The Minneapolis-St. Paul Metropolitan Region and the Minnesota Economy

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THE MINNEAPOLIS-ST. PAUL METROPOLITAN REGION AND THE MINNESOTA ECONOMY

By Lee Munnich, Jr., Burke Murphy, Megan L. Roberts, and Jennifer Schuler

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Minnesota has developed a reputation for having a resilient and broad-based economy. Agriculture, financial services, defense, publishing and printing, and medical devices are just a few of the significant and varied 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 and both nationally and internationally competitive industry clusters. This case study describes the background, activities, and outcomes of the nascent cluster-based economic development movement in Minnesota and the MSP region.

**ECONOMIC BACKGROUND**

Since its territorial 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 timber industry has birthed industries like paper milling, and iron ore mining has evolved into iron ore pellet production and export. 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 today. Major players in mining, such as Minnesota Mining and Manufacturing Co. (now 3M), have evolved into diversified manufacturers of industrial and consumer products.

Agriculture remains a major part of the state’s economy and the Minnesota Department of Agriculture ranks agriculture as the second largest industry in the state. However, only a small percentage of the population (less than 1%) are employed in the agriculture industry as full-time farmers. 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 (prepackaged and processed meat products), and the Schwan Food Company (frozen foods). In addition, specialty products and support industries such as precision agricultural equipment 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 also define the state and make it a competitor in the world economy. Outdoor and winter recreation industries, including snowmobile manufacturing, boating and fishing, and tourism have grown rapidly in recent years. 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—a cluster which will be highlighted in greater detail later in this case study—are also integral to the state’s identity and economy. Patient care systems pioneered by the Mayo Clinic and cardiologic devices have changed health care practice and informed recent national policy discussions regarding health care reform, drawing more attention and investment to the state.

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

MINNESOTA TODAY

Today, the Minneapolis-St. Paul metropolitan area is a broad-based economy that largely reflects the diversity of the U.S. economy as a whole. The seven-county metro area has a population of 2.8 million, projected to increase to 3.6 million by the year 2030.¹ The 13-county Metropolitan Statistical Area (MSA), including two Wisconsin counties, has a population of 3.3 million. With a labor force of 1.8 million, the workforce participation rate is one of the highest in the nation (72.5%). Economic output from these workers was estimated at $189.8 billion in 2009, which ranks the MSP metro area as 14th largest in the nation.²

The state of Minnesota and the Minneapolis-St. Paul metro area are also consistently ranked among national leaders in terms of levels and quality of education attained. Roughly 90% of workers age 25 and older in the state have at least a high school diploma; in addition, within the metro region, 29% hold bachelor’s degrees and 14% have a graduate or professional degree.
The relatively high education level of residents, in combination with regional strengths in higher-wage industries (noted below), has translated into higher personal incomes for workers in MSP. In 2008, per capita personal income (PCPI) in the region was $47,653. This PCPI ranked 23rd of all United States metropolitan regions and was 19% higher than the national average of $40,166. In recent years, however, PCPI growth in MSP has slowed relative to the nation. In 2000, for example, the PCPI of the Minneapolis-St. Paul metro region was 23% higher than the national average. Additionally, income disparities—particularly for African Americans and Native Americans—are not reflected in per capita data. 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 the MSP region carrying the worst relative disparity between black and white high school graduation rate and unemployment in the country.  

Figure 1: Industry Clusters in the Minneapolis-St. Paul Region
Despite these unsettling trends, the long-term economic development of the state and the MSP region has been significant and strengths have emerged in financially and socially beneficial areas. Reflecting the historical development of the state, major clusters in the MSP region, as identified by employment concentration (location quotient), are: Medical Devices, Financial Services, Distribution Services, Business Services, Production Technology, Analytical Instruments, Metal Manufacturing, Information Technology, Printing and Publishing, Chemical Products and, more recently, Biopharmaceuticals. The medical device cluster is the most dominant cluster, with 21,293 jobs and an employment concentration 3.75 times the national average in 2008. In Minnesota, the cluster is most specialized in cardiology therapies such as pacemakers, with familiar players including Medtronic and Boston Scientific. However, the cluster has begun to broaden to include innovations in medical technology in biologics, radiologics and orthologics.

