include: accessibility and ICT; and political and institutional stability.

Different types of Mobile Service Activities will then have different priorities when choosing a location, but the key factors that are considered will be:

- Labour availability, at the appropriate skill level and competitive cost
- Flexibility in the labour market
- Prestige or credibility of the location
- Presence of similar firms
- A business friendly environment - taxation, regulation etc.
- Availability of property at the right cost and quality
- Accessibility by road, rail and air
- Quality of life
- Security in terms of IP, data security, asset security and ease of repatriating profits
- Financial incentives
- Ease of withdrawing from the market

7 Wales' Competitive Position

This chapter draws on the previous work, taking account of the factors that are attractive to Mobile Service Activities, and reviews Wales' competitiveness against these. This analysis is structured so that the strengths, weaknesses, opportunities and threats for Wales are brought out.

7.1 Wales' Historic Performance

Investment trends over the past five years show us that Wales has attracted a healthy number of projects, particularly given its small population. However it is not a globally significant or leading destination for Mobile Service Activities in general, nor in any particular sub-sector or activity. Wales does not attract a diverse portfolio of activities or types of investment. It primarily attracts call centre and customer service centres. In relation to other service activities, it appears that companies either:

- may not think of Wales when they consider location options or
- that they may consider Wales less attractive than alternative locations for their Mobile Service Activities projects.

In part however, the relatively weak performance of Wales is a result of some key factors:

- Firstly, Wales' historical lack of a major cluster of service sector activity. As the UK investment trends show, a large proportion of projects are actually expansion projects and these almost always indicate an expansion of activity either at an existing location or near to one. As such, traditional centres and those with a critical mass of existing companies tend to be favourite choices for new investment projects.
- Secondly, the fact that, where new types of mobile service sector activities have developed (such as the call centre and shared services industries), there is a bias towards reinvestment and new investment going towards those 'early mover' locations. Areas such as Glasgow and Dublin where the earliest call centres were located have tended to capture a disproportionate amount of later investments.
- However, this status quo or herd phenomenon has broken down to a certain extent due to the need on the one hand for companies to find ever more cost efficient or effective locations and also due to the 'tightness' in the labour markets in these locations, as well as the competition between operators for the same pool of experienced labour.
- And finally the interaction of the first two factors which results in an extreme bias towards and clustering around London and the South East. As global trends show, if companies consider the UK as a market for mobile services investment, they tend to locate projects by default in London or the South East. To overcome this and get companies to consider alternative UK entry points or locations is difficult.

This phenomenon can be partly explained by the fact that foreign companies do not operate under conditions of perfect information and have limited knowledge of other business location in the UK. It also demonstrates the general risk aversion of companies when they enter mature markets such as the UK. Companies like the comfort of knowing that they are following well-worn paths when it comes to international investment.

The key area of exception here is in relation to call centre and shared services activities. Companies pursuing these activities are more likely than others to select locations outside

London or the South East. The primary reason for this is due to their cost sensitivity in terms of wages. However, while these companies will locate outside the London-South East cluster, they also tend to locate in locations with a strong track record, company presence and work force experience and availability. These companies tend to locate in Scotland (especially Glasgow), Ireland (Dublin), the North (Manchester) and Wales (Cardiff).

According to AT Kearney, ‘offshore investors locate along the Celtic fringe’ and ‘locations such as Belfast and Glasgow offer well-educated labour forces, advanced and dependable infrastructures, and significantly lower-costs compared to London’. Wales was not specifically mentioned, however it does share many ‘Celtic fringe’ characteristics with Scotland and Northern Ireland.

Wales has a good offer in terms of the major factors sought by companies:

- easy access to markets;
- availability of qualified staff;
- quality of telecommunications;
- transport links to other cities;
- value for money and availability of offices;
- ease of travel within the city;
- the cost of staff; and
- the climate created by government.

