Minneapolis-St. Paul Regional Cluster Initiative

providing a framework for Minnesota’s economic competitiveness
Acknowledgments

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Minneapolis-St. Paul Regional Cluster Initiative

Providing a Framework for Minnesota’s Economic Competitiveness

Prepared for the Humphrey School of Public Affairs at the University of Minnesota by:
Lee W. Munnich Jr., L. Burke Murphy, Megan L. Roberts, and Jennifer Schuler

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Executive Summary

Minneapolis-St. Paul (MSP) in Minnesota is the 13th largest metropolitan region in the nation, with a per capita personal income level that is 17 percent higher than the U.S. average as of 2010. Its economy is based on a broad set of traded industry clusters in Medical Devices, Publishing and Printing, Food Processing, Financial Services, and Advanced Manufacturing. The MSP economy also includes an unusually large concentration of corporate headquarters such as 3M, General Mills, Target, UnitedHealth Group, and Medtronic. MSP also benefits from strong ties between urban and rural clusters. For example, farm products and food production from companies such as Hormel, Schwan Foods, and Crystal Sugar in rural Minnesota are direct inputs for companies such as General Mills, Cargill, and SUPERVALU in MSP. However, during the 2000s Minnesota and MSP saw their economic dynamism fall behind their U.S. peers. One key reason identified was a relative erosion of educational preparedness and workforce skills, strengths that had been driving the economy in the past.

This Policy and Impact Study is the second in a series of four developed as part of the U.S. Cluster Mapping Project, an effort supported by the U.S. Economic Development Administration. The report illustrates how MSP has benefited from applying a cluster approach as a conceptual framework for diagnosing the regional economy and as a platform for joint action to address the challenges identified. The cluster framework provided public and private regional leaders with a common language for understanding regional competitiveness, significantly enhancing the effectiveness of their dialogue. By organizing the policy discussion around clusters, the programs that were developed became targeted enough to have an effect on the issues that mattered for MSP. The cluster-based approach was first applied in workforce development, but over time has been used in other policy areas as well, including in the creation of a broader regional economic development strategy.

Minneapolis-St. Paul’s Economic Challenges and Cluster-Based Response

Minnesota’s highly educated workforce and a commitment to civic and corporate engagement are traditional strengths that have enabled the state to prosper. In 1971, Minnesota’s political leaders adopted an innovative system for funding K-12 education. Dubbed the “Minnesota Miracle,” it assured equitable funding of education throughout the state, while reducing reliance on the local property tax. Minnesota’s economy benefited from the state’s investment in education at all levels. However, in the 1990s and 2000s, regional and state growth rates slowed and national rankings for wages and educational attainment fell.

In response to these trends, the Itasca Project was created in 2004 as a business-led civic alliance of
political and educational leaders to develop and advocate strategies in transportation, economic development, and higher education. The mayors in MSP also formed their own regional partnership in 2005 in conjunction with the Urban Land Institute Minnesota (ULI). The resulting Regional Council of Mayors (RCM) promoted an integrated regional strategy for fostering economic development and for overcoming traditional patterns of competition within the region. By 2008, the economic downturn was driving unemployment rates up. The mayors were looking for a collaborative framework that would effectively focus on the regional economies’ strengths, challenges, opportunities, and threats, as well as provide a lens to support sustainable job growth.

In the spring of 2009, the RCM, the State and Local Policy Program (SLPP) of the Hubert H. Humphrey School of Public Affairs at the University of Minnesota (Humphrey School), and the Minnesota Department of Employment and Economic Development (DEED) developed a regional strategy for workforce development. The RCM then adopted this strategy based on an industry cluster approach, leveraging funding from DEED. Around the same time, MSP regional leaders worked with the Brookings Institution to design a cluster-based Metropolitan Business Plan (MBP) for upgrading competitiveness.

Based on these first efforts, the RCM, DEED, and the Humphrey School founded the Regional Cluster Initiative (the RCI) in 2009 as a central platform to apply the cluster concept in a broader set of issues important to the competitiveness of the region. Since then, the cluster approach has been increasingly used as a framework for diagnosing the economic competitiveness of Minnesota and MSP. Working with the mayors and the newly formed GREATER MSP (a regional economic development partnership launched in 2011 to stimulate the economic growth and prosperity of the 13-county region) graduate student teams at the Humphrey School produced targeted cluster studies, each with recommendations for developing action plans to upgrade the region’s performance.

The Emergence of the Cluster Approach: From Common Language to Common Action

An important foundation for the use of a cluster-based economic development approach in MSP was set in 2006 when DEED funded a program for the Humphrey School to provide training on clusters for its staff. The Humphrey School executive development program helped shift the thinking of Minnesota’s workforce development agency from a supply-side to a demand-driven approach to serving business and job seekers. The 110 participants included DEED workforce development leadership, regional stakeholders in workforce development, as well as representatives from Minnesota State College and Universities (MnSCU), who together produced 22 cluster studies. The cluster training and studies contributed to a clearer understanding of the strength of regional economies and the
interdependence of Minnesota’s rural and urban regions.

One of these studies focused on the emerging renewable energy industry and formed the basis of a 2007 Workforce Innovation in Regional Economic Development (WIRED) grant through the U.S. Department of Labor. The $5 million grant supported 36 Minnesota counties efforts in job skills training, entrepreneurship, and innovation in the field of renewable energy. The success of these efforts led to the formation of the Minnesota Renewable Energy Marketplace (MNREM), a statewide institution for collaboration helping businesses and fostering worker preparedness in a global market.

Since its creation in August 2009, the RCI has become the central mechanism for cluster-based efforts in MSP and Minnesota. The purpose of the RCI is to focus and inform regional economic development activity using clusters as a framework. It aligns MSP regional strategies with national competitiveness strategies to grow, retain, and attract jobs, as well as create other economic benefits for MSP. The table below provides an overview of its key activities.

**Figure: RCI Objectives, Expected Outcomes, and Measures**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Activity</th>
<th>Expected Outcomes</th>
<th>Measures</th>
</tr>
</thead>
</table>
| Research cluster and headquarters importance | • Identified 10 competitive industry clusters  
• Conducted in-depth studies of three clusters in MSP | • Greater investment in entrepreneurship  
• Stronger public-private relationships | • Increased out-of-state venture capital relative to other states  
• Increased job growth in clusters |
| Deepen regional linkages | • Developed a Metropolitan Business Plan with the RCM and the Itasca Project  
• Worked with GREATER MSP  
• Regional Allies Group formed | • Increased innovation  
• Increased alignment with regional initiatives, as well as education and workforce training | • Increased number of patents requested or received by firms in target cluster  
• Increased supply of talent in demand |
| Formalize linkages with Medical Devices cluster leaders | • Worked with the BioBusiness Alliance to convene Medical Devices cluster leaders and identify cluster priorities for action | • Increased cluster coordination  
• Relationships strengthened between public and private sector | • Established more formal networks within three targeted clusters  
• Improved workforce development and educational pipeline |
| Recommend public action plan | • Conducted CEO-to-CEO conversations between mayors and business leaders to strengthen public-private partnerships and develop action plan | • Improved access to quality jobs  
• Improved communication between mayors and regional businesses | • Increased average wage in targeted clusters  
• Improved job development and transportation initiatives within target clusters |
Cluster-based strategies have also been adopted by workforce development organizations across rural Minnesota. One example is the Workforce Development, Inc. (WDI) of Southeast Minnesota and the related Southeast Minnesota Workforce Investment Board (SE MN WIB). Four industry-sector task forces have been organized based on cluster data, with four parallel human resources task forces to address corresponding workforce development issues. The SE MN WIB also maintains a list of regional “hot jobs” as another effort to stay relevant to both employers and job seekers.

Lessons Learned

The work of the RCI and its partners has been a learning process for political and business leaders in MSP. This learning process has helped to define and influence future steps and build regional cohesion. While the cluster approach is still emerging and being defined in MSP and the state of Minnesota, implementing a cluster framework has helped the Minnesota economy by:

- Providing a common language and understanding about regional competitiveness that enables a more effective dialogue between public and private regional leaders.
- Allowing for the identification of targeted regional needs and the creation of programs that directly address firms’ needs in areas such as workforce skill development.