Table 1: Top Ten Revenue Earners in MSP

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<tr>
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</thead>
<tbody>
<tr>
<td>UnitedHealth Group</td>
<td>Health Care: Insurance and Managed Care</td>
<td>1</td>
<td>87,138</td>
<td>80,000</td>
</tr>
<tr>
<td>Target</td>
<td>General Merchandisers</td>
<td>2</td>
<td>65,357</td>
<td>351,000</td>
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<tr>
<td>Best Buy</td>
<td>Specialty Retailers</td>
<td>4</td>
<td>45,015</td>
<td>155,000</td>
</tr>
<tr>
<td>Supervalu</td>
<td>Food and Drug Stores</td>
<td>4</td>
<td>44,564</td>
<td>178,000</td>
</tr>
<tr>
<td>CHS</td>
<td>Wholesalers: Food and Grocery</td>
<td>2</td>
<td>25,729</td>
<td>8,211</td>
</tr>
<tr>
<td>3M</td>
<td>Diversified Manufacturing</td>
<td>1</td>
<td>23,123</td>
<td>74,835</td>
</tr>
<tr>
<td>U.S. Bancorp</td>
<td>Commercial Banks</td>
<td>8</td>
<td>19,490</td>
<td>58,229</td>
</tr>
<tr>
<td>General Mills</td>
<td>Food Consumer Products</td>
<td>3</td>
<td>14,691</td>
<td>30,000</td>
</tr>
<tr>
<td>Medtronic</td>
<td>Medical Products and Equipment</td>
<td>1</td>
<td>14,599</td>
<td>41,000</td>
</tr>
<tr>
<td>Land O’Lakes</td>
<td>Food Consumer Products</td>
<td>8</td>
<td>10,409</td>
<td>9,000</td>
</tr>
</tbody>
</table>

In addition, the MSP region includes the highest concentration of corporate headquarters per capita in the United States. Twenty Fortune 500 companies are based in the Twin Cities, representing finance and insurance, food processing and distribution, retail, manufacturing, and logistics. Several major privately held companies and non-profits are also located in the
region, including Cargill (farm products), Carlson (lodging), and the Mayo Clinic (health services). Supporting central administrative activities as well as other cluster functions, Minneapolis-St. Paul 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.⁴

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 spin-off from 3M, and the Advanced Autoparts’ decision to locate its headquarters in Bloomington to benefit from talent and synergy created by Best Buy. Corporate headquarters also operate as sophisticated consumers within the cluster, leading suppliers to become more efficient, specialized, and savvy in the global marketplace. The prominence of high-quality printing and design services in the Minneapolis-St. Paul region developed in response to the needs of demanding corporate customers like Target (retail).

Corporate leaders in the Twin Cities also have 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% of pre-tax profits of the corporation to community causes. This corporate giving tradition continues today and is now known as the Minnesota Keystone Program, which includes nearly 200 member companies that contribute cash, in-kind donations, or volunteer time to local non-profits. More recently, this tradition has been exemplified by the 2003 formation of the Itasca Project, an industry-led civic organization with an interest in new and better ways to address regional issues that impact economic competitiveness and quality of life. Steady corporate and philanthropic support of the arts, regional recreation areas, and human services has contributed to a high quality of life and a thriving arts community in the Minneapolis-St. Paul area, both of which can attract and retain talent in the region.

THE CHALLENGE

Minnesota’s economic history, highly educated populous, and commitment to civic and corporate engagement are key strengths that have enabled the state to be a leader. However,
as the state moved towards the Great Recession, these strengths were waning and the educational legacy of the 1970s K-12 Minnesota Miracle was being challenged. Recent years have been characterized by budget shortfalls and difficult political decisions that affect 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 ranking for wages and education level.

