

Notes for Slide Presentation: Clusters as an Economic and Workforce Development Tool

Slide 1: Clusters as an Economic and Workforce Development Tool

The purpose of this short talk is to begin to explain how cluster-based economic and workforce development not only makes sense for our region but for our organization. In this talk I will 1) offer a definition of a cluster, 2) discuss why we should focus on clusters 3) describe how clusters function including how they differ from sectors and consortia 4) offer some information about some suspected clusters in our region and 5) offer some steps I think we can take to use clusters to advance the overall goal of increasing wealth in our region. The most important takeaway from this event is that while clusters represent a new way to think about the economy using a cluster-based approach doesn't mean we have to give up what we have doing in the past if it is been effective. It is a way to increase our effectiveness while reaching more people, more firms, and more communities.

Slide #2: What is a Cluster

A cluster is basically a regional production system where relationships require more than can be conveyed by long range communications or transportation. In a cluster, geography remains important.

Clusters focus on relationships and concentrations. It's not about a bunch of things. It's about systems and creating synergy in your economy.

The application of a cluster strategy shifts the emphasis of economic development from place to industry and recognizes that a place that meets one businesses needs may not meet another's. It looks for a region's core competencies.

Slide 3: The Overriding goal

Clusters, if operating efficiently and effectively have been shown to help increase a region's wealth and productivity, the over-reaching goal of workforce and economic development.

Why Should We Focus on Clusters?

For years we have been taught to beware of being too specialized but there are inherent advantages in the specialization that clusters denotes.

1. Businesses intuitively understand externalities even if they don't know the term. Companies develop around competitors because they realize they're more likely to have their needs met where there is a collection of firms.
2. Clusters build on a region's strengths, whether its in local know how, research capacity, raw materials, or customers.
3. Targeting industry needs collectively is more efficient that individually.

4. Places have different assets, different histories, different dreams. Being able to stand out as different gives places an advantage.
5. Clusters can lead to diversification. It is also not safe to assume that by focusing on clusters you are limiting yourself to one set of industries. Often times the processes learned in one cluster can lead to the growth of new ones. For instance, in central Minnesota the polishing skills learned in the Granite industry were directly applied to the eyeglass industry, which is a growing sector in that region's economy.

Slide 4: Clusters Offer a Framework for . . .

Clusters are systems that provide a rationale for organizing companies and services, demand and supply. Rather than necessarily being a completely new initiative they are a way to better focus efforts aimed at reaching more companies and more communities in your region in a more efficient manner.

Slide 5: Firms Still Cluster

So why do firms cluster. The fonts on this slide are purposely different sizes to show that the reasons for clustering at one time.

At the core of clusters is that word some of you may have learned in Economics 101
EXTERNALITIES.

In early days of clusters, actions focused on the hard externalities, attracting suppliers, customers, machine builders, services. All this was with the idea that certain things bring advantage if they are closer to you.

But overnight delivery and the Internet altered the value of proximity. But lo and behold we discovered something that our friends in certain parts of Europe had known for years, access to knowledge is different that access to information. The tacit knowledge that is part of how a person performs his or her job and the in the routines of the business are not so easily shared on the Internet.

Much of that tacit knowledge is buried in the experience of the workforce. And the workforce is one of the few things that is almost exclusively local. It is not nearly as mobile as upper level managers and engineers. Talent is something that is not easily imported.

Slide 6: Businesses cluster around many common interests & needs

Too many analyses rely on standardized databases, which only capture primary products or services. And too often they use political boundaries when commerce doesn't stop at a county or even state border.

Companies cluster when there is some common interest or need. Most often a kind of product, like the hosiery industry in North Carolina. But not always, and therein lies the danger of relying on data.

Sometimes they cluster around a process, such as plastics. The three biggest users of plastic processes in Connecticut are BIC, Schick, and Lego. But none of these are plastics companies.

They can cluster around value chains such as the new automobile manufacturing cluster in Northern Alabama, a core group of technologies as in Rochester in New York. In New York City, the New Media Cluster encompasses a range of NAICS codes, indeed one of the biggest companies (DoubleClick) is actually listed as an advertising firm, but all the firms are in New York, in large part because they share a common customer.