Policy and business leaders in MSP are using the cluster framework to develop a regional strategy that addresses key economic challenges and revitalizes the metropolitan economy coming out of the recession in the late 2000s. By building on its diverse base of clusters, its concentration of corporate headquarters, and its strong economic rural-urban links, MSP benefits from a more effective policy dialogue that informs public-private action and benefits the regional economy.

Conclusion

Policymakers and practitioners can learn from the efforts in MSP. The RCI helped inform the way in which a cluster approach is an effective framework for public and private leaders to increase their understanding of MSP as an economically competitive region. While the economic situation continues to be challenging, as in many other parts of the United States, the actions of the RCI and related organizations have provided fresh insight into the conditions facing MSP’s business environment with recommendations for moving forward. Many leaders in the state have become convinced that the cluster approach is an effective tool to develop a path toward economic growth. Other regions can apply the actions of MSP but, each location needs to devise the right competitiveness strategy to leverage its unique mix of industry clusters and business environment conditions and, in turn, increase business growth, productivity, and new business formation.
Introduction

This Policy and Impact Study is the second in a series of four developed as part of the U.S. Cluster Mapping Project, an effort supported by the U.S. Economic Development Administration. “Minneapolis-St. Paul Regional Cluster Initiative” provides real-world examples of how cluster-based economic development works as part of modern economic policy at the regional level. Minnesota has developed a reputation for having a resilient and broad-based economy. Agricultural Products, Processed Foods, Financial Services, Aerospace Vehicles and Defense, Publishing and Printing, and Medical Devices are just a few of the core economic activities in the state. The Minneapolis-St. Paul (MSP) metropolitan area, which also includes counties in western Wisconsin, is the economic engine for the state’s economy, with a large concentration of corporate headquarters as well as both nationally and internationally competitive industry clusters. This study describes the background, activities, and outcomes of the nascent cluster-based economic development movement in MSP and Minnesota.

This report on the Minneapolis-St. Paul Regional Cluster Initiative illustrates how a region can develop cluster-based economic development programs, even during a downturn. The study also highlights the use of clusters as a framework that provides a common language for public and private leaders to identify targeted regional needs and create regional policy.

Over the last decade, cluster practitioners have gained significant experience in how to turn industry collaboration into better government policies and competitive advantages for firms. However, much of this experience resides with the individuals and organizations that have taken a cluster-based approach to economic development. At the federal level, discussions about cluster-driven policies have long been focused on arguments as to whether cluster policies are tantamount to picking winners. This study clearly shows that real cluster development efforts do not necessarily need such interventions. The examples here make a contribution to ongoing learning about best practices for cluster-driven economic development. However, each region must devise its own strategy for competitiveness based on its clusters and other strengths.

Economic History

Since its beginnings, Minnesota’s economy has grown on the foundation of its natural resources. Vast forests, significant iron ore deposits, and prime agricultural land produced primary products that were shipped to a growing nation via the state’s principal water transport routes: the Mississippi River and Lake Superior. Over the past two centuries, the prevalence of timber has created industries like paper milling and iron ore mining has evolved into iron ore pellet production and exportation. These early
economic forces developed key transportation infrastructure for the state and the region. The Port of Duluth was created by the mining boom and continues to be an important shipping port for Midwestern products. Major players in mining, such as Minnesota Mining and Manufacturing Co. (now 3M), have evolved into diversified manufacturers of industrial and consumer products.

Agriculture has also been a core part of the state’s economy. The Minnesota Department of Agriculture ranked it as the second largest exporting sector in the state even as recently as 2010.\(^1\) Agribusiness in Minnesota has diversified from farming production to include processing and manufacturing of value-added food products by companies such as General Mills, Cargill, Hormel Foods Corporation, The Schwan Food Company, and Jennie-O Turkey Store, LLC. In addition, specialty products and support industries such as precision agricultural equipment (The Toro Company) have emerged to improve production efficiency and enable Minnesota’s producers to compete in a global market.

Several other economic outgrowths of the Minnesota climate and landscape helped define the state and made it a competitor in the world economy. Outdoor and winter recreation industries, boating, and fishing, have been the core of Minnesota tourism. Additionally, the windswept agricultural areas of the state have emerged as leaders in the alternative energy economy, with biofuels and wind energy leading the way. Innovations in medical care, highlighted in greater detail later in this report, are also integral to the state’s identity and economy. Patient care systems pioneered by Mayo Clinic and cardiologic devices have changed healthcare practice and informed recent national policy discussions regarding healthcare reform, drawing more attention and investment to the state.

Corporate leaders in MSP also had a strong tradition of civic engagement and community reinvestment. In 1976, the tradition of Minnesotan corporate giving was formalized as the Five Percent Club, where executives of corporations committed to contribute 5 percent of pre-tax profits of the corporation to community causes.

In turn, to bolster these corporations, Minnesota has long been known for its willingness to make substantial and bipartisan public investments in education and infrastructure. This support led to long-term economic and social successes. Dubbed the “Minnesota Miracle” in 1971, the state’s early backing of K-12 education coincided with increased student achievement compared with other states, improved health indicators, and booming business.

Minneapolis-St. Paul Today

Today, MSP is a broad-based economy that largely reflects the diversity of the United States as a whole. In 2010, the seven-county metro area had a population of 2.8 million, projected to increase to 3.6 million by 2030. The 13-county Metropolitan Statistical Area (MSA), including two Wisconsin counties, had a population of 3.3 million in 2010. With a labor force of 1.8 million, the workforce participation rate is one of the highest in the nation (73.5 percent). Economic output from these workers was estimated at $199.6 billion in 2010, which ranks MSP as the 13th largest in the nation.

MSP is also consistently ranked among national leaders in terms of levels and quality of education attained. Over 90 percent of workers aged 25 and older in the region have at least a high school diploma. In addition, 38 percent have a bachelor’s degree or higher.

The relatively high education level of residents, in combination with regional strengths in higher-wage industries, has translated into higher personal incomes for workers in MSP. In 2010, per capita personal income (PCPI) in the region was $46,498. This PCPI was approximately 17 percent higher than the national average of $39,791. However, PCPI growth in MSP has been lagging relative to the nation. A decade earlier, the PCPI of MSP was 23 percent above the national average.

4 “Profile of General Population and Housing Characteristics: 2010; Census Summary File 1,” U.S. Census Bureau, 2010. See Table (DP-1) http://factfinder2.census.gov/faces/tablesservices/jsf/pages/productview.xhtml?pid=DEC_10_SF1_SF1DP1&prodType=table
5 The total population of those aged 16 and over in MSP is 2.5 million. “Selected Economic Characteristics: 2006-2010 American Community Survey 5-Year Estimates,” U.S. Census Bureau, 2006-2010. See Table (DP03) http://factfinder2.census.gov/faces/tablesservices/jsf/pages/productview.xhtml?pid=ACS_10_5YR_DP03&prodType=table
The long-term economic development of the state and MSP has been significant, and strengths have emerged in financially and socially beneficial areas. Reflecting the historical development of the state, major clusters in MSP, as identified by employment concentration (location quotient, or LQ), are Medical Devices, Financial Services, Distribution Services, Business Services, Production Technology, Analytical Instruments, Metal Manufacturing, Information Technology, Publishing and Printing, Chemical Products, and, more recently, Biopharmaceuticals (see Figure 1). The Medical Devices cluster is the most dominant, with 21,297 jobs and an employment concentration 3.75 times the national average in 2010. This cluster has tended to specialize in cardiologic therapies such as pacemakers, with familiar players including Medtronic and Boston Scientific. However, it has also begun to include medical technology innovations in biologics, radiologics, and orthologics.