While Minnesota and the MSP metro region were faring better as a whole during the recession than other states and regions, some segments of Minnesotans were disproportionately more affected by the economy’s set-backs, and it seemed the disparities were increasing. The state has the largest disparity in the country between black and white high school graduation and unemployment rates. There is a 30% gap between the percentage of Minnesotans possessing post-secondary education (40%) and the percentage of Minnesotan jobs expected by 2018 to require workers with some post-secondary training (70%).

Furthermore, 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 Minnesota’s Department of Employment and Economic Development (DEED) was focusing most of its economic development efforts on the non-metropolitan areas of Minnesota. MSP was being passed over for investment and business site location, and entrepreneurship that had grown the state’s economy in the past was lagging. The large presence of corporate headquarters and nationally competitive clusters was an advantage for MSP; however, a workforce skills mismatch and increasing disparities were problematic. These facts 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 the MSP region while creating a greater sense of regionalism and cohesion.
In order to address this fundamental challenge, stakeholders including economic
development professionals, policy makers, academicians, area mayors and business leaders
formed the Minneapolis-St. Paul Regional Cluster Initiative.

ORGANIZATIONAL MOVEMENT

In response to this challenge, the Regional Cluster Initiative (RCI) and several other initiatives
began. The RCI, started in 2009 with a grant from the Minnesota Department of Employment
and Economic Development (DEED), is the primary cluster-focused entity in the MSP region.
Its purpose is to implement a regional economic and workforce development competitiveness
strategy for short and long-term economic growth. Having recognized the importance of a
regional economic development strategy, the Regional Council of Mayors adopted a cluster
approach as a way of focusing their efforts in working with business leaders and other
regional partners. The State and Local Policy Program (SLPP) of the University of Minnesota’s
Humphrey School of Public Affairs, with a history of research, education and outreach on
regional industry clusters since 1995, staffed the RCI. To achieve its purpose, the RCI would
help coordinate local, regional, and state economic development initiatives and align the
MSP regional strategies with national economic competitiveness and job growth strategies in
order to grow, retain and attract jobs and economic benefit in the MSP region. Given this
overarching purpose, the RCI has required collaboration with private and public sectors to
accomplish its initial objectives:

- Conduct research on the importance of clusters and corporate headquarters
  concentrations as regional economic growth engines;

- Deepen linkages with regional initiatives such as the business-led Itasca Project’s Job
  Growth Task Force and Greater MSP, a regional economic development partnership,
  to increase economic growth;

- Demonstrate more formal linkages by convening medical device cluster leaders to
  develop a cluster strategy linked to other regional initiatives;

- Recommend action plan and strategies for local, state and federal government that
  retain and attract jobs to grow the regional economy
The RCI is advised by a committee, which includes current and retired business executives, mayors, and representatives of industry groups. The RCI is staffed through a partnership between the Regional Council of Mayors, the University of Minnesota’s Hubert H. Humphrey School of Public Affairs’ State and Local Policy Program, and the Minnesota State Department of Employment and Economic Development.

Figure 2: Timeline of MSP Regional Economic Development Initiatives

The Regional Council of Mayors (RCM), supported by the Urban Land Institute–Minnesota, is a consortium of 39 mayors of cities in the thirteen county Minneapolis-St. Paul metropolitan area. The RCM membership is committed to aligning policies on housing, jobs, environment, and transportation throughout the region to reduce competition between cities and improve the vitality of the overall region. For example, mayoral collaboration and negotiation was critical to the planning and completion of recent congestion management and transit improvements to the regional transportation system in the Interstate 35W corridor with a federal Urban Partnership Agreement grant.

Seeing opportunity to build on successes like the regional transportation system, the RCM began considering the possibility of regional economic development initiatives. The Jobs and Economic Development Task Force of the RCM spearheaded the effort to develop a new landscape of competitiveness by building a regional metropolitan model using an industry cluster approach. A small group representing the RCM, Hubert H. Humphrey School of Public
Affairs, and MN DEED began a series of informal meetings to discuss strategic partnerships to implement this new approach.

