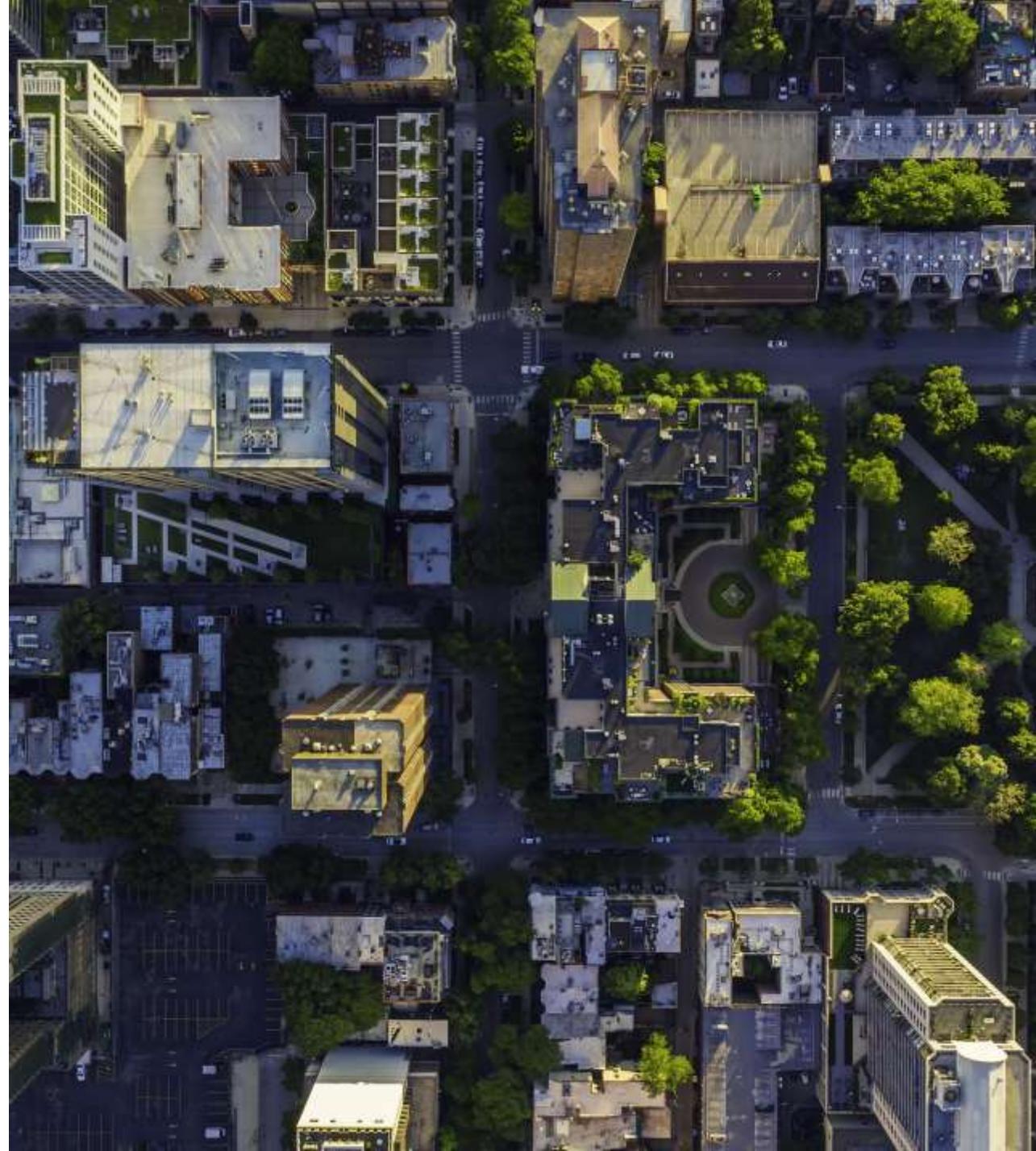# PRIORITIZING ASSISTANCE

Session 4 | Choosing among clusters to target economic development resources

# CLUSTER IDENTIFICATION

**Recognizing & prioritizing regional industry**

CENTER FOR CLUSTER DEVELOPMENT

# COURSE GOALS

1. Know how to identify clusters

2. Understand how to prioritize clusters for public support

3. Be prepared to lead your region in cluster identification and prioritization process

## HOW THE COURSE WAS BUILT

- o Experience working with cluster development professionals
- o Assessments of federal cluster funding
- o Reviews of academic literature and regional reports