Figure 1: Traded Industry Clusters in MSP (1998-2010)

Location quotient (LQ) is a ratio measure of the concentration of a cluster in a particular region relative to the cluster’s total share of employment in the U.S. economy.

cp_region_shading_type:cs-lq-shr-emp,cp_bubble_type:none,cp_org_marker:no,cp_org_type:,cp_org_cluster:13

Total cluster employment (2010) is reflected in the bubble size. Adapted from Professor Michael E. Porter, U.S. Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. The Management of Companies data is separate from the U.S. Census Bureau’s County Business Patterns data.
In addition, MSP includes the highest concentration of corporate headquarters per capita in the United States. Much of its corporate headquarters activity is included in an industry category called Management of Companies, which accounted for 92,112 jobs in MSP in 2010.¹⁴ Nineteen Fortune 500 companies are based in Minnesota, representing finance and insurance, food processing and distribution, retail, manufacturing, and logistics. Several major privately held companies and nonprofits also are located in the region, including Cargill, Carlson, and Mayo Clinic. The top 10 MSP Fortune 500 revenue earners are listed in Figure 2 below.

Figure 2: Top 10 Revenue Earners in MSP¹⁵

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Rank within Industry</th>
<th>Revenues ($ billions)</th>
<th>Company Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>UnitedHealth Group</td>
<td>Health Care: Insurance and Managed Care</td>
<td>1</td>
<td>100.6</td>
<td>133,000</td>
</tr>
<tr>
<td>Target</td>
<td>General Merchandisers</td>
<td>2</td>
<td>73.3</td>
<td>361,000</td>
</tr>
<tr>
<td>Best Buy</td>
<td>Specialty Retailers: Other</td>
<td>4</td>
<td>45.1</td>
<td>165,000</td>
</tr>
<tr>
<td>CHS</td>
<td>Wholesalers: Food and Grocery</td>
<td>2</td>
<td>40.6</td>
<td>9,495</td>
</tr>
<tr>
<td>SUPERVALU</td>
<td>Food and Drug Stores</td>
<td>5</td>
<td>36.1</td>
<td>130,000</td>
</tr>
<tr>
<td>3M</td>
<td>Miscellaneous</td>
<td>1</td>
<td>29.9</td>
<td>87,677</td>
</tr>
<tr>
<td>U.S. Bancorp</td>
<td>Commercial Banks</td>
<td>9</td>
<td>22.2</td>
<td>64,486</td>
</tr>
<tr>
<td>General Mills</td>
<td>Food Consumer Products</td>
<td>4</td>
<td>16.7</td>
<td>35,000</td>
</tr>
<tr>
<td>Medtronic</td>
<td>Medical Products and Equipment</td>
<td>1</td>
<td>16.5</td>
<td>44,944</td>
</tr>
<tr>
<td>Land O'Lakes</td>
<td>Food Consumer Products</td>
<td>6</td>
<td>14.1</td>
<td>9,600</td>
</tr>
</tbody>
</table>

The region’s corporate headquarters strengthen the industry clusters in which they operate by providing a training ground for entrepreneurs and new business development. Recent examples are Imation, which was a spinoff from 3M, and Advance Autoparts’ decision to locate its headquarters in Bloomington to benefit from talent and synergies created by Best Buy.

Corporate headquarters also operate as sophisticated consumers within a cluster, leading suppliers to become more efficient, specialized, and savvy in the global marketplace. The prominence of high-quality printing and design services in MSP developed in response to the needs of demanding

¹⁴ Management of Companies is not included separately in the U.S. Cluster Mapping cluster definitions. Since Management of Companies covers multiple clusters, it cannot be assigned to a specific one. However, it is broken out here for illustrative purposes.

¹⁵ Some companies in this table may not belong to a cluster in Figure 1. That chart shows only traded clusters, whereas this table includes companies from any cluster. The source of underlying data is “2013 Fortune 500 Companies,” CNN Money, June 30, 2013. See http://money.cnn.com/magazines/fortune/fortune500/2013/full_list.
corporate customers, such as Target, General Mills, and 3M. Further supporting these sophisticated companies, MSP is one of the most logistics-friendly areas nationwide according to *Expansion Management*, receiving five stars and ranking high in crucial indicators such as road conditions, trucking, and warehousing.\(^\text{16}\)

Corporations in MSP today continue the giving tradition started in 1976. Now known as the Minnesota Keystone Program, it includes nearly 200 member companies that contribute cash, in-kind donations, or volunteer time to local nonprofits. This tradition has been exemplified by the 2004 formation of the Itasca Project, an industry-led civic organization with a commitment to new and better ways of addressing regional issues that impact economic competitiveness and quality of life. “Mind the Gap,” the first study produced by the Itasca Project, was an important investigation into the growing divide between immigrant communities and communities of color in MSP. This study prompted many leading foundations and community organizations to focus on some of the metropolitan employment disparities and concerns in the region. Steady corporate and philanthropic support of the arts, regional recreation areas, and human services has contributed to a higher quality of life and a thriving arts community in MSP, both of which can serve to attract and retain talent in the region.

**The Challenge**

MSP’s economic history, highly educated populace, and commitment to civic and corporate engagement are key strengths that have enabled Minnesota to grow economically. However, during the late 2000s recession, these strengths were waning and the educational legacy of the 1970s K-12 “Minnesota Miracle” was being challenged. Budget shortfalls and difficult political decisions affected the state’s ability to invest in transportation networks, schools, public health, and other services that made Minnesota unique and competitive. MSP’s growth rates slowed and the region fell in national rankings for wages and educational attainment.

While Minnesota and MSP fared better as a whole during the 2007-2009 recession than other states and regions, some segments of Minnesotans were disproportionately more affected. Income disparities, particularly for African Americans and Native Americans, are not always reflected in per-capita data but recent studies have revealed significant disparities in Minnesota, which have implications for future economic stability and development in the state. Algernon Austin’s study, *Uneven Pain—Unemployment by Metropolitan Area & Race* (2010), shows MSP carrying the worst relative disparity between black and white high school graduation and unemployment rates in the country.\(^\text{17}\)


study and another by Georgetown’s Center on Education and the Workforce revealed steep challenges to the region’s competitiveness in regard to these disparities in education and workforce preparedness (see Figure 3).\(^\text{18}\)