The Brookings Institution’s Metropolitan Program selected the Minneapolis-St. Paul region through a request for proposals as one of three pilot projects to develop a Metropolitan Business Plan. The RCI leadership team worked with the regional mayors (RCM) and Itasca Job-Growth Task Force to develop the plan. A key stakeholder group met weekly for over one year to research and write the Metropolitan Business Plan identifying six leverage points of competitiveness using a framework provided by The Brookings Institution. Cluster-led growth is a key component of the Metropolitan Business Plan, and the RCI, formally launched in October 2009, is specifically tasked with analyzing and understanding clusters and facilitating relationships with business. The partnership of Minnesota’s Department of Employment and Economic Development (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.

DEED’s partnership also provides a mechanism for integrating cluster strategies into statewide economic development plans through staff training and policy formulation. Together with the Regional Council of Mayors (RCM) and the University of Minnesota’s Humphrey School’s State and Local Policy Program, these entities act as the RCI.

As a primary component of the Metropolitan Business Plan, the region has commenced creation of a venture development organization, Accelerate MSP, as a core element of its strategy for economic development.

**Minneapolis - St. Paul Metropolitan Business Plan**

**Six Leverage Points of Competitiveness**

1. Focus on Concentration of Industries, Functions, and Occupations
2. Develop and Deploy Human Capital for Economic Growth
3. Develop an Infrastructure of Innovation and Entrepreneurship
4. Increase Spatial Efficiency
5. Create Effective Public and Civic Culture and Institutions
6. Develop and Deploy Information Resources
and job growth. An approach focused on small business development was chosen to leverage regional advantages in skilled workforce and research (public and private), to spur innovation in new and growing clusters while reducing dependence on clusters dominated by a few large corporations. As an idea championed by the City of Saint Paul, with guidance from JumpStart Inc. and supported by a broad collaboration of MSP organizations, the venture development organization is seeking to provide expert services and risk capital to transition high-potential technology-based opportunities to high-growth companies.

The University of Minnesota has been involved in cluster work since 1995 through the State and Local Policy Program at the Humphrey School. Courses on cluster-led economic development and applied research in economic development introduce graduate students and practitioners to clusters as seen 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. 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 parallel with the RCM/RCI effort, the Itasca Job Growth Task Force investigated and analyzed key enablers to competitiveness for the MSP region in a report released in April 2010. The Itasca Project is an employer-led alliance drawn together by an interest in new and better ways to address regional issues that impact the region’s economic competitiveness and quality of life. Two significant outcomes of this work are the formation of Greater MSP, a regional economic development partnership, and connecting small companies to larger customers through a Minnesota Suppliers Showcase. Greater MSP is a private-public 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 Urban Land Institute (ULI)–Minnesota has been critical to maintain unity of purpose and strategy between the outgrowths of the Itasca Project and the RCI in developing and maintaining a strong MSP regional economy.
Over the past few years the RCI has instigated significant organizational movement as can be seen by the considerable collaboration, relationships, partnerships and group effort outlined in this section. However, cluster based momentum is still emerging, developing and being redefined in the MSP region and state of Minnesota.

ACTIVITIES OF THE REGIONAL CLUSTER INITIATIVE

The overarching purpose of the RCI is to grow, retain and attract jobs and economic benefit in the Minneapolis-St. Paul region. To accomplish this purpose, the RCI has:

- Selected ten traded clusters to concentrate research on;
- Completed three cluster studies;
- Engaged medical device industry cluster leaders in setting priorities for a cluster strategy;
- Initiated corporate headquarter outreach; and
- Fostered regional competitiveness through ongoing partnerships with the Regional Council of Mayors and Greater MSP.