However, areas that have the potential to erode Wales’ position relate to:

- the availability and supply of office stock;
- the availability and supply of staff;
- the ease of travel within the city (Cardiff); and
- the financial and language skills of the population.

7.2 Strengths of Wales

Costs

A relatively low cost environment is one of the key advantages that Wales can offer over competitor locations in the UK. Both wages and property costs are lower than in many other parts of the UK and are particularly low when compared to London and the South East. Living costs for employees are also favourable when compared to many other UK locations.

At an international level, Wales cannot compete on cost grounds with newer sources of competition, such as India and China. At present, the competition from such locations is predominantly for lower skill operations, such as call centres. However, this is changing over time with low cost locations beginning to compete at higher skill levels e.g. IT support services.

Quality of Life

Although a very subjective issue, Wales can offer a quality of life that will appeal to certain investors. Cardiff offers a good mix of city attractions without the congestion associated with many other city locations. It also offers easy access to a range of rural and coastal environments.

Universities

Wales has a range of good quality higher education institutions. This provides a good potential supply of well-qualified labour, if the graduates can be persuaded to remain in Wales. It also offers the opportunity for establishing good linkages between the universities and businesses, to ensure that graduates are acquiring a mix of skills appropriate to the needs of business.

Cultural Identity

Wales has a strong cultural identity, strengthened further by devolution. This creates a distinctive offer that might appeal to investors. However, it could also be seen as a potential weakness as certain investors might consider this to be disadvantageous in terms of attracting staff or doing business.

Positive Perceptions of Existing Investors

Existing investors were found to have a very positive image of Wales as a business location – much more positive than that of companies outside Wales. This suggests that there is a barrier to be overcome in terms of perceptions of those outside Wales as, once in Wales, these negative perceptions can be turned around.

7.3 Weaknesses of Wales

Property Availability

It has been suggested that there is a lack of available high quality office space in Cardiff, resulting in a lack of choice for investors and an inability to offer 'ready-made' solutions. As the availability of property can make or break a deal, this is a critical issue – if there is nothing immediately available, investors will go elsewhere. Initiatives such as WISP (Welsh Investment Strategic Partnership) have an important role to play, but are likely to benefit other parts of Wales, rather than Cardiff which, in reality, is the location that investors are most likely to first review if they are considering a Welsh location for Mobile Service Activities. If Cardiff can impress and attract, then other locations might be considered, either for the initial investment, or for subsequent investments. However, initial impressions of Cardiff will be critical in influencing perceptions of Wales in general.

Critical Mass

Partly due to its size, Wales lacks critical mass in any service sector activities, as highlighted by the data analysis. Although it has a relatively high representation in certain media activities, this is due to Welsh media services and so reflects a very specific set of skills – although an area of specialism, this is very small in scale at present (although potentially offers a base from which to grow). In other Mobile Service Activities areas, it

lags behind the rest of the UK and consultations have highlighted this as a major weakness in terms of attracting investors, who like to move to locations that have an established skills base that they can tap into, rather than being a 'first mover'. Clearly, it is difficult to create critical mass, but the importance of a cluster of activity suggests that a targeted strategy to focus on a narrower range of areas may be more successful than a more generic marketing strategy designed to appeal to a wider range of investors.

Labour Market Skills

There are two issues here: the size of the labour market, which is relatively small, and the lack of appropriate skills within that labour market. At the lower end of the skills spectrum, the size of the labour market in Wales sets an upper limit to the availability of staff – and this can be at too low a level for many investors, who are concerned about their ability to recruit the necessary volume of staff. Future requirements may also be a concern and it is known that major potential investments have disregarded Wales on the basis of concerns about their ability to recruit in sufficient volumes both now and in the future.

Unemployment, although low in historic terms, is higher in Wales than in some other parts of the UK, providing some potential comfort to investors seeking to recruit to lower skilled staff. Economic inactivity is also high which again provides an opportunity to expand the level of employment. However, for these potential employees, it will be important that they are 'job-ready' and have the basic skills that employers will expect in terms of literacy, numeracy, IT skills, communication skills etc.