**Figure 3: Annual Black Unemployment Rates by Metropolitan Area, 2009\(^\text{19}\)**

<table>
<thead>
<tr>
<th>Black Rank</th>
<th>Metropolitan Area</th>
<th>Black(%)</th>
<th>White(%)</th>
<th>Black-White Ratio</th>
<th>Black-White Difference(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Detroit-Warren-Livonia, MI</td>
<td>20.9</td>
<td>13.8</td>
<td>1.5</td>
<td>7.1</td>
</tr>
<tr>
<td>2</td>
<td>Minneapolis-St. Paul-Bloomington, MN-WI</td>
<td>20.4</td>
<td>6.6</td>
<td>3.1</td>
<td>13.8</td>
</tr>
<tr>
<td>3</td>
<td>St. Louis, MO-IL</td>
<td>17.3</td>
<td>8.4</td>
<td>2.1</td>
<td>9.0</td>
</tr>
<tr>
<td>4</td>
<td>Las Vegas-Paradise, NV</td>
<td>16.9</td>
<td>10.1</td>
<td>1.7</td>
<td>6.8</td>
</tr>
<tr>
<td>5</td>
<td>Memphis, TN-MS-AR</td>
<td>15.7</td>
<td>5.1</td>
<td>3.0</td>
<td>10.5</td>
</tr>
<tr>
<td>6</td>
<td>Charlotte-Gastonia-Concord, NC-SC</td>
<td>15.6</td>
<td>9.4</td>
<td>1.7</td>
<td>6.2</td>
</tr>
<tr>
<td>7</td>
<td>Chicago-Naperville-Joliet, IL-IN-WI</td>
<td>15.5</td>
<td>8.5</td>
<td>1.8</td>
<td>6.9</td>
</tr>
<tr>
<td>8</td>
<td>Miami-Fort Lauderdale-Pompano Beach, FL</td>
<td>15.4</td>
<td>8.0</td>
<td>1.9</td>
<td>7.4</td>
</tr>
<tr>
<td>9</td>
<td>Los Angeles-Long Beach-Santa Ana, CA</td>
<td>15.0</td>
<td>8.6</td>
<td>1.7</td>
<td>6.4</td>
</tr>
<tr>
<td>10</td>
<td>Atlanta-Sandy Springs-Marietta, GA</td>
<td>14.3</td>
<td>7.2</td>
<td>2.0</td>
<td>7.1</td>
</tr>
<tr>
<td>12</td>
<td>Houston-Sugar Land-Baytown, TX</td>
<td>12.4</td>
<td>5.4</td>
<td>2.3</td>
<td>7.0</td>
</tr>
<tr>
<td>13</td>
<td>Philadelphia-Camden-Wilmington, PA-NJ-DE-MD</td>
<td>12.2</td>
<td>7.0</td>
<td>1.7</td>
<td>5.2</td>
</tr>
<tr>
<td>14</td>
<td>Richmond, VA</td>
<td>12.0</td>
<td>5.4</td>
<td>2.2</td>
<td>6.6</td>
</tr>
<tr>
<td>15</td>
<td>Baltimore-Towson, MD</td>
<td>11.3</td>
<td>5.9</td>
<td>1.9</td>
<td>5.4</td>
</tr>
<tr>
<td>16</td>
<td>Dallas-Fort Worth-Arlington, TX</td>
<td>10.7</td>
<td>6.5</td>
<td>1.7</td>
<td>4.3</td>
</tr>
<tr>
<td>17</td>
<td>Virginia Beach-Norfolk-Newport News, VA-NC</td>
<td>9.8</td>
<td>5.2</td>
<td>1.9</td>
<td>4.6</td>
</tr>
<tr>
<td>18</td>
<td>Washington-Arlington-Alexandria, DC-VA-MD-WV</td>
<td>8.1</td>
<td>4.5</td>
<td>1.8</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td><strong>14.3%</strong></td>
<td><strong>7.4%</strong></td>
<td><strong>2.0</strong></td>
<td><strong>7.0%</strong></td>
</tr>
</tbody>
</table>


The Georgetown study reported a 30 percent gap between the percentage of Minnesotans with post-secondary education (40 percent) and the percentage of Minnesotan jobs expected by 2018 to require workers with some post-secondary training (70 percent).\textsuperscript{20}

Both studies are influencing investment strategies with the Minnesota Department of Employment and Economic Development (DEED), the Minnesota Department of Education, and the Minnesota State College and Universities (MnSCU). They also are encouraging these organizations to work in collaboration, along with the cities of Minneapolis and St. Paul, to dramatically improve on these disparities. The city, the state, and the governor’s office are further seeking to address these disparities with neighborhood programs dedicated to improving outcomes in education and strategic economic development.

Other concerns included MSP being passed over for investment and business site locations. In addition, the entrepreneurship that had grown MSP’s economy in the past was lagging. This was in part due to the fact that a collaborative regional public-private economic development partnership was not present in the region. The Metropolitan Council, Minnesota’s cabinet-level MSP regional planning department, does not have an economic development mission, and many felt that DEED was focusing most of its economic development efforts on the non-metropolitan areas of Minnesota.

The large presence of corporate headquarters and nationally competitive clusters was an advantage for MSP.\textsuperscript{21} However, a workforce skills mismatch and increasing disparities were problematic. These factors caused concern for both private and public regional leaders. Area mayors and business leaders, along with economic leaders in the public sector and academicians, decided to create a regionally driven economic development movement with the ultimate objective of bringing more jobs and higher wages to MSP, while creating a greater sense of regionalism and cohesion.

Organizational Movement

In order to address MSP’s challenges economic development professionals, policymakers, academicians, area mayors, and business leaders worked together on several initiatives including the Regional Cluster Initiative (the RCI), the Brookings Institution Metropolitan Business Plan (MBP), and GREATER MSP. Figure 4 provides a timeline of the RCI and related initiatives and Appendix A contains descriptions of the organizations involved.


The Regional Cluster Initiative

The path towards the formation of the RCI begins with the State and Local Policy Program (the SLPP) of the Humphrey School of Public Affairs at the University of Minnesota (the Humphrey School). Since 1995, the SLPP has supported research, education, and outreach on regional industry clusters. Courses on cluster-led economic development and applied research in economic development introduce graduate students and practitioners to clusters in Minnesota and around the world. Student teams conducting cluster case studies also provide an avenue to engage business professionals, industry groups, nonprofits, and public sector leaders in reconsidering their industry or local economy through the cluster lens. More than thirty-five cluster studies have been completed since 2006, each including recommendations for increasing regional cluster competitiveness through education, workforce, and economic development actions.

In 2006, the Humphrey School started teaching the “Microeconomics of Competitiveness: Firms, Clusters, and Economic Development” (MOC) course on competitiveness, clusters, and regional economic development as an executive development training program.22 DEED, the economic development agency of Minnesota, enrolled its workforce development leadership in the MOC course to help shift DEED’s thinking from a supply-side to a demand-driven approach to serving businesses and job seekers. This became an important foundation for a regional cluster-based economic approach in MSP and all five economic development regions of the state.

Figure 4: Timeline of MSP Regional Economic Development Initiatives

The other important contributor to the formation of RCI is the Regional Council of Mayors (RCM). Supported by the Urban Land Institute Minnesota (ULI) and formed in 2005, the RCM is a consortium of more than 50 mayors of cities in the 13-county MSP metropolitan area. RCM membership is committed

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22 The MOC course was developed at Harvard Business School by Professor Michael Porter.
to aligning policies on housing, jobs, the environment, and transportation throughout the region to reduce competition among cities and improve the vitality of the overall region. For example, mayoral collaboration and negotiation were critical to the planning and completion of recent congestion management and transit improvements to the regional transportation system in the Interstate 35W corridor through a U.S. Department of Transportation Urban Partnership Agreement grant.

Recognizing the importance of a regional economic development strategy, the RCM adopted a cluster approach as a way of building regionalism by focusing their efforts on working with business leaders and other regional partners.

Seeing an opportunity to build on successes like the regional transportation system, the RCM began to consider the possibility of regional economic development initiatives. Its Jobs/Economic Development Task Force spearheaded an effort to develop a new landscape of competitiveness by building a regional metropolitan model using a cluster approach. Relying on prior relationships, the RCM began a series of informal meetings with the Humphrey School and DEED to discuss strategic partnerships for implementing this new approach. In the spring of 2009, the RCM, the Humphrey School, and DEED developed a regional strategy for workforce development. The RCM then adopted this strategy based on a cluster approach leveraging funding from DEED.

Based on these first efforts, in August of 2009, the RCM and the Humphrey School founded the RCI, with funding from DEED. The RCI is the primary cluster-focused entity in MSP. Its purpose is to implement a regional economic and workforce development competitiveness strategy for short- and long-term economic growth. The RCI is advised by a committee, which includes current and retired business executives, mayors, and representatives of industry groups. The organization is staffed through the RCM, the Humphrey School, and DEED.

To achieve its purpose, the partners of the RCI help coordinate regional economic development initiatives and align MSP regional strategies with national economic competitiveness strategies in order to grow, retain, and attract jobs. The RCI has required collaboration with private and public sectors to accomplish its initial objectives:

- Conduct research on MSP’s clusters and corporate headquarters concentrations as regional economic growth engines.
- Deepen linkages with regional initiatives such as the business-led Itasca Job Growth Task Force (an initiative of the Itasca Project) and the formation of GREATER MSP, a regional economic development partnership, in order to increase economic growth.
- Demonstrate more formal linkages by convening Medical Devices cluster leaders to develop a cluster strategy linked to other regional initiatives.
- Recommend action plans and strategies for local, state, and federal government that retain and
attract jobs to grow the regional economy.