**Figure 3: Organizational Movement of Regional Economic Development**
The MSP Regional Cluster Initiative utilized the cluster mapping tool developed by Michael Porter’s Institute for Strategy and Competitiveness at Harvard Business School to identify competitive clusters in the Minneapolis-St. Paul metropolitan region. The cluster mapping tool identifies 41 distinct traded clusters which bring wealth into a region by selling traded goods or services outside the region. While these traded clusters represent 27% of the jobs in the MSP region, 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 as a measure of concentration and the cluster linkage map developed by Porter and his colleagues, it was possible to map out the competitive clusters strengths and linkages in the MSP metropolitan region. The strength of cluster links is summarized visually in a portfolio diagram by the relative positioning and overlapping of cluster circles. The location quotient (LQ) is a ratio measure of the concentration of a cluster in the MSP region relative to the
region’s average share of employment in the U.S. traded economy. So, LQ is a measure of a cluster’s level of concentration within a region, with an LQ > 1 indicating higher than average concentration in that region. Of course, this cluster mapping analysis only touches the surface by giving a summary picture of cluster strengths by employment and the potential for growth.

The RCI identified ten clusters to study in MSP based on: strength of competitive advantage, potential gain for industry cluster from private-public collaboration, degree of geographic distribution in the region, potential to spur innovation, potential to spur entrepreneurship, and international strength. These six criteria were developed by the Humphrey School research team in consultation with RCM leadership. Of the ten clusters identified, three clusters were selected for in-depth focus by the RCM. These three clusters were medical devices, distribution services and information technology. Three graduate student teams worked with the Regional Council of Mayors to complete interviews with businesses in the three chosen clusters, while students completed cluster research and analysis. The MSP portfolio diagram shows the strength of its medical device cluster (3.75 LQ). In addition, distribution services (1.15) and information technology (1.36) are also above average.

Due to the strength of the medical device cluster in MSP, the RCI engaged medical device industry cluster leaders in setting priorities for a cluster strategy. This convening effort was influenced by the student cluster report that identified opportunities, challenges and threats to the cluster and recommended bold action be taken to address current industry concerns. In early 2011, the BioBusiness Alliance convened medical device business leaders and entrepreneurs for the purpose of forming a core cluster board. This group has identified other key members and articulated key themes for the cluster’s work, including regulatory issues, branding the region’s cluster, competing in the global marketplace, and building on the existing regional medical device ecosystem to support innovation and entrepreneurship.

To increase corporate headquarter outreach, the RCM and RCI are engaged in a series of conversations between mayors – the CEOs of cities – with corporate CEOs in targeted industry clusters in the region. These CEO to CEO conversations were initiated to build informal relationships between business and government leaders to aid in private/public alignment by
discussing questions important to regional economic development. Conversations centered on these questions: What makes the Twin Cities a great location for 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. Over the course of the 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 these 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. The CEO to CEO conversations helped identify important cross-cutting strategies to grow stronger clusters in the region. The regional mayors’ priorities are to 1) continue engagement with CEOs to retain and grow jobs, 2) align regional economic development resources, 3) streamline regulatory and permitting processes, and 4) invest in regional infrastructure and institutions.

Finally, the RCI is committed to fostering additional regional competitiveness through ongoing partnerships with the Regional Council of Mayors and Greater MSP.

**Rural-Urban Linkages**

A distinctive competitive strength of Minnesota is competitive rural clusters that are linked to urban clusters. While the MSP metropolitan economy is an engine of growth for the Minnesota economy and surrounding region, the rural or non-metropolitan areas of the state also have significant industry clusters, many of which are linked to the MSP regional clusters and corporate headquarters. For example, farm products and food production are major industries in rural Minnesota, with companies such as Hormel...
meats based in southeast Minnesota, Schwan Foods in southwest Minnesota, Crystal Sugar in northwest Minnesota and General Mills, Cargill and SuperValu all based in the MSP metropolitan area.8

Cluster mapping has been used in Minnesota’s rural regions to identify competitive industry clusters and to explore linkages between urban and rural clusters. The cluster map for southeast Minnesota shows a strong information technology cluster (2.7 LQ), with IBM having a major manufacturing facility in Rochester, MN, and several related industries. Pork production is a major industry cluster in the region, contributing to a strong processed food cluster (4.0 LQ). Not showing up on this map of traded clusters is the health services cluster, which is typically a local cluster dependent on the local economy. The Mayo Clinic, which is located in Rochester, is an international health services center that brings patients from around the world as well as serving Minnesota and the region. The Rochester MSA has a location quotient of 3.96 with over 30,000 people employed in health services, and contributes to the strength of related biobusiness clusters in both MSP and rural Minnesota.