Other ways industries cluster are found here including even the example of Spartanburg, South Carolina, where similar types of industrial machinery firms were drawn to and kept in the region because of the large presence of German language schools and emphasis on the German culture, something that came in handy when it came time to lure BMW.

The lesson is to look hard for inconspicuous clusters—especially at local level where data sources are particularly inadequate. Look for collection of industries that cross boundaries, use commonalities not captured by industry codes, and may include micro-enterprises.

Slide 7: A question of semantics?

For many of you, it may seem like clusters is just a warmed up discussion of something our community or our organization has been doing for years. We've talked about sectors aren't clusters just the same thing? And we already have a program to promote consortia, isn't that this thing? While sector based strategies can make sense and while consortia can be effective ways at serving clusters, they are not the same thing. Understanding the difference is critical before we can move forward.

Slide 8: Clusters vs. Sectors:

This slide can be walked through as the points are fairly self-explanatory. The important take away, is that clusters offer more of a systems approach that crosses industry. Clusters are not something that can be determined simply by running numbers from a database. It takes local, on the ground knowledge to understand and to begin to serve clusters.

Slide 9: Clusters vs. Consortia

This slide can be walked through, as the points are fairly self-explanatory. The important take-away is that consortia are not synonymous with clusters. Consortia have a closed membership, clusters do not. Consortia can be elements of a cluster-service plan, but they are not all the elements of a cluster.

Slide 10: The Importance of terminology

The differences in these types of efforts can be seen in examining a cluster many of you might be familiar with: the California wine industry. This slide shows a cluster map that shows the interrelationships between firms and institutions that make up a cluster. The suppliers, the producers are included. But also included are the educational institutions that provide research and the state institutions that can provide on the ground advice to companies. It is truly a system.

Slide 11: Terminology continued

Use slide to walk through.

Slide 12: Your region's clusters

In the slide, you may want to quickly mention what some of the clusters are in your region. You can use your own insight or some of the work done through oregonclusters.org to mention the strongest clusters in your region. This will allow your audience to see in concrete terms what you are talking about.

Slide 13: Giving Birth to Clusters

Businesses, not governments, choose to cluster. Choosing clusters is not picking winners and losers but recognizing core competencies of a region and building on strengths. Most clusters are a chance event. Serendipity. The roots of most clusters are:

- entrepreneurial and resourceful employees
- desperate employees (plant closings)
- natural resources
- customers (supply chains)
- technology base

But there is often a public sector catalyst that spurs growth. In a few instances, that catalyst is a great deal of money, like the state of Alabama that invested so heavily in building an auto cluster. But it could only even do that because it had the basic ingredients--a strong metal sector and technical colleges.

There are some very important interventions that an organization or group of organizations can take to make their region's clusters stronger.

Slide 14: What to Do

So what can your organization do? There are several roles that any organization can do:

- 1) Convening: Bringing firms together to help them collectively approach problems. Indeed this needs to be the first effort so you can understand the cluster you are trying to serve.

- 2) Focusing: Developing some expertise in a program that allows you to meet the needs of the cluster.
- 3) Innovating: Helping the cluster increase its ability to adapt to change and develop the niches necessary to thrive in today's economy.
- 4) Connecting: Making sure that you are not just meeting the needs of the firms but that you are allowing the community at large to benefit from the cluster. For instance, how can new immigrant groups enter into career paths in the cluster you are trying to serve.

Slide 15: What Can My Organization Do

Clusters don't have to be a brand new initiative they can be a way to more efficiently provide services. Here are three steps that we can take right now. Examples might focus on surveying firms (gauging firms needs), convening firms (engaging firms), mapping our cluster (understanding the cluster)

Slide 16: Takeaways

- 1) Clusters are a way not only for firms in your region to work together but for individuals to work together. Nothing is more frustrating to a firm than to have to go to multiple sources for technical assistance. By working together in a cluster approach, that problem can be alleviated.
- 2) Clusters don't have to be about your organization giving up something that is working. There is not one solution for every problem. Many cluster activities can be done in a way that won't distract from the day-to-day job of your organization's workers.
- 3) Clusters are nurtured not bred. They are a natural result of economic activity, and only occasionally a result of planned intervention.
- 4) Clusters as relationships We are often trained just to see the economy in terms of individual sectors or individual firms. Clusters are a way to see our economy as an inter-related system.