The partnership with DEED maintains the RCI’s connection to workforce development. Building and maintaining the talent pool for key regional clusters is critical to immediate and long-term growth strategies. The DEED partnership also provides a mechanism for integrating cluster strategies into statewide workforce and economic development plans based on staff training at the Humphrey School that began in 2006.

Brookings Metropolitan Business Plan

Around the same time the RCI began, MSP regional leaders worked with the Brookings Institution to design a MBP for upgrading competitiveness that was also heavily cluster-based.

The Brookings Institution’s Metropolitan Program selected MSP through a request for proposals as one of three pilot projects to develop an MBP. The RCI leadership team worked with the RCM, the Itasca Job Growth Task Force, the ULI, and other key figures in the Minneapolis and St. Paul departments of economic development to develop the plan. A key stakeholder group met weekly for over a year to conduct research for and write the MBP. The group identified six leverage points of competitiveness using a framework provided by the Brookings Institution (Figure 5). Cluster-led growth is one component of the MBP, and the RCI is specifically tasked with analyzing and understanding clusters and facilitating relationships with business.

As a primary component of the MBP’s Detailed Development Initiative (DDI), MSP created an entrepreneurial development organization called Accelerate MSP as a core element of its strategy for economic development and job growth. An approach focused on small business development was chosen to leverage regional advantages in skilled workforce and research (public and private) and to spur innovation in new and growing clusters, while reducing dependence on clusters dominated by a few large corporations. Supported by a broad collaboration of MSP organizations, Accelerate MSP seeks to provide expert services and risk capital to transition high-potential technology-based opportunities to high-growth companies.

As members of Brookings’ Metropolitan Program, the ULI and RCM also guided an expanded group of stakeholders to form the Regional Allies Group, which shares and aligns strategies for MSP economic competitiveness. The Regional Allies Group—composed of representatives from the governor’s office,
Accelerate MSP

Accelerate MSP provides a central context for understanding how the RCI attracted other investments in MSP. The organization began when Miami-based Knight Foundation formed an agreement with the U.S. Department of Commerce and JumpStart Ohio to dedicate Knight funding to entrepreneurial activity in St. Paul and Duluth, two of Knight’s communities in Minnesota. The mayor of St. Paul, who believed in the RCI’s regional approach to economic development, extended this grant opportunity to seven of Minnesota’s 11 counties. It provided a lift to the RCI’s work, intensifying momentum and commitment, and the Regional Allies Group raised the additional funds needed to include those seven counties. These collaborations triggered the next phase of the MBP, which focused on advancing MSP’s exports.

The Itasca Project and GREATER MSP

Another organization that focuses on improving MSP’s economic competitiveness is the Itasca Project. Founded in 2004, the Itasca Project is a business-led civic alliance of political and educational leaders designed to develop and advocate strategies in transportation, economic development, and higher education for MSP. In parallel with RCM and RCI efforts, the Itasca Project’s Job Growth Task Force investigated and analyzed key enablers to competitiveness for MSP in a report released in April 2010.

Two significant outcomes of the Itasca Job Growth Task Force are the formation of GREATER MSP and the connection of small companies to larger customers through a Minnesota Suppliers Showcase. GREATER MSP is a public-private partnership launched in 2011 with a mission to set a strategic vision for the region; to brand and market MSP; and to retain, attract, and expand businesses and jobs in the region. The participation and leadership of the ULI has been a key factor in maintaining unity of purpose and strategy between outgrowths of the Itasca Project, the RCI, and RCM. The director of the ULI is also executive director of the RCM, who convenes and facilitates meetings once a month. The relationship between these organizations is key to sustaining a strong MSP regional economy.

MSP has generated significant organizational movement that can be seen by the considerable collaboration, relationships, and group efforts outlined in this section. However, cluster momentum is still emerging, developing, and being redefined in MSP and the state of Minnesota. The following sections provide some concrete examples of this through RCI activities and rural-urban clusters.

Activities of the Regional Cluster Initiative

The overarching purpose of the RCI is to grow, retain, and attract jobs and other economic benefits in
MSP. To accomplish this purpose, the RCI has (see Figure 6):

- Selected 10 traded clusters on which to concentrate its research.
- Completed three cluster studies with graduate students working in tandem with mayors and representatives of Workforce Investment Boards.
- Initiated outreach to corporate headquarters.
- Engaged Medical Devices cluster leaders in setting priorities for a cluster strategy.
- Fostered competitiveness through ongoing partnerships with the RCM and GREATER MSP.

Figure 6: Organizational Movement of Regional Economic Development, Year 1

In order to identify competitive clusters in MSP, the RCI utilized the U.S. Cluster Mapping website at ClusterMapping.us. The U.S. Cluster Mapping website identifies 41 distinct traded clusters that bring wealth into a region by selling traded goods or services outside the region. While these traded clusters represent 27 percent of the jobs in MSP, they pay the highest wages and bring in the wealth that supports the local clusters that make up the bulk of the jobs in the region. Using location quotients (LQs) as a measure of concentration and a set of cluster relationships, it was possible to map out strengths and linkages of competitive clusters in MSP (see Figure 7). The strength of cluster links is summarized visually in a portfolio diagram by the relative positioning and overlapping of cluster circles. LQ is a ratio measure of a cluster’s share of employment in a particular region, relative to that cluster’s total share of employment in the U.S. economy. An LQ that is greater than one indicates a higher-than-average cluster concentration in that region. This analysis provides a summary of strengths, but further

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research into a region’s clusters is necessary to understand a region’s cluster strengths and vulnerabilities.

The RCI identified 10 clusters to study in MSP based on: (1) strength of competitive advantage, (2) potential gain for industry cluster from public-private collaboration, (3) degree of geographic distribution in the region, (4) potential to spur innovation, (5) potential to spur entrepreneurship, and (6) international strength, through foreign direct investment (FDI). The Humphrey School research team, in consultation with RCM leadership, developed these six criteria. Of the 10 clusters identified, three were selected for in-depth focus by the RCM—Medical Devices, Distribution Services, and Information Technology. Three graduate student teams worked with the RCM to complete interviews with businesses in the three chosen clusters, while students completed cluster research and analysis.

Figure 7: MSP Metropolitan Area Traded Cluster Portfolio (2010)\textsuperscript{24}

Due to the strength of the Medical Devices cluster in MSP, the RCI engaged leaders from this cluster in setting priorities for a cluster strategy. This convening effort was influenced by the student cluster report, which identified opportunities, challenges, and threats to the Medical Devices cluster. In early

\textsuperscript{24} Location quotient (LQ) here is the ratio of MSP industry job share to U.S. industry job share. Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.
2011, the BioBusiness Alliance convened business leaders and entrepreneurs to form a core Medical Devices cluster organization. This group has identified other key members and articulated key themes for the cluster’s work, including regulatory issues, branding, competing in the global marketplace, and building on the existing cluster ecosystem to support innovation and entrepreneurship.

RCI also focused on leveraging the corporate headquarters in MSP. The high concentration of corporate headquarters is clearly a regional strength, but using this advantage required building deeper relationships between the corporate CEOs and regional government leaders. The RCI team worked with the RCM in a highly coordinated effort to engage mayors (or city CEOs) in a series of conversations with corporate CEOs in the region’s targeted clusters. The RCI graduate student team organized the interviews, with two or more mayors typically participating in each interview. These CEO-to-CEO conversations were initiated to build informal relationships between business and government leaders and align public-private interests by discussing issues important to regional economic development. Conversations centered on the following questions:

- What makes the Twin Cities a great location for corporate headquarters?
- How can the region grow that advantage, and what are the major issues related to that potential growth?
- What are the linkage and alignment opportunities between the private and public sectors that benefit the business environment?

These conversations have resulted in important public-private linkages and alignment with mayors, companies, trade associations, and other industry groups. Over the course of this RCI project, a total of 24 meetings with mayors and business leaders were held to discuss growing jobs in Minnesota. The combination of quantitative and qualitative analysis through interviews with industry leaders has helped to understand the current status of historically competitive clusters and to determine critical issues facing the future of these clusters. For example, discussions with Medical Devices cluster leaders raised questions of whether Minnesota’s past competitive advantage in entrepreneurship was waning relative to international competitors. The conversations helped identify cross-cutting strategies to grow stronger clusters in the region:

- Continue engagement with CEOs to retain and grow jobs.
- Align regional economic development resources.
- Streamline regulatory and permitting processes.
- Invest in regional infrastructure and institutions.