For higher skilled jobs, an absolute lack of the appropriate skills is more likely to be the issue and this is potentially much harder to address, as it is impossible to predict with any accuracy where the demand will be coming from and so difficult to ensure the correct skills are available. Realistically, the most practical way to achieve this is through addressing the 'cluster' issue highlighted above – in attracting and developing recognised clusters of activity, the skills base will grow with the companies and thereby create an appropriately-skilled labour pool which in turn will attract further businesses in similar or related fields. Alongside any targeting of specific activities, it will be important to work with higher education institutions to ensure that courses reflect the current and potential needs of businesses as far as possible and to ensure that effective linkages between industry and academia are fostered to promote a collaborative and responsive approach to skills development.

Graduate Retention

Graduate retention was highlighted as an issue across a range of activities. Again, this is likely to in part reflect the limited range of job options available to graduates due to the lack of any significant clusters of activity. The presence of a range of job opportunities is critical to ensuring that graduates feel they can progress their careers in a particular location and this requires a variety of employers offering posts in similar fields, requiring similar qualifications. Again, focusing on one or more clusters of activity, rather than achieving a limited presence in a wide range of activities, will be beneficial.

Accessibility

Weaknesses in the accessibility of Wales have been highlighted at all levels: local, UK and international. At a local level, issues have been raised about the lack of parking

availability in central Cardiff, coupled with an inadequate public transport system. The SWITCH initiative in Swansea has been suggested as a good example of a joined up approach to align public transport provision in the city to the needs of businesses and their employees.

At a UK level, maintaining the twice-hourly train service between Cardiff and London is considered critical to maintaining the view of Cardiff as an accessible location. The Severn Bridge presents a perceptual as well as financial barrier in terms of road accessibility from the south of England which is difficult to overcome. Air links to other UK cities remain limited for business travellers.

At an international level, air links to key business destinations (in particular the US) are poor. Although Bristol airport is nearby and Heathrow is within a reasonable distance, perceptions of Wales as a business location will be influenced by those destinations that are served from Cardiff airport.

Profile, Image and Branding

Wales' profile as a business location remains weak, as highlighted by the company survey. Although those based in Wales gave positive ratings, these were markedly different from those of companies outside Wales. This is important as it suggests that the perceptions of those outside Wales are not reflected in the actual experiences of those choosing to locate in Wales. There is therefore an important message to be communicated more widely using the actual experiences of businesses based in Wales. Word-of-mouth is an important influence on perceptions and aftercare offered by public sector agencies will also help in ensuring positive perceptions are reinforced and communicated.

It is also important that branding and image messages portrayed by public sector agencies are consistent and mutually supportive – for example, there needs to be a clear distinction between images aimed at the tourist market (rural environment, isolation, low population density) and those aimed at inward investors (vibrant location, critical mass, accessible). It is important that marketing efforts are mutually supportive.

7.4 Opportunities for Wales

Offshoring

The increasing acceptance of offshoring as a business practice undoubtedly presents a threat to certain activities in Wales (and indeed the rest of the UK). Low value activities that are primarily driven by cost are likely to continue to be targets for offshoring to locations such as India and China, where the cost advantages are compelling. Call centres have been particularly affected by such trends, and are likely to continue to be subject to such influences. Service quality concerns will prevent some companies from offshoring, and call centres handling more complex enquiries are less likely to be offshored, so a market will remain, but it will be a reduced market offering less growth than in recent years.

However, the offshoring phenomenon is not all bad news for locations such as Wales. The shift in thinking has led companies to examine all business functions for potential cost savings, identifying any discrete functions that could be delivered from lower cost locations. In this respect, the principles behind offshoring can equally lead to relocation

activity within the UK. Wales, in a UK context, offers a relatively low cost location and so has benefited from such business restructuring – and will continue to do as long as it offers a cost advantage. As such, domestic relocation activity continues to offer major opportunities for Wales, which may help offset any negative effects of offshoring activities.