- o Interviews with cluster leaders
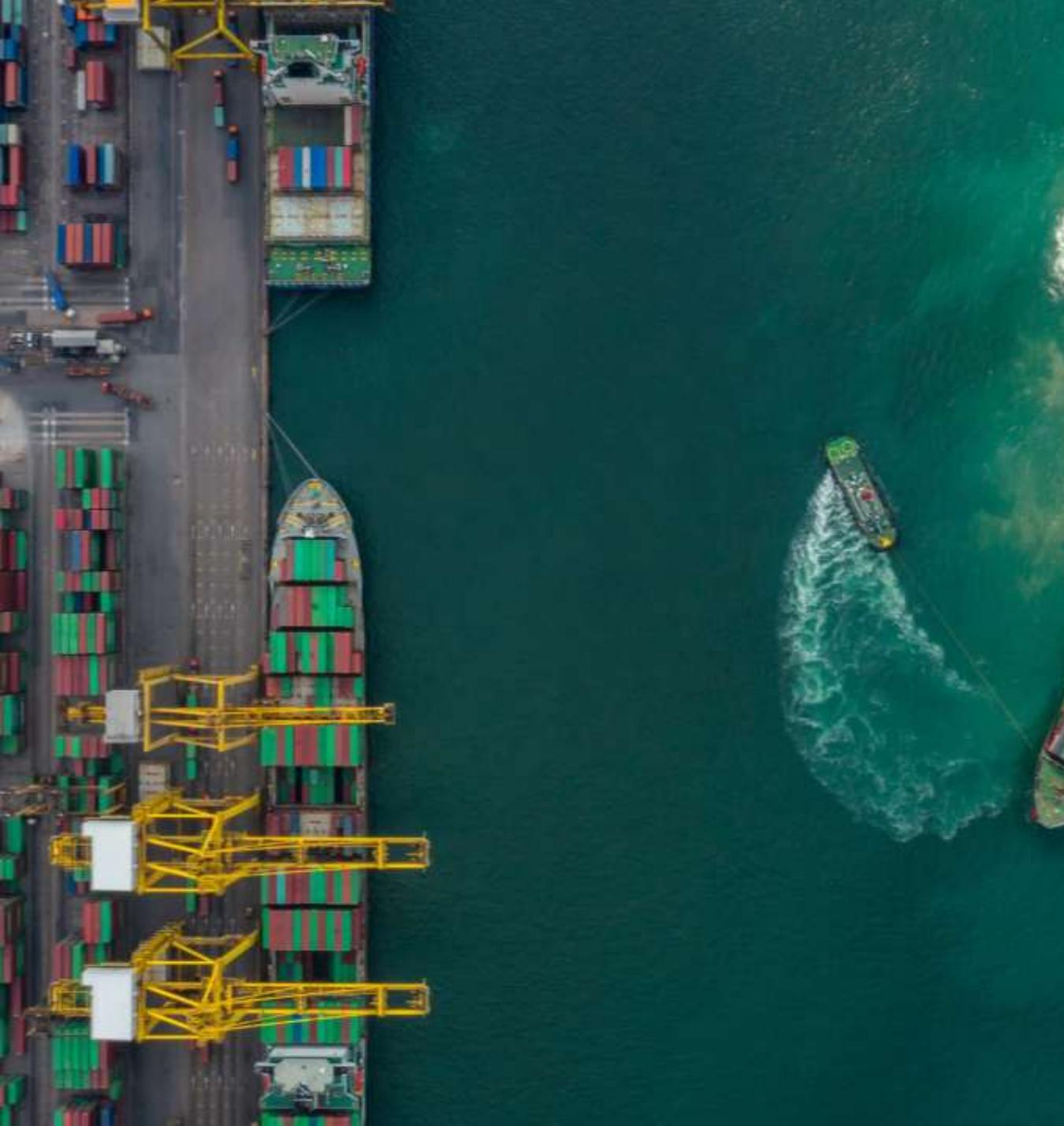- o Testing with two cohorts of regional practitioners

# COURSE SESSIONS

1. About Clusters

2. Location Quotient

3. Qualitative Assessment

4. Prioritizing Assistance

5. Beyond Identification

# PRIORITIZING ASSISTANCE

Session 4 | Choosing among clusters to target economic development resources

# DAY AGENDA

1. Why Prioritize?

2. Quality of Impacts

3. Capacity for Success

4. Regional History

5. Cautions for Priorities

# PRIORITIZING CLUSTERS

o Most clusters should receive basic support from local government/econ. dev.