Finally, the RCI is committed to fostering additional regional competitiveness through ongoing partnerships with the RCM and GREATER MSP. These regional stakeholder groups agreed to focus on
five regional clusters as key drivers of MSP’s economy: food and agribusiness; innovation and technology; health and life sciences; headquarters and business services; and financial services and insurance. The Humphrey School also worked with RCI and GREATER MSP to offer a capstone course called “The Role of the University of Minnesota and Higher Education Institutions in Regional Economic Competitiveness.” The student teams investigated and analyzed three of the regional clusters (food and agribusiness, innovation and technology, and health and life sciences) with a special focus on the role of higher education in regional competition. These cluster studies were delivered to GREATER MSP and shared with leadership within the higher education field.

Rural-Urban Cluster Activities

While the MSP metropolitan economy is an engine of growth for the Minnesota economy and surrounding region, the rural and nonmetropolitan areas of the state also have strong clusters. Many of these clusters provide direct inputs to MSP clusters and corporate headquarters.25 Competitive clusters in southeast Minnesota that have links to MSP can be identified using the map of traded cluster relationships in Figure 8.

**Figure 8: Southeast Minnesota Traded Cluster Portfolio (2008)**26

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26 Location quotient (LQ) here is the ratio of Southeast Minnesota industry job share to U.S. industry job share. Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.
For example, the Processed Food cluster with a strong 4.0 LQ represents in part the pork production that is prevalent in rural Minnesota. The Processed Food and Agricultural Products clusters also contain rural Minnesota farm products and food production. Rural companies in these clusters such as Hormel, Schwan Foods and Crystal Sugar provide goods directly for MSP-based companies General Mills, Cargill, and SUPERVALU (see Figure 9).27

Not reflected on the standard map of traded clusters is the Health Services cluster, which is typically a local cluster dependent on the local economy. Mayo Clinic located in Rochester, MN is unique. The patient care systems pioneered by Mayo Clinic make it a worldwide leader in health care, bringing patients from all over the world to Minnesota. This greatly benefits not only the immediate rural region, but the rest of Minnesota as well. For example, the Rochester MSA has an LQ of 3.96 with over 30,000 people employed in health services, contributing to the strength of related bio-business clusters in MSP. Further tying rural Rochester to MSP, the Rochester mayor is also an active member of the RCM.

Southeast Minnesota Workforce Investment Board (SE MN WIB)

Due to the strong connections between MSP and rural Minnesota clusters, even rural Minnesota has begun to adopt cluster-based strategies as a framework for economic development. Although Southeast Minnesota lies outside of the 13-county MSP region, it is recognized as a critical region by the RCI because it houses Mayo Clinic and key elements of Minnesota’s Information Technology cluster. One example of a cluster-based strategy for workforce development in rural Minnesota is the Workforce Development, Inc. (WDI) and the related Southeast Minnesota Workforce Investment Board (the SE MN WIB).28 WDI is an independent nonprofit agency that works with job seekers and employers

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28 Information for this section was developed from Randy Johnson and Becky Thofson, in conversation with the authors. November 17, 2011.
to develop southeast Minnesota’s workforce. The SE MN WIB serves a 10-county area in southeast Minnesota, including Rochester.

After participating in the executive development MOC course sponsored by DEED and delivered by the Humphrey School in 2006, the SE MN WIB reorganized in 2007 using a cluster-based approach. This reorganization was based on WDI’s belief in the importance of private sector leadership in economic development and a demand-driven approach to workforce development.

In the reorganization, at least 60 percent of the SE MN WIB board membership had to be composed of industry representatives for a stronger private sector and cluster focus. The change increased private sector membership from 27 to 33 members. While the SE MN WIB previously had a difficult time recruiting and keeping private corporate representatives, since the restructuring, industry stakeholders have been more engaged. Private sector members are given a key role in designating and awarding training grants to competitive job seekers. Also, committee composition and focus are influenced by the percentage, wage, and concentration of employment in regional industry clusters. Both encourage more commitment from private sector leaders.

Four industry-sector task forces have been organized based on cluster data, with four parallel human resources task forces to address corresponding workforce development issues. The SE MN WIB also maintains a list of regional “hot jobs” as another effort to stay relevant to both employers and job seekers (see appendix B).

Indicators of Success

With formal cluster initiatives currently in a gestational period, indicators of success in MSP measure immediate progress that will serve longer-term goals. Business leaders, mayors, academicians, foundations, and other MSP leaders involved in the RCI strive to maintain focus on outcomes for the community, not just outputs from the committee members. The overarching goals on which RCI focuses are the creation of high-quality jobs and workforce preparedness to meet industry demand.

To initially evaluate the impact of a cluster-based approach to economic development in MSP cluster initiative leaders, with the support of RCI partners, will take measurements of cluster health. Such possible measurements are listed in Figure 10 below. Figure 10 also highlights RCI’s four immediate objectives and associates them with priority outcomes including: greater investment and entrepreneurship, increased innovation, increased cluster coordination, and improved access to quality jobs.

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<table>
<thead>
<tr>
<th>Objective</th>
<th>Activity</th>
<th>Expected Outcomes</th>
<th>Measures</th>
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<tbody>
<tr>
<td>Research cluster and headquarters importance</td>
<td>• Identified 10 competitive industry clusters</td>
<td>• Greater investment in entrepreneurship</td>
<td>• Increased out-of-state venture capital relative to other states</td>
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<tr>
<td></td>
<td>• Conducted in-depth studies of three clusters in MSP</td>
<td>• Stronger public-private relationships</td>
<td>• Increased job growth in clusters</td>
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<tr>
<td>Deepen regional linkages</td>
<td>• Developed a Metropolitan Business Plan with the RCM and the Itasca Project</td>
<td>• Increased innovation</td>
<td>• Increased number of patents requested or received by firms in target cluster</td>
</tr>
<tr>
<td></td>
<td>• Worked with GREATER MSP</td>
<td>• Increased alignment with regional initiatives, as well as education and workforce training</td>
<td>• Increased supply of talent in demand</td>
</tr>
<tr>
<td></td>
<td>• Regional Allies Group formed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formalize linkages with Medical Devices cluster leaders</td>
<td>• Worked with the BioBusiness Alliance to convene Medical Devices cluster leaders and identify cluster priorities for action</td>
<td>• Increased cluster coordination</td>
<td>• Established more formal networks within three targeted clusters</td>
</tr>
<tr>
<td></td>
<td>• Improved alignment with regional initiatives, as well as education and workforce training</td>
<td>• Relationships strengthened between public and private sector</td>
<td>• Improved workforce development and educational pipeline</td>
</tr>
<tr>
<td>Recommend public action plan</td>
<td>• Conducted CEO-to-CEO conversations between mayors and business leaders to strengthen public-private partnerships and develop action plan</td>
<td>• Improved access to quality jobs</td>
<td>• Increased average wage in targeted clusters</td>
</tr>
<tr>
<td></td>
<td>• Improved communication between mayors and regional businesses</td>
<td>• Improved job development and transportation initiatives within target clusters</td>
<td>• Improved job development and transportation initiatives within target clusters</td>
</tr>
</tbody>
</table>

Specific analyses, measures, and outcomes for each targeted cluster may vary significantly due to unique cluster compositions and growth priorities. The Medical Devices cluster provides a tangible example of ongoing cluster work by highlighting a targeted industry approach, clear indications of success, and a plan of action.