Outsourcing

Similarly, outsourcing presents opportunities for lower-cost locations such as Wales. In outsourcing discrete activities, a company is also often willing to consider remote delivery. In this context, cost is likely to be an important driver of the locational decision for the outsourced activity.

Increasing Costs and Saturation in Competitor Locations

Many ‘second tier’ locations that have competed successfully against Wales in the past are now becoming increasingly expensive in terms of wages and property (offices, housing). Labour market conditions are reasonably tight across the UK, but particularly so in popular business locations, such as Bristol. The resulting saturation and overheating in both labour markets and property markets is creating difficulties for companies (although over the longer-term, net inward migration and new development will help ease these problems). This presents an opportunity for locations in Wales, which can benefit from the increasing costs and saturation in competitor destinations – while these locations adjust to increased demand, Wales can attract companies on the basis of lower costs and better access to resources.

7.5 Threats

Offshoring and Outsourcing

As discussed above, offshoring and outsourcing present both opportunities and threats for Wales. Where international relocation is under consideration, cost is likely to be the main driver and, in such cases, Wales cannot compete with very low cost locations such as India and China.

Labour Market Saturation

While labour market saturation is less of a problem in Wales than in many other UK locations, that is not to say that the issue does not affect Wales. In Cardiff, unemployment is low by historic standards and the absolute scale of the labour market pool is relatively modest by comparison to other UK cities. As a result, larger operations have voiced concerns over their ability to recruit in sufficient numbers and have opted for alternative locations. The large pool of economically inactive presents an opportunity to seek to alleviate such problems, although this is complicated by the interaction of the benefits system with the labour market and the low levels of skills common in this group.

Skills Mismatch

As the UK economy develops and new growth activities emerge, new skill sets are required. Wales, with its historic dependence on traditional manufacturing, has faced major adjustment in recent decades in attempting to adapt to the new areas of economic activity, which are predominantly service sector activities. The adjustment process has not

been easy and the skills of the existing workforce have not been suited to the emerging service sector activities, requiring extensive re-skilling and up-skilling. This process of adjustment is ongoing and Wales still has some way to go before it is fully capitalising on the growth opportunities and high value activities that exist. As such, it is vital that skills are further developed and adapted to ensure that Wales can participate in the opportunities. Again, achieving critical mass in key activities will help achieve this as skills can grow and develop on the basis of emerging areas of real opportunity, rather than purely speculatively.

Conclusion

STRENGTHS	WEAKNESSES
• Costs • Quality of life • Universities • Cultural identity • Positive perceptions of existing investors	• Property availability • Critical mass • Labour market skills • Graduate retention • Accessibility • Profile/image/branding
OPPORTUNITIES	THREATS
• Offshoring • Outsourcing • Changing perceptions • Saturation in competitor locations	• Offshoring/outsourcing • Labour market saturation • Skills mismatch

8 Issues for the Future

This chapter identifies the issues that need to be addressed in order to improve Wales' competitive position to attract Mobile Service Activities.

Mobile Service Activities are a growing market and as Craig Barrett from Intel's Chief Executive stated, the potential for dislocation is huge:

"I don't think most people appreciate the magnitude of the change in the world's workforce. Over the next 10 years you are going to see major, major dislocation."¹³

Wales has profited from this growth but is not outperforming the global market in terms of Mobile Service Activities growth. Similarly, it has not, to date, emerged as a key location for specific higher value activities but is competing for low and mid range Mobile Service Activities projects. As such, Wales should continue to attract Mobile Service Activities projects (albeit that the projects are gradually becoming smaller) but unless a step-change is effected, Wales will remain dependent on global and UK Mobile Service Activities growth and will continue to be vulnerable to market shrinkage or a down-turn.