Figure 6: Portfolio Diagram of Southeast MN Clusters
Southeast Minnesota Workforce Investment Board

One example of a cluster-based strategy for workforce development in Minnesota is the Southeast Minnesota's Workforce Development, Inc (WDI) and its Workforce Investment Board (WIB). WDI is an independent non-profit agency with a mission to develop and advance the workforce of Southeastern Minnesota by serving job seekers and employers. The Southeast Minnesota Workforce Investment Board (WIB) advises WDI, serving a ten county area inclusive of the City of Rochester, MN. The Rochester mayor has been an active member of the Regional Council of Mayors, and although outside of the 13-county MSP region, Southeast Minnesota has been recognized as a critical region for the RCI because of the Mayo Clinic and the region’s IT industry.

Southeast Minnesota workforce development leaders reorganized their WIB board in 2007 utilizing a cluster-based approach. This reorganization was based on WDI’s conviction of the importance of private sector leadership and a demand-driven approach to workforce development through increased representation of key business and industry. By charter, WIB boards must have at least 51% of their membership made up of industry representatives. In Southeast MN, this percentage was raised to 60%, increasing the number of private and industry stakeholders present on the WIB, giving the Southeast MN WIB committees a stronger private sector and cluster focus. The change increased private sector membership from 27 to 33 members. While the WIB previously had a difficult time recruiting and keeping private industry representatives, since the restructuring, industry stakeholders have been more participatory and engaged. This commitment is further reflected in the framework of their WIB Committee structure. Committee composition and focus are influenced by the percentage, wage, and concentration of employment in regional industry clusters. Four industry sector task forces are then selected based on the industry cluster data, with four parallel human resources task forces to address corresponding workforce development issues. The task forces are developed based on need and trend (See Appendix A). In addition to these activities, the SE MN WIB maintains a list of regional “hot jobs” as another effort to stay relevant to both employers and job seekers.
INDICATORS OF SUCCESS

With formal cluster initiatives currently in a gestational period, indicators of success are made up of immediate progress measures in service to longer-term goals. Business leaders, mayors, academicians, foundations and the workforce development system involved in the MSP Regional Cluster Initiative are keen to maintain focus on outcomes for the community, not just outputs from the committee members. Specific measures for each cluster may vary based on its unique composition and growth priorities, but creation of new and high-quality jobs has been identified as an overarching goal for the region’s clusters.

Table 2: Regional Cluster Initiative Objectives, Outcomes and Measures

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<th>Objective</th>
<th>Activity</th>
<th>Outcome</th>
<th>Measure</th>
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<tbody>
<tr>
<td>Research cluster and headquarters importance</td>
<td>Identified ten competitive industry clusters; conducted in-depth studies of three clusters in MSP region</td>
<td>Greater investment, entrepreneurship</td>
<td>Increased out-of-state venture capital, relative to other states</td>
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<td></td>
<td></td>
<td>Stronger public/private relationships</td>
<td>Increased job-growth in clusters</td>
</tr>
<tr>
<td>Deepen Regional Linkages</td>
<td>Developed Metropolitan Business Plan with Regional Council of Mayors &amp; Itasca Project Work with Greater MSP</td>
<td>Increased innovation</td>
<td>Increased number of patents requested/received by firms in target cluster</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increased alignment</td>
<td></td>
</tr>
<tr>
<td>Formalize linkages with medical device cluster leaders</td>
<td>Worked with BioBusiness Alliance in convening medical device cluster leaders &amp; identifying cluster priorities for action</td>
<td>Increased cluster coordination</td>
<td>Establish more formal networks within three target clusters</td>
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<tr>
<td></td>
<td></td>
<td></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 partnership &amp; develop action plan</td>
<td>Improved access to quality jobs</td>
<td>Increased average wage in targeted cluster(s)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Improved job development and transportation initiatives within target clusters</td>
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To evaluate the impact of the cluster formalization in the key industries identified by the RCI, cluster leaders – with the support of RCI partners – will take baseline measurements of cluster health and determine a timeline for future measurements. Possible measurements listed in Table 2 fall into the RCI priority outcomes of greater investment and entrepreneurship, increased innovation, increased cluster coordination, and improved access to quality jobs. These outcomes and measures also correspond to the RCI’s four immediate objectives.