**An Example: Minnesota Medical Devices Cluster**

Minnesota has a rich history in the manufacture and development of medical devices. Its Medical Devices cluster, with an LQ of 3.75, is home to many well-known industry leaders, such as Medtronic (founded in 1949), 3M (founded in 1902), and Boston Scientific (with locations in Minnesota since the mid-1980s). Large companies in this cluster have reaped the benefits of being surrounded by small and medium-sized firms by acquiring a number of them over the years. They also have been bolstered by
the presence of the world-class Mayo Clinic medical center in Rochester (see Figure 11). The cluster is diverse, containing firms specializing in cardiac devices, medical supplies, hearing aids, nerve stimulation, and radiology.

Historically, the Medical Devices cluster also has been home to groundbreaking research. At the University of Minnesota, research in cell therapies and biological engineering continues to draw attention to the Minnesota medical devices community from around the world. New partnerships between the University of Minnesota and Mayo Clinic also have led to new fields of research and customized education programs to supply a strong workforce for health services, medical research, and medical technology. In addition, the evolving field of bioinformatics has growth potential in Minnesota, with the state’s strong focus on health services and information technology. MnSCU member Saint Paul College offers an occupational concentration in medical records designed to serve this cluster.

Within this cluster, the BioBusiness Alliance and LifeScience Alley® have been instrumental industry groups in the development of bioscience in the state. The LifeScience Alley, with over 26 years of experience in the life science cluster, and the BioBusiness Alliance were developed to build the life science and bioscience clusters, retain and create jobs, and position Minnesota as a global leader. The BioBusiness Alliance, formed in 2005, evolved out of the Minnesota Biosciences Council, a think tank that pushed initiatives beyond the administration of ideas. In 2010, the BioBusiness Alliance and the LifeScience Alley announced a strategic partnership to further fuel growth in the life science and bioscience industry in Minnesota. Their combined strategic alliance forms the base of the Medical Devices cluster in Minnesota. The publication of the BioBusiness Alliance’s Destination 2025 Roadmap: Recommendation to Grow Minnesota’s Life Science Industry sets forth a vision and roadmap for the wider bioscience community (see Appendix C).

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Initial Outcomes

The RCI and its partners have seen unifying outcomes emerge from initial cluster activities, and they anticipate more robust results as efforts continue. Currently, the cluster concept has provided a framework for state and regional economic development practices in coordination with key stakeholder groups.

The process of engaging in facilitated interviews between executives of corporations and executives of cities has proven to be valuable for both parties. RCI interviews with business leaders have revealed common concerns regarding workforce development, support industries, and public support for research and innovation. The interview process has created both immediate benefits and foundations of long-term strategic alliances. In the short term, shared problems can be identified early, allowing for thoughtful decisions to be made and limited damage to be incurred for businesses and for the community as a whole. In the long term, open communication between private sector and public sector leaders can result in better use of resources, better outcomes for residents, and a more cooperative political climate with increased alignment.

The emphasis upon building on local strengths and partnerships has created a more collaborative atmosphere and a constructive direction for economic development activities. As a result, the RCM has conducted conversations with federal agencies to advocate for the state and for important industries. For example, certain regulatory controls at the federal level have created considerable instability in the medical device industry in Minnesota. When these were made known to mayors through the CEO-to-CEO conversations, RCM members used their connections to set a meeting and intercede on behalf of Minnesota’s medical device manufacturers.

Another key public-private relationship has been with Humphrey School graduate students and regional industries. Graduate student cluster reports have provided a non-prescriptive and nonthreatening mechanism to both engage and inform industry leaders about cluster-based economic development strategies. For example, students introduce cluster concepts and present questions that business leaders may not be comfortable answering in another setting. In the fall of 2011, graduate student teams completed strategic outreach and cluster analysis of targeted industries identified by GREATER MSP as key drivers of Minnesota’s current and future economy. Three industry categories were studied: health and life sciences, food and agribusiness, and innovation and technology. These student reports offer direct insight into existing and emerging cluster competitiveness in MSP.

Another early outcome has centered on the role of corporate headquarters in cluster development. MSP provides a unique environment for understanding cluster growth due to the dominance of corporate headquarters in the region and their influence on multiple clusters, factor and demand
conditions, supplier relationships and business strategy, structure, and rivalry. Corporate headquarters—such as 3M, Target, UnitedHealth Group, and others—are demanding and sophisticated customers. This, in turn, can lead to advancements in support industry clusters like Information Technology. At the same time, dominant players can sometimes present entry barriers for innovative new companies and can create vulnerabilities in the larger economy due to skewed employment balances. Further investigation of the benefits and drawbacks of prominent headquarters within the cluster ecosystem may help to inform more nuanced cluster-based development strategies.

Finally, the RCI is committed to bringing purposefulness to the economic development structures and efforts of MSP by using a cluster-based strategy. However, formal cluster organizations are still in nascent stages, with the BioBusiness Alliance (medical devices) and the Minnesota Renewable Energy Marketplace, MNREM (renewable energy) moving most quickly toward that result. MNREM is now a statewide institution for collaboration in helping businesses and fostering worker preparedness in a global market. It was formed as a result of a 2007 Workforce Innovation in Regional Economic Development (WIREd) grant through the U.S. Department of Labor. The $5 million grant supported 36 Minnesota counties’ efforts in job skills training, entrepreneurship, and innovation in the field of renewable energy.

RCI members continue to provide staffing support to emerging cluster-oriented organizations when needed and also facilitate industry cluster studies through the Humphrey School. By way of their involvement in a variety of committees and boards, RCI members work toward a coordinated and integrated set of cluster-based economic activity throughout the region’s jurisdictions.

Lessons Learned

The work of the RCI and its partners has been a learning process for both political and business leaders in MSP. This process has helped to define and influence future steps and build regional cohesion. While the cluster approach is still emerging and being defined in MSP and the state of Minnesota, implementing a cluster framework has helped the regional economy by:

1. Providing a common language and understanding about regional competitiveness that enables a more effective dialogue between public and private regional leaders.

2. Identifying targeted regional needs and creating programs that directly address the needs of firms in areas such as workforce skill development.

Several lessons that are more specific to MSP also have been identified:

- It is important to determine and leverage unique or key institutional assets in the region.
Corporate headquarters are important economic drivers in MSP for encouraging cluster development and driving innovation.

- Established clusters can be prime drivers of growth within a region. Minnesota’s successfully growing Medical Devices cluster is supported by health services such as Mayo Clinic in Rochester and health insurance industry leaders represented by UnitedHealth Group.
- Public-private cooperation and relationships among neighboring regions are important to the growth of a region. MSP benefits from a larger rural economy with neighboring regions playing an important role in economic growth.

Conclusion

These lessons provide direction to future organizational movement and outcomes within the nascent cluster-based economic development efforts in Minnesota. While the RCI is still a work in progress, other regions looking to develop a regional economic movement can learn from its goals and activities. The movement followed a series of steps:

1. Leadership emerged, focusing on the key idea of regionalism beginning with the formation of the RCM. The commitment of mayors from the larger cities to an inclusive, solution-driven approach to regionalism helped solidify the effort.

2. Proactive outreach and dialogue by the mayors with the private sector CEOs formed a relevant platform to focus on the challenges of regional competitiveness.

3. Based on CEO-to-CEO interviews and targeted cluster studies, concrete objectives emerged that focused on growing jobs and increasing wages, while decreasing social disparities.

4. Action items were assigned to key stakeholders that concentrated on regional and organizational strengths.

5. Outcomes and measurable success were achieved.

MSP is currently between steps three and four and working toward its final accomplishments. However, the amount of institutions involved and perspectives on economic development has sometimes made it difficult to coordinate and collaborate. Yet, regional leaders are optimistic as they look to the future. Through a cluster-driven approach, MSP can generate greater investment and entrepreneurship, increase innovation and cluster coordination, and improve access to quality jobs. MSP’s experiences with the RCI and other cluster initiatives can be helpful to other regions, but each location also needs to devise a competitiveness strategy tailored to leverage its own mix of industry clusters and business environment conditions.
Appendix A: Minneapolis-St. Paul Regional Economic Development Initiatives

The Itasca Project

The Itasca Project is a civic alliance organized in 2004 by business leaders to address MSP regional issues that impact economic competitiveness and quality of life. Its 50-plus participants are primarily private sector CEOs. The group also includes a small number of public and nonprofit leaders, including the governor of Minnesota, the mayors of Minneapolis and St. Paul, chair of the Metropolitan Council, leaders of the University of Minnesota and Minnesota State College and Universities (MnSCU), and leaders of the United Way and major foundations. Goals of the Itasca Project are to build a thriving economy and reduce socioeconomic disparities in MSP. The Itasca Project has no standing agenda, employs no staff, and owns no real estate. This “virtual organization” identifies and focuses on a slate of initiatives for where it can:

- Fill a leadership gap.
- Apply a fresh approach or accelerate promising efforts already underway through direct involvement of participants.
- Unite public, nonprofit, and business interests behind common goals and solutions for faster and better results.