Key occupations which are most mobile (either at risk or internationally sought) are:

- call centre agents and customer care personnel,
- telephone sales people,
- software professionals,
- IT professionals,
- financial and accounting technicians,
- clerks and
- administrative workers in general.

Wales has a high proportion of employees in these types of positions, so although Wales possesses the skills that companies are seeking, these same jobs could be lost unless Wales is able to attract and develop complex activities requiring higher skills. A key message is that skills are key to attracting and retaining Mobile Service Activities. For Wales as with other locations, this means ongoing investment in human resources, whether by the public or private sector or the individual.

However, the skills and other advantages of Wales are not unique, so any market contraction is likely to cause serious dislocation in Wales, among some of the most vulnerable employee groups. Maintaining a strong inflow of skilled staff (through training and development) and managing workforce churn (through improved conditions and incentives for staff) will be key to retaining competitiveness and reducing the risk of company withdrawals.

¹³ Source: 'The Next Wave Of Offshoring', Robyn Meredith in Far Eastern Economic Review, March 2005.

8.1 Addressing Wales' Position

Despite some clear successes in attracting Mobile Service Activity projects, there is certainly more that can be done to help improve Wales' performance in this respect. For potential inward investors, Cardiff is inevitably going to be the main focus for any interest in Wales and it is therefore important that the offer in Cardiff is right – if Cardiff can impress, then other locations in Wales may be considered either as alternatives, or at a later date for expansion projects. In terms of developing the offer to inward investors, resources should therefore be targeted on Cardiff, as realistically this is where the activity is likely to be focused.

Wales has a number of benefits to offer inward investors, in particular a low cost location that offers a good quality of life and a reasonable level of accessibility within the UK. However, the sheer scale of the population presents some limitations and there are skills issues at all levels that have proved a deterrent. Property availability is also a major issue for Cardiff.

Clearly, the size of the population is not a factor that can be readily influenced. However, skills and property development could enhance the offer to investors, and alongside improved international transport links, help alter perceptions of Wales. Efforts to attract inward investment need to reflect the reality that most investors will consider Cardiff ahead of other locations in Wales. It is therefore important to concentrate on getting it right in Cardiff first, rather than spreading resources too thinly across all locations. These other locations will benefit if Cardiff's reputation is enhanced.

Evidence showed that the key challenge is in securing the first investment – once companies establish a base in Wales, they are highly likely to expand or make further investments. As such, the size of the initial investment is not critical – even a small investment could result in major impact over time. However, aftercare will be critical in ensuring that investors' needs are met, both initially and as they develop over time, and to ensure that positive messages are relayed back to the wider UK and international business community by these investors.

Building on the findings of the research underpinning this study, a range of issues for further scrutiny are highlighted. These issues are discussed under the following headings:

- Property
- Critical mass
- Accessibility
- Labour market
- Profile

8.2 Property

Quality and choice is essential to investors. Public-private partnerships to support speculative development in the city centre are recommended – property needs to be ready for immediate occupation if investors are to be secured. The International Financial Services District (IFSD) in Glasgow provides an example of a drive to create high quality space aimed at the requirements of a very specific set of investors. This £600m public-private sector partnership involves property development alongside urban regeneration (streetscaping, public realm investment). This type of initiative also targets a specific set

of activities, aiming to generate critical mass, which is another issue critical to Cardiff's performance.

8.3 Critical Mass

The lack of critical mass in any Mobile Service Activities is an identified weakness in Wales' offer. Rather than seeking to attract a broad spectrum of activities, targeting a limited range of specific Mobile Service Activities may deliver better results, encouraging a cluster to develop and building a reputation for particular activities – a specialist, rather than generalist approach which should help develop higher value-add activities within Wales.