- Preferencing these industries for recruitment & retention efforts

- Advancing reasonable policy changes to support these industries

- Facilitating industry collaboration with the education & workforce system

o The region may want to provide some clusters with greater assistance

- Resource restraints create opportunity costs for investing in even one cluster

- Need to determine if any clusters are appropriate to support and, if so, how to prioritize among them

# FACTORS IN PRIORITIZING CLUSTERS

o Several factors that can make help decide whether investing public resources in a cluster makes sense:

- Is your region's investment likely to strengthen the cluster?

- What impacts will a stronger cluster create for the region?

- How does a stronger cluster strengthen your regional identity?

o Ultimately, the region's own values and priorities will be the key driver of these decisions

# INFORMATION NEEDS FOR PRIORITIZATION

o Defining priorities can require a detailed understanding of the cluster's needs and potential economic impact

o This a comparable level of effort to developing a full cluster strategy

o Basically, you are moving forward with strategy work...

o ... while not yet committing to invest in cluster development until you have more info



Collect info

Refine your analysis

Before committing

# CLUSTER ANALYSIS

o To prioritize clusters most effectively, you need to know their gaps and barriers

- *Example*: Local metal manufacturers all project job growth, but we only train a few candidates per year

o Details are most helpful

- *Example*: Local metal manufacturers project 30 new jobs in next 3 years, but we train 5 per year locally

- These will be useful as you assess local capacity for success and potential impacts of support

# YOUR CLUSTER NEEDS

1. ID 1-3 clusters that your region could prioritize

   ➤ Use these for all of today's exercises

2. List up to 3 needs for each cluster
   (e.g., tech adoption, additional workers, supply chain costs)

   ➤ Try to make these as detailed as possible

3. If this is a challenge, note stakeholders, data sources that could provide you with these answers

# QUALITY OF IMPACTS & CAPACITY FOR SUCCESS

# QUALITY OF IMPACTS

Consider which cluster will produce the best outcomes when stronger:

Is this industry on the rise globally/nationally? Can we lead or ride this wave?

Can we fill the likely new jobs? How do wages compare to our average?

Will this cluster increase our exports out of the region and nation?

Would this cluster's growth improve demand in other local sectors?

Does the cluster make our region more resilient to economic shocks?

# EXAMPLE OF AN IMPACT COMPARISON MATRIX

| Impact Area | Current Regional Performance | Cluster A | Cluster B |
|---|---|---|---|
| Job creation | Current growth:<br>Educational attainment:<br>Avg. wage: | | |
| Economic resilience | GDP share from top sector:<br>Do any important local sectors behave counter-cyclically? | | |
| Exports | Top export sectors:<br>$ of annual exports: | | |
| Industry Trends | How are our top sectors tending? | | |
| Sector Connections | What local sectors feed each other (supply chain, related demand)? | | |

- o Identify the key economic factors for your region and impacts you want to achieve

- o Consider how you assess your region's current performance

- o Answer how success in each cluster would affect your region's performance on these factors

# KC & CLUSTER PRIORITIES

Kansas City's cluster selection process hit an impasse. Three sectors (advanced manufacturing, logistics, and biologics) each had merit and strong local support from different interests.

Stakeholders decided to pursue the cluster with the most promise for good jobs (defined here as paying enough to support a family of four) even without a college degree. Biologics scored the best on this metric. This recognition, alongside KC's high rates of biomedical research and drug production, unique assets, and history of industry organization, helped the region move forward with this cluster.

KC BioHub was designated as an EDA Tech Hub in 2023. The cluster has secured additional operations funding while the region has seen related companies locate/expand, increasing its relevant LQs.