While specific analyses, measures, and outcomes for each targeted cluster may vary significantly due to unique cluster compositions and growth priorities, taking a closer look at a specific targeted cluster allows for a tangible example of the cluster work currently ongoing in Minnesota. Below the Minnesota medical device cluster, a leading industry in the MSP region and Minnesota, is described and highlighted. The medical device cluster illustrates a cluster with a targeted industry approach, clear indications of success and an ongoing plan of action.

**Medical Device Cluster: An example**

Minnesota has a rich history of manufacturing and development of medical devices. The Minnesota medical device cluster, with a location quotient 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 completing a number of acquisitions over the years, and have been bolstered by the presence of a world-class medical center, the Mayo Clinic in Rochester, Minnesota. As
a result of the mere presence of large cardiac device firms, it may appear that the cluster specializes in cardiac devices. However, the cluster is diverse, as it contains firms specializing in medical supplies, hearing aids, and nerve stimulation. Evidence also suggests that a radiology cluster is developing in Eagan, Minnesota.

Historically, the Minnesota medical device cluster has also been home to groundbreaking research. World renowned researcher Dr. Doris Taylor’s work at the University of Minnesota in cell therapies and biological engineering continues to draw attention to the Minnesota medical device community. The University of Minnesota will continue to play a substantial role in the cluster. New partnerships between the University and the Mayo Clinic have also led into 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.

Within this cluster, the BioBusiness Alliance and Life Science Alley have been instrumental industry groups in the development of a cohesive bioscience industry in the state. The Life Science Alley, with over 26 years of experience in the life science cluster, and the BioBusiness Alliance were developed to build the life- and bioscience industry, retain and create life- and bioscience jobs, and position Minnesota as a global leader in life- and biobusiness. In 2010, the BioBusiness Alliance and the Life Science Alley announced a strategic partnership to further fuel growth in the life- and bioscience industry in Minnesota. Their combined strategic alliance forms the base of the medical devices cluster initiative in Minnesota. The publication of the BioBusiness Alliance’s Destination 2025 Plan sets forth a vision and roadmap for the wider bioscience community.12

INITIAL OUTCOMES

The RCI and its partners have seen outcomes emerge from initial cluster activities and anticipate more robust results as efforts continue. Currently, the cluster concept has provided a framework for state and regional policy in coordination with industry. RCI interviews with business leaders have revealed common concerns regarding workforce development, support industries, and public support for research and innovation. The process of engaging
in facilitated interviews between executives of corporations and executives of cities has proven worth the time and effort. The interview process has created both immediate benefits and the foundation of a long-term strategic alliance. In the short-term, shared problems can be identified early, allowing for thoughtful decisions to be made and limited damage to be incurred for business and for the community as a whole. In the long-term, open communication between private sector leaders and public sector leaders can result in better use of resources, better outcomes for residents, and a more cooperative political climate. The emphasis on building on local strengths and partnerships has created a more collaborative atmosphere and a constructive direction for activities that fill the void left by the State’s lack of a robust economic development strategy. 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, the 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 the Humphrey School of Public Affairs graduate students and regional industries. Graduate student cluster reports have provided a non-prescriptive and non-threatening mechanism to both engage and inform industry leaders regarding cluster-based economic development strategies. Students introduce cluster concepts and present questions that business leaders may not answer in another setting. In Fall 2011, graduate student teams completed strategic outreach and cluster analysis of targeted industries identified by Greater MSP as key drivers of Minnesota’s existing and future economy. Four industry categories were studied: Health and Life Sciences, Food and Agribusiness, Innovation and Technology, and Headquarters and Professional Services. These student reports offer direct insight into existing and emerging cluster competitiveness in MSP.