Any such targeted initiative should complement wider economic development initiatives so that activities are complementary and mutually supporting. *A Winning Wales* and the National Economic Development Strategy have identified a range of priorities for sectoral/cluster development, and inward investment strategies should support these aims. In this respect, software development, finance and media are three Mobile Service Activities areas that might represent appropriate targets, building on the WDA's existing activities to attract such businesses, but allowing for greater focus on key skill areas within these broader headings to exploit and develop niche skill areas and create unique selling points for Wales.

8.4 Accessibility

Accessibility needs to be addressed at a number of levels – in terms of quality, quantity, destinations served and timings. At a local level, in view of restrictions on parking space at new developments, public transport linkages must be improved to ensure easy access for staff. At the UK level, the continued existence of the twice-hourly rail service between Cardiff and London is the major issue in terms of presenting Wales as a destination that can easily be reached from the capital. At international level, improved air linkages within the UK, to the EU and the US would assist in raising Cardiff's profile as a business destination and altering perceptions of peripherality. Both Scotland and Northern Ireland have introduced Route Development Funds specifically aimed at addressing similar concerns, with evidence of success in terms of expanded networks.

8.5 Labour Market

In respect of the labour market in Wales, there are two key issues: skills availability and the size of the labour market. In terms of skills development, partnerships between businesses and universities should be encouraged to ensure graduates have business-relevant skills and that courses adapt and develop to reflect changing needs. Again, such activity should reflect the targeted activities, with the aim of supporting cluster development. These linkages will also assist in supporting cluster development and encouraging higher value activities to grow and develop in Wales.

In terms of the scale of the labour force, a significant opportunity lies in bringing the economically inactive into the labour market. The Skills and Employment Action Plan is working to achieve improvements in economic activity rates across all labour market groups and this is to be encouraged in order to help stave off labour market saturation.

To date Wales has relied heavily on Regional Selective Assistance (RSA) to provide support to firms entering the market. When European guidelines are amended post-2006 for the period 2007-15, it is likely that Wales will have a reduced ability to draw upon RSA type support for firms.

If so, the ability to provide other forms of support will become increasingly important in order to attract and retain firms and jobs. Skills and training support has been identified by companies as being key.

However, from an employer perspective, there is a lack of flexibility, responsiveness and timeliness in respect to provision of training and skills support to firms.

Scotland appears to be at an advantage over Wales because its skills support and training and business support all falls within one portfolio - making it more responsive to employer needs and the needs of high value, innovative firms. In Wales skills training and support finding falls under Education Department and as such is not directly mandated to respond to market forces. Scotland is able to offer firms more flexibility in the support they provide because RSA and skills are managed under the portfolio.

Furthermore, in Wales, skills training provision is targeted at lower skill levels and at individuals' needs. This has been identified as an issue. Businesses are reporting that they want support that they can draw on as new technologies or processes emerge. Ironically, if Wales is to move up the value chain, it will need to keep pace or exceed industry skills demands – and one way of doing so is to offer training support to innovative, fast moving firms. This is not happening at present.

8.6 Profile

The profile of Wales – and particularly Cardiff – as a business destination needs to be enhanced. Perceptions of companies within Wales are good and this message needs to be disseminated effectively. Aftercare services for inward investors should ensure that positive perceptions are maintained over time. Moreover, branding messages must be consistent – tourism marketing will inevitably be selling different images from marketing to businesses, but the two messages must be distinct and not confusing or counter-productive to potential audiences.

Conclusion

There are some key areas in which Wales can improve its attractiveness for Mobile Service Activities in the future. These include:

- Ensuring the availability of a range of property that is attractive to the key sectors that Wales is trying to attract
- Focusing on a small number of key sectors and trying to build a reputation and critical mass in these
- Looking to improve accessibility by all forms of transport to Wales, and particularly to Cardiff. Internal accessibility also needs to be in place.
- Ensuring a good supply of appropriately skilled workers – mainly through training and workforce development.
- Alignment of the educational and skills systems to business needs will be helpful.
- Ensuring that the positive views of businesses within Wales are spread to those outside Wales.