

Cluster Based Economic Development: A Comprehensive Strategy to Secure NW Ohio's Economic Future

Prepared By

Michael C. Carroll, Ph.D.
Bowling Green State University
Department of Economics
Center for Policy Analysis & Public
Service

Neil Reid, Ph.D.
University of Toledo
Department of Geography & Planning
Urban Affairs Center

September 2004

Given the global complexities of the 21st century economy, businesses are coming together to generate a competitive advantage. This phenomenon – clustering – can be seen around the world.

1. What are clusters and what is cluster based economic development?

Clusters are geographic concentrations of interconnected companies who work closely with each other, local suppliers, infrastructure providers, educational institutions, and other relevant agencies. Cluster-based development is based on the premise that a company (and their region) can realize higher levels of competitiveness when it looks beyond its own limited capacity and strategically partners with other companies and support institutions to address challenges and solve problems that it is unable to solve when operating as an isolated entity. It is an approach that encourages companies who compete to come together and identify ways in which they can cooperate to their mutual benefit. Additionally, public sector

entities such as economic development agencies and universities make themselves available to assist with collaborative problem solving and solution identification. A successful cluster-

Cluster-based approaches to economic development help companies identify new market opportunities, become aware of best practices, and become more innovative.

based economic development strategy will help northwest Ohio expand the number of high-paying jobs, increase the rate of new business formation, and enhance the innovative capacity of local industry. Furthermore, and perhaps most importantly, it will provide a platform for long-term, sustained, economic growth. It is a strategy that will maximize the investment returns of scarce public sector dollars.

Cluster-based economic development begins with the premise that a geographic region should identify a small number of industries to become the focal point for the region's development strategy. We have identified eight industrial sectors that we believe have the potential to be the cornerstone of northwest Ohio's cluster-based economic development strategy. These can be categorized into two broad areas. Cross-cutting clusters (e.g. transportation logistics) are those that provide critical support to the region's entire economic base. Industrial clusters on the other hand, are more focused on the production or delivery of a specific product or service (e.g. automotive). The eight clusters we identified are information technology, advanced engineering, transportation logistics, alternative energies, automotive, plastics, glass, and specialized agriculture. These clusters represent a good cross-section of northwest Ohio's industrial base. Represented are both large-scale and small-scale industries. They also include industries with strong historical ties to the region (glass) and emerging industries like alternative energy.

- | |
|--|
| <p style="text-align: center;">Proposed Clusters for NW Ohio</p> <p><i>Cross-cutting Clusters</i></p> <ul style="list-style-type: none">○ Information Technology○ Advanced Engineering○ Transportation Logistics○ Alternative Energies <p><i>Industrial Clusters</i></p> <ul style="list-style-type: none">○ Automotive○ Plastics○ Glass○ Specialized Agriculture |
|--|

Having identified these industry clusters, they must be supported in such a way that they have the opportunity to reach the cutting edge of competitiveness. Support for a cluster can be provided in a number of ways. Critical to the success of a cluster, a cluster champion must be identified at the outset. The cluster champion is the conduit for cluster activity. The champion must have an intimate knowledge of the industry and the relevant (potential) participants from within the region. Much of the cluster champion's time is spent in the field, getting to know individual companies, identifying collaborative projects, and mobilizing the relevant stakeholders. The cluster champion should also establish a forum through which key personnel from companies can come together to learn about industry best practices and, more importantly, to network with each other. We recently spent four days in Wolverhampton, England. We met with a number of their cluster strategists and champions. We discovered that one tactic the champion used was

to organize selected seminars on a variety of topics. Their recent seminar topics ranged from changes in employment law to rapid prototyping in the engineering and polymer industries. The champion is also the primary link with other clusters in the region. Networking is a key component of successful cluster-based economic development. Networking is the process through which relationships are built, trust is established, and new ideas are generated.

2. Why focus on clusters?

Clustering brings a variety of benefits to firms and the local economy. The Department of Trade and Industry in the UK, describes the benefits of cluster development as follows:

- Clusters increase levels of local expertise. This provides sourcing companies with a greater depth to their supply chain and allows for the potential of inter-firm learning and co-operation.
- Clusters give firms the ability to draw together complementary skills in order to bid for large contracts that as individual units they would be unable to successfully compete.
- Clusters allow for potential economies of scale to be realized by further specializing production within each firm, by joint purchasing of common raw materials to attract bulk discounts or by joint marketing.
- Clusters strengthen social and other informal links, leading to the creation of new ideas and new businesses.
- Clusters improve information flows within industries. For example, clusters may enable finance providers to judge who the good entrepreneurs are and business people to find who provides good support services.
- Clusters allow for the development of an infrastructure of professional, legal, financial and other specialist services.

We believe that cluster-based economic development represents an opportunity for industries in our region to reach unprecedented levels of competitiveness. If this approach is going to be successful, it will require fresh thinking on the part of both the

private and the public sectors. On the part of the private sector it will require a willingness of individual companies to establish strategic partnerships, joint ventures, and public-private partnerships. On the part of the public sector, it requires re-directing and leveraging some of its scarce resources (dollars and personnel) away from incentive-based and towards cluster-based economic development strategies.

The cluster-based approach provides regional solutions to many of northwest Ohio's economic challenges. By developing and nurturing existing business networks we grow and strengthen our economy and reduce our reliance on publicly funded abatement packages. We have a rich pool of knowledge and expertise already here in the region, which if harnessed strategically, will generate job growth and enhance the quality of life of all northwest Ohio residents. Successful cluster-based economic development does not make traditional incentives redundant. It will however open an additional avenue for economic enhancement.