



This brief presentation provides an overview of clusters and why they matter to businesses, service providers, support institutions – and to the public sector.

A cluster is simply.....

## People working together

A cluster consists of geographically co-located (local or regional) groups of interconnected companies, suppliers, service providers, and associated institutions.

When firms work together, they share resources, which saves money and decreases risk in new ventures; this efficiency can help them innovate to export goods and services. Each individual player is optimizing their own objectives and benefits against the interests of others – they are collaborating to compete.

At its core, a cluster is: groups of people working together to benefit the institutions and sectors which they represent.

- firms are groups of business owners and skilled employees
- academia comprised of researchers, professors, and students
- service providers fulfilling their mandate
- government are comprised of elected officials and public sector staff representing the interests of the public

The result is a high functioning economic ecosystem.

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The tendency of businesses to want to be near like and complementary companies – including competitors - has been going on for as long as humans have made things. Clusters bring together firms that compete and cooperate at the same time, building bridges in order to enhance their own competitiveness.

It is important to realize what a cluster is at its core: and that is groups of people working together to benefit the institutions and sectors which they represent. Firms are groups of business owners and skilled employees; academia is comprised of researchers, professors, and students; service providers are focused on fulfilling their mandate and government comprises elected officials and public sector staff representing the interests of the public. **The result is a high functioning economic ecosystem.**

Given Saskatchewan's population relative to its size, our businesses and communities need to collaborate locally, regionally and globally to ensure they remain productive and profitable.

# Where are they?

- Clusters do not occur randomly, nor can they be created from nothing.
- They draw from local and regional strengths, such as natural resources and specialized knowledge.
- Clusters take time to organize, formalize, and begin working together. Patience, the right ingredients, and the will to work together are the seeds needed to grow a strong cluster.

## Established Clusters

*There is evidence of formal or informal collaboration and interaction among firms and support institutions.*

## Emerging Clusters

*Can be detected using quantitative and qualitative data (business interviews). Firm interactions are not as developed as existing clusters. Industrial and geographical strengths may not be as detectable without a direct assessment of industry players and support institutions.*

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**Established Clusters** are those with evidence of formal or informal collaboration and interaction among firms and support institutions.

**Emerging Clusters** can be detected using quantitative and qualitative data such as stakeholder interviews. Firm interactions are not as developed as existing clusters. Industrial and geographical strengths may not be as detectable without a direct assessment of industry players and support institutions.

There may also be what is referred to as “**latent clusters**” in our communities and regions. This is the presence of a critical mass of firms in related industries who could benefit from a cluster -- but the linkages between them is not strong enough to leverage their geographic proximity – this may be resulting from lack of trust and sharing.

## Shared Benefits

- Economies of scale in marketing and purchasing of raw materials
- Affordable access to new machinery and equipment
- Workforce attraction & retention
- Access to specialized training
- Sourcing capital equipment together for quality & price advantages
- Mutual problem solving and sharing of best practices – policy advocacy
- Infrastructure development e.g: common effluent treatment & disposal or R&D and testing laboratory

*What successful clusters share is the fact that they have leveraged their own local advantages over time.*

*While clusters may share industrial linkages and other similarities, no two clusters are identical, in the same way that no two regions' policies, environments, histories, demographics, or economies are the same. .*

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In a high performing cluster, **participating businesses** are reaping the benefits of economies of scale in areas such as: marketing and purchasing of raw materials

They capitalize on joint workforce attraction & retention strategies and access to specialized training.

Sourcing capital equipment together for quality & price advantages is another area of opportunity. While somewhat more complicated, there is also potential for infrastructure development such as common effluent treatment & disposal facilities or a testing laboratory for joint research and development.

Mutual problem solving and sharing of best practices and advocating for policy changes also occurs in a well functioning cluster.

**Institutions and the public sector benefit from fulfilling their role in supporting a vibrant economic ecosystem.**





- Once a cluster develops a critical mass of participants they may find that they want to organize themselves to formalize their relationships. The formation of a cluster organization will offer support for the cluster and ideally provide a manager who can:
  - ⇒ coordinate existing assets
  - ⇒ ensure a collaborative environment
  - ⇒ manage programs and initiatives to fill gaps
  - ⇒ strengthen and champion the case for the cluster locally and in targeted markets
- For smaller clusters where there are a few critical actors, they may simply want to hire a cluster manager to help them liaise between themselves until they need a larger organization.
- Membership fees are the largest income source for a cluster organization and on average account for 26 percent of a cluster's revenue. This is followed by sales of services, federal funding, regional funding intergovernmental bodies and other sources.