The Itasca Project’s Itasca Job Growth Task Force recommended the creation of a business-led regional economic development partnership for MSP in 2010. This led to the creation and launch of GREATER MSP in 2011.

The Regional Council of Mayors (RCM) and the Urban Land Institute Minnesota (ULI)

The Regional Council of Mayors (the RCM) was formed in 2005 and is supported by the Urban Land Institute Minnesota (the ULI). It includes MSP and 49 municipalities. This collaborative partnership provides a nonpartisan platform focused on action strategies to raise the region’s overall economic competitiveness, innovation, and quality of life. The RCM’s value lies in its ability to build knowledge
and networks that support collective regional awareness and action. The organization has broadened its reach, credibility, and influence since its founding, and focuses on impact and significance, not power and politics.

The RCM partners with the ULI to:

- **Convene**: Unite mayors and cross-sector leadership on issues of regional significance.
- **Educate**: Equip mayors to lead and support learning across sectors.
- **Engage**: Support civic outreach strategies.
- **Effect change**: Seek solutions that support a “better way” for collective regional action.

The RCM, together with the ULI, focuses on four priority areas: housing, the environment, jobs and workforce solutions, and transportation.

### State and Local Policy Program (SLPP), Humphrey School of Public Affairs, University of Minnesota (the Humphrey School)

The State and Local Policy Program (the SLPP) of the Humphrey School of Public Affairs at the University of Minnesota (the Humphrey School) was founded in 1991. As a graduate school of public policy and planning, the Humphrey School exemplifies the University of Minnesota’s land grant mission of teaching, research, and outreach. The SLPP’s mission is to help policy leaders and citizens understand how changes in the global economy, technology, and the workplace affect communities by:

- Convening to increase discussion and awareness of policy issues.
- Producing and integrating new information, ideas, and approaches.
- Enhancing and applying public policy that addresses community needs.

Since 1995, the SLPP has conducted a series of regional industry clusters in Minnesota, and has been a primary force in encouraging state and local policy leaders to use a cluster approach to economic development, workforce development, and education strategies.

### Minnesota Department of Employment and Economic Development (DEED)

The Minnesota Department of Employment and Economic Development (DEED) is the state’s principal economic development agency. It coordinates programs for business recruitment, expansion, and retention; international trade; workforce development; and community development. In 2003, Minnesota combined its economic development and workforce development departments into one new department, recognizing the critical relationship of the workforce to the state’s economic
competitiveness. DEED has supported cluster initiatives by training its workforce development staff, funding cluster-based workforce development initiatives across the state, and funding the Regional Cluster Initiative (the RCI) conducted by the Humphrey School with the RCM.

“Microeconomics of Competitiveness” (MOC) Course

“Microeconomics of Competitiveness: Firms, Clusters, and Economic Development” (MOC) is a course developed as a multiyear development effort by Professor Michael Porter and the staff and affiliates of the Institute for Strategy and Competitiveness at Harvard Business School. The MOC course explores the determinants of competitiveness and successful economic development viewed from a bottom-up, microeconomic perspective. The course is now offered through a network of universities in about 65 countries. In 2006, the Humphrey School became an MOC affiliate through its SLPP graduate faculty. Humphrey School faculty has taught MOC as a professional development course for 110 DEED workforce development staff and other professionals, and also as a graduate school course for public policy, planning, and business students at the University of Minnesota.

The Regional Cluster Initiative (RCI)

The RCI was started in 2009 by the SLPP in partnership with the RCM and ULI through a grant from DEED. This project identified and studied the region’s most competitive clusters and initiated a dialogue on competitiveness issues with Medical Devices cluster leaders through the BioBusiness Alliance. It also engaged mayors in CEO-to-CEO interviews with MSP corporate leaders and helped the mayors develop their jobs and economic development action plan.

The BioBusiness Alliance of Minnesota

As a 501(c)(3) subsidiary of LifeScience Alley, the BioBusiness Alliance of Minnesota (the BioBusiness Alliance) is a nonprofit organization that strives to foster and cultivate the long-term viability of the state’s bioscience sector. The BioBusiness Alliance shares a vision and mission with the LifeScience Alley family of organizations, but holds three specific roles in the region’s bioscience sector: industry development, infrastructure incubation, and the facilitation of public-private partnerships.

LifeScience Alley, a Minnesota-based trade association serving over 680 member organizations, provides access to industry leaders, education, and networking opportunities; insights into current trends, regulations, research, and emerging technologies; and the power of a legislative voice. Members include Medtronic, St. Jude Medical, Mayo Clinic, Boston Scientific, Upsher-Smith Laboratories, Cargill, and the University of Minnesota, as well as startups and firms that specialize in professional services for life science organizations.

The vision of LifeScience Alley is to grow and secure Minnesota’s position as a global leader in the life
The organization’s mission is to: improve the business environment for life science companies through dedicated support to members; lead programs and projects to develop new industries; accelerate the evolution of existing industries; and implement the capabilities required to ensure a healthy business climate and a stronger community.

**Metropolitan Business Plan (MBP)**

The Brookings Institution’s Metropolitan Program selected MSP through a request for proposal (RFP) as one of three pilot projects to develop a Metropolitan Business Plan (MBP) for MSP in 2009. The RCI leadership team worked with the RCM and Itasca Job Growth Task Force to develop the plan. A key stakeholder group met weekly for over one year to conduct research for and write the MBP, identifying six leverage points of competitiveness by using a framework provided by Brookings. Cluster-led growth is one of the six components of the MBP, and the RCI was specifically tasked with analyzing and understanding clusters and facilitating relationships with businesses.

**GREATER MSP**

Launched in October 2011, GREATER MSP is a public-private partnership committed to stimulating economic growth and prosperity for MSP residents and businesses as well as being a resource for all economic development organizations in the region. Engaged business and civic leaders provide the means to ensure the success of the partnership, and all GREATER MSP officers are leaders from the region’s major corporate headquarters.

GREATER MSP is a primary point of contact for domestic and international businesses looking to locate or expand in the 13-county MSP region. It represents 11 Minnesota counties and two adjoining Wisconsin counties. The partnership offers site location assistance and other mission-critical business development services to companies planning new or expanded facilities in MSP. Services include:

- Business attraction and regional marketing.
- Business retention and expansion.
- Talent development and promotion.
- New business formation and support.
Appendix B: Southeast Minnesota Workforce Investment Board Committee Structure

Appendix C: The BioBusiness Alliance of Minnesota Destination 2025 Roadmap

Minneapolis Life Science Community

Minnesota Industries
- Medical Devices
- Pharmaceutical Biologics
- Animal Health
- Food
- Renewable Energy
- Renewable Materials

Commercialization Catalysts
- Leadership Talent
- Skilled Workforce
- Funding
- Academic Tech Transfer
- Acceleration and Incubation
- International Business Support
- Component and Service Suppliers

Enabling Knowledge Clusters
- Catalysis and Synthesis (Biological and Chemical)
- Nanotechnology and Materials Science
- Bioengineering and Clinical Capabilities
- Bioinformatics and Systems Biology
- Genomics, Proteomics, and High Throughput Biology
- Imaging and Navigation

Foundational Capabilities
- Education
- Infrastructure
- Policy