# IMPACTS OF POTENTIAL CLUSTERS

1. Consider your region's 1-3 potential priority clusters

2. Jot down first-blush answers to these questions:

   - What is the share of above median paying jobs?

   - What proportion of sales would be exported (other regions or countries)?

   - What is the global outlook for this sector in 5, 10, 20 years?

   - What impact would cluster growth have on other industries in the region?

3. If you do not have real answers to these questions readily available, sketch a plan for how you can answer them (e.g., data sources, people to ask) and what other questions you would want to know.

# CAPACITY FOR SUCCESS

o Assess if you can execute a plan that is capable of succeeding

- *Type example*: The primary cluster need is connections to downstream buyers that aren't currently in your region. Can you move the needle on this?

- *Scale example*: An emerging cluster has identified a $50 million capital need, and your budget is $1 million. Is this a useful start? What leverage can you create?

o If not, the best option may be:

- Offering basic support to this cluster until capacity changes

- Setting a time- and/or cost-limited goal on a narrow initiative

# TULSA INNOVATION LABS (TIL)

In 2020, the George Kaiser Family Foundation launched TIL and charged it with building a "tech economy" in Tulsa. The org focused on five tech areas based on (a) local job access, (b) feasibility of impact, and (c) magnitude of impact.

To determine feasibility, TIL focused on being able to identify sector-relevant connections to: higher education, corporate R&D (Tulsa does not have an R1 university), workforce providers, and physical infrastructure.

TIL is now an EDA Tech Hub in advanced air mobility (e.g., drones), which is one of the sectors pursued by the region.



* Sources: Interview with Jennifer Hankins of TIL; GKFF site on TIL; TIL site; EDA Tech Hubs designation for Tulsa; image under CC license from Photog.

# CONSIDER LOCAL CAPACITY

1. What would be required to meet the top need for each potential cluster?

2. If you don't know, who needs to be contacted or what needs to be ID'd?

3. What is the potential budget for your cluster initiative? What support can you expect from state and local government? From nonprofits? From local industry? Other sources?

4. Can your potential budget address the cluster's need completely? If not, is it sufficient to be impactful?

# LOCAL HISTORY & CLUSTER PRIORITY

# REGIONAL HISTORY

o If you have an economic legacy that is meaningful to your community and companies – and is known outside of your region – that can translate into earlier traction

o If that legacy industry is still present, there may be a cluster strategy around tech adoption or related sectors

*Examples*:

o Akron, OH:
Rubber => Sustainable Polymers
o Milwaukee, WI:
Water => Water tech
o Portland, OR:
Logging => Prefab housing
o Wichita, KS:
Aerospace manufacturing =>
Advanced aerospace manufacturing

# WICHITA & A HISTORY OF AEROSPACE MANUFACTURING

Wichita's aerospace cluster began nearly 100 years ago. An early cluster initiative was Wichita State University's procurement in 1948 of what is now the Walter H. Beech Wind Tunnel. At the time, the equipment was too expensive for Beechcraft or Cessna, but neither wanted to share directly with a competitor. The university was a neutral convener and solved the problem. Today, Wichita State University continues to lead cluster development work for the region, and the institution's close ties to industry help it remain relevant. A recent example is the creation of a Maintenance, Repair, and Overhaul program that is one of only three in the world.





* Sources: Interview with WSU Associate VP Debbie Franklin; Beecraft's official history; Cessna's official history (archived); "75th Anniversary Celebration of Walter H. Beech Wind Tunnel" by WSU; Maintenance, Repair and Overhaul by WSU. Images courtesy of WSU Libraries, Special Collections and University Archives.

# NARRATIVES AND ECONOMIC DEVELOPMENT

o A region's ability to attract new companies and the economic opportunities its residents will think about first will be affected by perceptions people have about the region

- Example: What is the current national narrative about where manufacturing is growing and where it has left?

- Public perceptions may not always match the current reality

o These narratives are not determinative and are not the most important factor in deciding if/how a region should invest its funds in economic development

o But… leveraging the narrative (instead of ignoring or contradicting) can make for easier communications to activate citizens and market to outsiders

"**Effective local storytelling shapes public perception more than facts or data alone, because storytelling is an evolutionary survival mechanism. Our brains are wired to learn through narrative, treating stories as lived experiences to gain insight.**"

**- Chris Wink**

Wink, C. (2025, May 11). "The case for storytelling: Want your region's tech scene to grow? Start with a story, new data says." *Technical.ly*. Retrieved: https://technical.ly/civic-news/case-for-storytelling-tech-ecosystem-growth/.