## Form follows function...

A cluster will adopt a governance model best suited to the dynamics of its participants.

Here are several models to consider.

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### CLUSTER NETWORKS

The cluster network model generally operates more like a business with a board of directors. These networks work well for smaller, regional clusters, as they focus on building their strengths.

### REGIONAL CLUSTER ASSOCIATIONS

Most board members who form the governance structure of this cluster model are from the private sector, and come with strong regional development strategies.

### CLUSTER HUB

One organization serves as the clearly designated hub and driver of the cluster. The boards of these organizations often include leaders of the private, public, academic, and not-for-profit sectors that serve as members or strong supporters.

### INNOVATION NETWORKS

Typically broader than specific clusters, they focus on creating and supporting innovation between clusters. Their main functions are to strengthen the research capabilities of SMEs and bridge the commercialization gap between academia and business. These are often located at post-secondary research facilities with a steering committee that includes industry representation.

A cluster organization will adopt a governance model based on the cluster it represents. Here are a few models to consider.

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### Rural Specialty Food Cluster: Savour Muskoka

The District Municipality of Muskoka is a rural area in central Ontario that has built a strong reputation as a place of culinary excellence. Savour Muskoka, the cluster organization that oversees the region's food cluster, used a bottom-up approach mainly led and initiated by private firms. Despite lacking agricultural farmland and being somewhat geographically isolated in relation to the rest of Ontario, Savour Muskoka has leveraged its assets to develop a specialty food cluster.

The area has a strong tourism industry, because of its picturesque landscapes, complete with resorts, theatres, tours, festivals, and other leisure activities. By capitalizing on the quaintness of this area, Savour Muskoka has used its assets to create a strong, recognizable brand, in the form of a food cluster with 143 members including chefs, farmers, artisans, and restaurants.



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Many of us have heard of the “superclusters’ which were facilitated by the Government of Canada several years ago. **A supercluster is a cluster of clusters** and we now see inter-provincial superclusters such as the Digital Technology cluster and the Protein Cluster.

Here is the first of two examples of smaller scale clusters that are relevant to the scale of our market in Saskatchewan.

The first is a rural food cluster in Ontario -----read slide.

## Wood Manufacturing Cluster of Ontario

Back in 2009, seven wood manufacturing companies in the Grey-Bruce, Huron Perth region of Ontario were feeling the pinch of an economic recession, and the pressure of foreign imports. Even though some were competitors and had been for many years, collectively, they needed to do something that could be mutually beneficial for all of them, to help them through this difficult time. They started to talk to each other, invited each other into their factories to see their operations. After exchanging some ideas and best practices, they quickly realized they all shared the same challenges and opportunities. Having learned about industry-led clusters in Europe, they engaged in research and training and set about starting one.

By November of 2012 the non-profit cluster organization had grown to about 25 member companies and hired a cluster manager. Gradually, interest grew among wood manufacturing companies from all over southwestern Ontario and as of 2021, they have over 120 members.

*"We've learned things that we likely wouldn't have picked up anywhere else, and the networking has been invaluable. They have created a sense of "community" among Ontario woodworkers, and that's a good thing for all of us."*



*"WMCO has advocated for our sector, through numerous initiatives to help our company and help its employees. They have provided training sector related programs and events for my staff. Since joining the group, we have doubled our work force, increased our sales, and are constantly learning a new way to manufacture high end products right here in Southern Ontario."*

*"We enjoy being a part of this cluster organization because they are helpful with the growth of our company. We Are Happy."*

## Additional Comments

This second is a manufacturing sector example also from Ontario. The founding cluster members were able to hire a cluster manager after 3 years of forming and they gradually evolved their scope from serving a small regional market of 200 km to encompass a good portion of Ontario.

Elaborate on this example – demonstrated value via member testimonials.





#### **For community growth and sustainability**

- Cluster development encourages firms and institutions to undertake joint actions that could ultimately yield benefits not only to the cluster as a whole, but to the communities in which they are embedded.
- Community and business are interdependent. It is about building on the region's fundamental strengths.

#### **For business retention & expansion**

- Firms in clusters are more competitive than similar firms located outside clusters. Bottlenecks that often limit the growth of small businesses are removed, triggering socio-economic and often environmental performance improvements.

#### **For vibrant local and regional economies**

- Clusters have been shown to generate more jobs & higher wages
  - Better productivity
  - More business start-ups and business retention
  - Capacity to attract more inward investment and skilled workforce
  - Higher levels of innovation overall

The most important reason to focus on clusters is **because they are there**. When the private sector thrives, benefit and opportunities accrue to the entire local and regional population.