Another early outcome has been the exploration of the role of corporate headquarters in the strength and development of clusters. The region provides a unique environment for understanding cluster growth because of the dominance of corporate headquarters in the MSP region and their influence on multiple clusters, factor and demand conditions, supplier
relationships and business strategy, structure, and rivalry. Corporate headquarters like 3M, Target, UnitedHealth Group and others are demanding and sophisticated customers, which can lead to advancements in support industry clusters like information technology. At the same time, dominant players can present insurmountable barriers to entry for innovative new companies and create vulnerabilities in the larger economy due to skewed employment balances. The benefits and drawbacks of prominent headquarters within the cluster ecosystem should be further investigated by economists and policy experts in order to inform more nuanced cluster-based development strategies.

Finally, the RCI is committed to bringing intentionality to the economic development structures and efforts of the MSP region, using a cluster-based strategy. However, formal cluster organizations are still in nascent stages, with medical devices and renewable energy moving most quickly toward that result. The RCI members continue to provide staffing support to emerging cluster-based organizations when needed and to facilitate cluster-based industry studies through the University of Minnesota Humphrey School. In addition, the RCI members—through their involvement in a wide range of committees and boards—work to ensure a coordinated and integrated set of cluster-based economic development activity throughout the region’s jurisdictions.

LESSONS LEARNED

The work of the Regional Cluster Initiative and its partners has been a learning process for political and business leaders in the MSP region. This learning process has helped to define future steps and build regional cohesion. While the regional competitiveness approach is still emerging and being defined in the MSP region and state of Minnesota, several key lessons can be identified:

- Corporate headquarters are important economic drivers in the MSP region. It is important to understand the historic context of the corporate headquarter cluster in encouraging and facilitating new and emerging clusters in MSP.
- The Minnesota medical device cluster could be a significant driver of new health-related cluster growth in the region.
MSP and greater Minnesota need a regional strategy based on public/private relationships, which build on Minnesota’s civic tradition and regional energy, to grow the economy.

These key lessons, along with the identified goals and objectives of the RCI, provide direction for future organizational movement, activities and outcomes within the nascent cluster-based economic development movement in Minnesota.

While MSP’s Regional Cluster Initiative is still a work in progress, other regions looking to develop a regional economic movement can learn from MSP. The regional economic movement followed a series of steps:

1) Leadership emerged focusing on key idea of regionalism
2) Private sector became engaged finding relevance in focus on regional competitiveness
3) Concrete objectives emerged focusing on growing jobs and increasing wages while decreasing social disparities
4) Action items assigned to key stakeholders concentrating on regional and organizational strengths
5) Accomplishment of outcomes and measurable success.

MSP is currently between stages three and four and working towards final accomplishments. Major challenges have been encountered. The sheer number of institutions and perspectives on economic development in the MSP region have sometimes made it difficult to coordinate and collaborate, and not everyone has seen the regional cluster approach as a useful framework. Yet as regional leaders look to the future, there is optimism that MSP can, through a greater regional focus and a cluster-driven approach, create greater investment and entrepreneurship, increased innovation, increased cluster coordination, and improved access to quality jobs.
5 See endnote 4.
6 See endnote 3.
9 See endnote 3.
10 Information for this section developed from Randy Johnson and Becky Thofson, in conversation with the authors, November 17, 2011.
Appendix A: Southeast Minnesota Workforce Investment Board Committee Structure

[Diagram of committee structure]

Source: Southeast Minnesota Workforce Development, Inc. 2011.