# PUTTING IT TOGETHER: PRIORITIZATION IN CONTEXT

Atown has strong economic concentrations in metals manufacturing, dairy farming, auto repair, and paper mills and is interested in investing in cluster development.

Upon further research, Atown discovers the average auto repair salary in the region and state is below the regional average and rules out this sector. Paper mills are closing nationally and face an uncertain future.

Dairy farming and metals mfg. both produce strong economic impacts and are commonly associated with the region in the community and beyond.

After talking with local stakeholders, Atown learns the metals mfg. sector's biggest local need is skilled workers. This is a challenge across the region, which has low unemployment and high labor force participation. Dairy farmers in the region have fallen behind the latest production trends and need help identifying and financing automation.

Atown decides to invest in the dairy cluster. The region believes it can help address its main challenge, securing these well-paying jobs, and marketing its success as bringing Atown's dairy legacy into the future.

# CAUTIONS FOR PRIORITIES

# "BUT FOR" PRINCIPLE

o Public funds are best spent when creating desirable public benefits that would not exist "but for" the public expense

> ➤ In other words: Are the benefits worthwhile? Would they happen anyway?

o This is a frequent tension in economic development

- • Programs should aim to catalyze new activity, but broad requirements can result merely in adding money to otherwise likely investments

- • Programs sometimes fail to prioritize the production of public benefits, such as by providing incentives for creation of low-paying jobs or for development that exacerbates housing/transportation issues

# GETTING "BUT FOR" WRONG: OPPORTUNITY ZONES

o The Opportunity Zone tax incentive ignores this principle:

- Incentive is provided to all investors (who must have a large capital gain)

- Investments can be for any project that meets broad criteria

- Primary incentive only pays if the project makes money on its own

o The lack of intentionality is reflected in the program's outcomes:

- Only area of development with evidence of OZ impact is increased multi-family housing construction

- This was not even a potential impact considered until more than a year after it became law

# "BUT FOR" & CLUSTER DEVELOPMENT

o Cluster support can bleed into roles normally covered by dues-accepting trade associations

- *Common examples*: advocacy & marketing

- Assess what is normal for the industry in other regions

o May be appropriate to catalyze industry activity absent in your region

- Have a clear path and timeline to transition such activities

- *Examples*:

  ▪ Fund the one-time creation of a tourism directory

  ▪ Host an industry awards show, then transition to sponsor

o If your cluster's greatest needs fall into these categories, prioritizing it for public investment may not make sense

# FUNDER EXPECTATIONS

o Resist the urge to identify or select clusters based on funders

o Possible pitfalls when funders drive cluster selection

- Government's attempts to create clusters often fail*

- Most grants don't pay well enough to be worthwhile without traction

- Failure can create a vicious cycle for regional economic development funding

o ONLY consider funder preference if you are confident the region has a cluster and the support, resources to merit that prioritization

\* For a discussion of the challenges governments face when trying to create tech clusters, see Josh Lerner's 2009 _Boulevard of Broken Dreams_.

# PRIORITIZING ASSISTANCE TAKEAWAYS

o When resources are limited, regions should prioritize clusters that:

- Are most likely to yield your stakeholders' desired outcomes

- Have needs that can appropriately assisted by public resources

- Can be supported successfully with expected approaches and capacity

o Cluster selection or prioritization information may require collecting new information about the industries

o Regional history (and its contribution to your regional narrative) can be a meaningful factor in cluster selection

o Be cautious about letting cluster funders affect this stage of the process

# NEXT SESSION: BEYOND IDENTIFICATION

**TOPICS WE WILL COVER**

o Strategy & initiative design

o Creating a cluster org.

o Measurement & evaluation

o Evolving your approach

**PREP TO MAXIMIZE YOUR TIME**

o Begin or refine the cluster identification process for your region

# FEEDBACK SURVEY

https://forms.gle/8bwLbBwJwBiFYBnd9

# AUTHOR & ACKNOWLEDGEMENTS

EXCEL REGIONAL SOLUTIONS