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#### **For Business Retention & Expansion**

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#### **For Vibrant Local and Regional Economies**

Clusters have been shown to generate more jobs & higher wages along with better productivity. There is evidence of more business start-ups and successful retention of businesses in the region. There is more capacity to attract inward investment and a skilled workforce. Overall, higher levels of innovation are generally prevalent as compared to regions where businesses and support organizations are working independently.

# What is cluster development?



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*Clusters are a natural occurrence, the intervention is **cluster development** ... Cluster Navigators*

**Cluster development refers to working with established and emerging industry clusters with the intent of enhancing business growth, innovation and economic performance.**

*The opportunity to enhance **existing economic activity** via fostering increased competitiveness, innovation and business expansion is often overlooked by leaders and economic development professionals. However, it is much easier (and less costly) to work with existing industry than to try and attract new businesses to the community or region.*

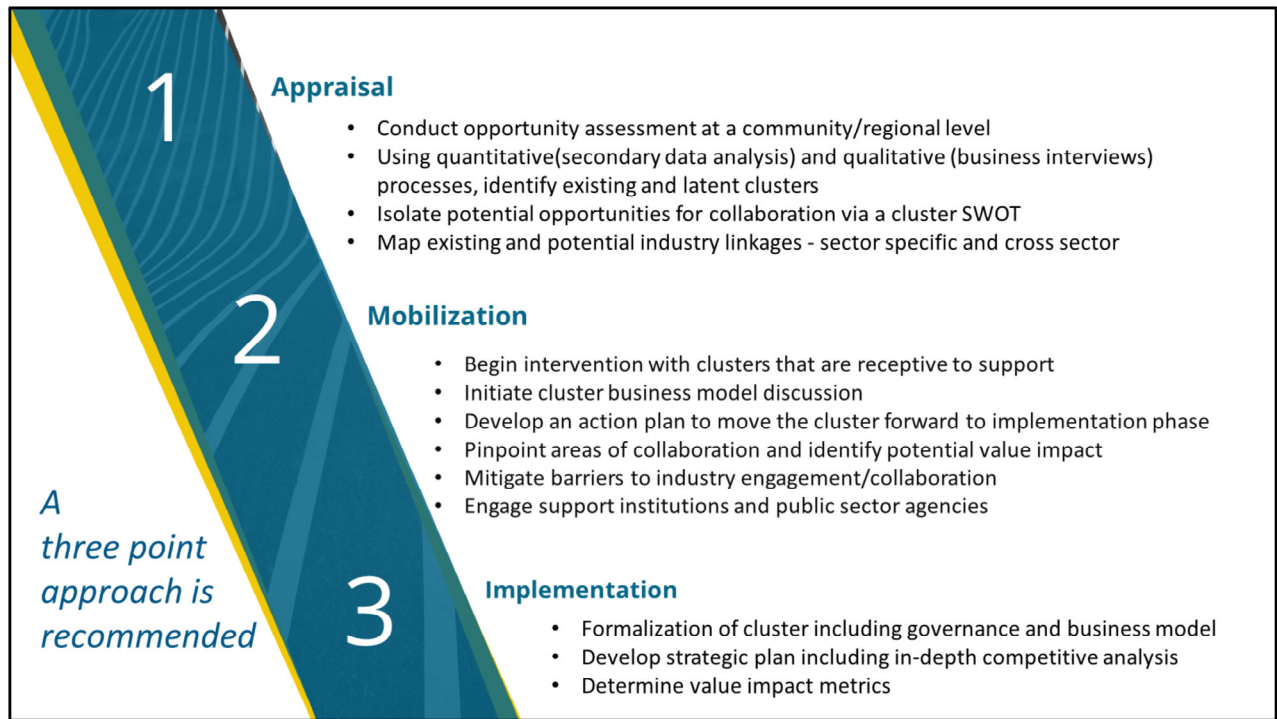
**Who undertakes cluster development?** *It can be led by coalitions of businesses and organizations within the ecosystem as an economic development initiative. Cluster firms may take responsibility for this themselves and hire an external consultant.*

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As leaders and professionals, we have an opportunity to evaluate and develop initiatives that help firms within clusters become more competitive and spur growth which benefits our communities and residents.



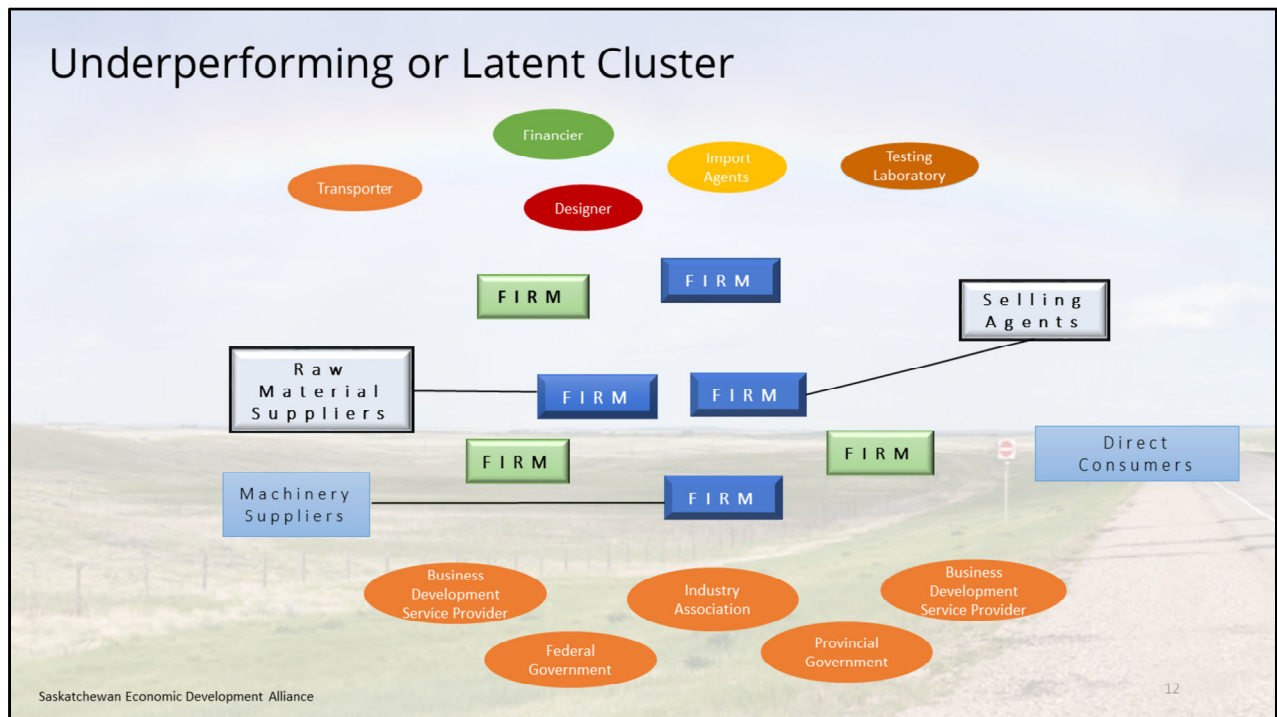
Successful cluster development begins with a combination of data and qualitative analysis to identify and prioritize cluster opportunities. Clusters are rarely created from scratch, which means that cluster identification and assessment must take place.

The Saskatchewan Economic Development Alliance suggested a three point approach to launch the process.

In phase 1, APPRAISAL – a market assessment is conducted using quantitative and qualitative processes to identify existing and latent clusters. This is followed by a SWOT analysis to isolate existing gaps, bottlenecks and potential opportunities for collaboration. For example, there could be opportunities to accelerate labour recruitment or seek capital for expansion or mitigate constraints in reaching external markets.

In Phase 2, MOBILIZATION, we begin intervention with clusters that are receptive to support by looking at the cluster business model and action plan to move the cluster forward. At this stage we must pinpoint areas of collaboration and identify potential value impact to the businesses and mitigate barriers to industry engagement. The roles and contributions of support institutions and public sector agencies are sought out during phase 2.

By phase 3 IMPLEMENTATION, cluster participants should be ready for the formalization of the cluster including a governance and business model along with an associated strategic plan.



Here is an example of a latent or underperforming cluster. **It is based in the region, but is not PART of the region.**

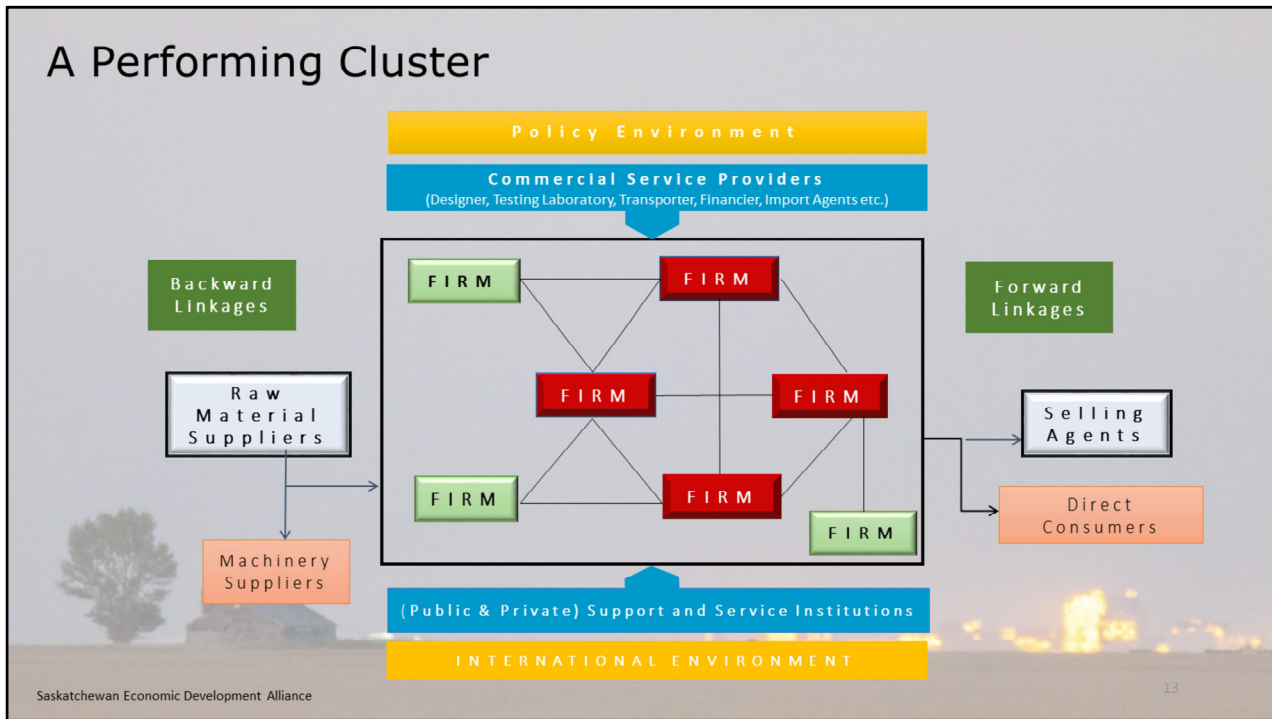
We see clumps of stand-alone firms and a clutter of supporting players working independently. Access to suppliers and markets is not being leveraged.

Firms and support organizations are geographically close, but not socially close. This scenario is likely characterized by a lack of personal networks and a low trust environment.

This scenario sets the stage for opportunistic behavior that may not benefit the ecosystem as a whole. There may be little investment in new product development, new technologies or training. Likely a 'rear view mirror' orientation on the part of the ecosystem in general.

Competitively – individual businesses and the economy as a whole – is likely not as strong as other regions and their respective industry players.





In this example of a high performing cluster, we can see links between firms are both vertical (through buying and selling chains), and horizontal (through complementary products and services, the use of similar specialized inputs, technologies or institutions, and other linkages). Most of these linkages involve social relationships. **This cluster is PART OF THE REGION.**

It is characterized by high levels of trust, shared norms and a common language. Inter-firm relations favour information spillovers, and shared knowledge.

There is a co-opetition culture with simultaneous competition & collaboration between firms. Core/anchor firms acting as a magnet, attracting allies, rivals and specialized support firms and a continual spawning of new firms.

Firm strategies are continually evolving. Cluster players are looking forwards and learning-by-doing.

## A mission oriented approach...

Today, most regions face narrower pathways to success and more limited investment capabilities, reinforcing the importance of understanding whether cluster dynamics are viable.

Any cluster-based economic development strategy must be able to answer these basic questions:

- What is the opportunity?
- What is constraining that opportunity?
- Does it make sense to address constraints collaboratively?

These constraints and opportunities could apply to our economic ecosystem overall, but may be more efficiently addressed by targeting a group of firms with uniquely shared challenges and prospects – and aligning support institutions and public sector players to achieve a common goal.

By engaging all relevant players, we can adopt a mission focused approach to community and business resilience in Saskatchewan.

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Today, most regions face narrower pathways to success and more limited investment capabilities, reinforcing the importance of understanding whether cluster dynamics are viable and making the corresponding investment in time and resources.

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Material for this presentation was sourced from:

- Cluster Navigators
- Brookings Institution
- Canadian Cluster Handbook