



Economic Development Planning Skills

Class 2:

Industry Analysis and Economic
Development Plans

Why Analyzes Industries?

- Understand an area's major industries, their impact, prospects and relationships to other parts of the economy
- Assess market and competitive challenges facing key local industries
 - What determines competitive success in this businesses and product market?
 - What do firms need to do to succeed?
- Assess how the industry environment and local firms' position and strategies suggest about their future contribution to local economic development goals
- Consider how can local policies and initiatives might help key industries achieve competitive success, meet key challenges, and generate desired economic development outcomes
- **Traded vs. Local Industries Distinction**

Economic Development Lens for Industry Analysis

- Local impacts: number/quality of jobs, workforce, local suppliers and customers, environmental impacts.
- Opportunities to expand local benefits: job growth, inter-industry linkages diversification, improved environmental practices.
- Local factors that are most important to these industries and the nature of local advantages
- Market failures, constraints, and obstacles to industry success and achieving economic development outcomes
- Ways to enhance industry performance, advance sustainable practices, foster spin-offs, diversification, etc. Design more effective policies by reinforcing and complimenting the business strategies of local firms.
- Strategies to link industry jobs, procurement and other benefits to targeted groups and areas. These benefits require specific interventions and institutional linkages.
- These concerns are broader than conventional industry analysis; use their methods but expand research to address the last three issues.



Industry Analysis Outline: Overall Industry Conditions

- Definition of the business--its major products and services
- Markets served, nature of customers, customers relationships to producers
- Market size and projected growth
- Related markets and diversification opportunities
- Industry size and trends: number of firms, employment,
- Industry structure and competition
 - Size and location of firms
 - Existing competitors, location and strategies
 - Barriers to entry
 - Role of government policies and regulation
 - Potential competitors and substitute products
- Production process technology, organization, and labor role
- Supplier role and relationships
- Cost structure
- Sales and distribution channels
- Basis of competition and sources of competitive advantage
- Major trends and innovations: their impact on the basis of competition and the competitive position of the local industry

Industry Analysis Outline:

Local Industry

- Local producers & suppliers; their role in the industry
- Industry organization: inter-firm relationships, associations
- Local firm's labor force, its organization, key occupations/jobs, wage levels
- Competitive strengths and weaknesses of local industry
- Key competitive threats and strategy of major local firms
- Factor requirements and their role in local competitiveness
 - Labor force and skills, capital, land, infrastructure, technology, raw materials
- Obstacles and constraints to growth and competitiveness
- Potential strategies and activities to:
 - Strengthen competitive position of local industry
 - Enhance or realize growth opportunities
 - Diversify the local industry
 - Attract new firms in industry
 - Target job, purchasing, and other benefits to areas and groups

Competition and Industry Analysis

- Central question is what determines competitive success in the industry? Understanding the basis of competition provides insight into industry dynamics. You can then build on this understanding to define economic development activities.
- This issue entails three questions:
 - 1. What is the primary basis of competition in the industry or product/service market? How do firms seek to gain market share and sustain profitability?
 - 2. Who are the existing and potential competitors, what is their competitive position and strategies to gain competitive advantage?
- Within this competitive environment, what can be done to help local firms strengthen their position and leverage their advantages and local assets to compete successfully
- **Major dimensions along which firms compete**
 - 1. Product Cost
 - 2. Product Quality\Performance
 - Service (e.g., after sales service, fast turnaround, convenience, etc.)
 - 4. Image ("Brand" differentiation)
- Within each type of competition, it is critical to sustain a total cost advantage. Across industries, different costs provide the best opportunity for achieving large **cost advantages relative to competitors.**



Ways to Gain Cost Advantage

- Material cost advantages through volume purchasing
- Manufacturing costs advantages through scale
 - Yield (less use and cost of inputs)
 - Run length (esp. with high set up costs)
 - Proprietary technology
- Marketing and distribution
 - Economies of scale in distribution and service
 - Creating new, lower cost distribution channels
 - Internet is changing the nature and role of distribution
- Applications engineering: tailor a product/service to customer needs
 - Standardize product or system modules for different applications
 - Regularly update products as customer needs change.
- Research and Development: introduce new products or innovations more quickly, secure proprietary advantage.

ED Roles Vary by Cost Advantage

Cost Advantage	ED Role
Volume purchasing	Transportation & Infrastructure Buying Cooperatives
Manufacturing	Engineering Assistance Labor Force Training Facilities & Equipment Finance
Marketing & Distribution	Export Assistance Transportation & Infrastructure
Applications engineering	Technology Development/Diffusion Venture Capital Financing Labor Force Training
R&D	Technology Development Venture Capital Financing Labor Force Training

Industry Analysis: Information Sources and Research Tasks

- Collection and analysis of secondary economic data
 - Industry size, firm size, growth trends, occupations, wage levels
- Review secondary industry data (trade associations, private suppliers, Census Bureau)
 - Industry definition, products, customers, market size, key trends, some information on competition and regulatory/policy issues
- Find/review studies from government, trade associations, consulting firms, universities; review business and trade press
 - Detailed information on market, production process and technology, suppliers, cost structure, competition and sources of competitive advantages, business strategies, key trends
- Find studies and articles through web searches, key web sites, publication database searches, and industry experts
- Surveys industry firms
- Interviews and focus groups
 - Industry analysts and experts
 - Industry firms
 - Customers, suppliers and service firms
- Scope of research depends on your goals, number of industries to study and the available time and resources



North Carolina Apparel Example

- How would you describe the industry: key products, size, structure
- What is the competitive basis for the industry
- What are its local advantages
- What are its key competitive challenges
- How is the industry responding
- What appear to be the outcome of its response
- What are economic development implications?
 - Is this a good industry to target for economic development?
 - If yes, what are key needs and potential interventions?
- Strengths and weaknesses of the industry analysis

Cluster Analysis

- Idea in good currency with ED field for many years
- Held provides a useful way to think about clusters and an economic development framework for analyzing them.
- Definition: a group of related industries located in a region. Three types of clusters:
 - Vertically integrated--buyer-supplier relationships
 - Horizontal -- using common resources
 - Emerging -- potential for vertical or horizontal linkages but not yet established.
- Later two types have greatest potential to benefit from economic development policies. Vertical clusters have well developed institutions and support.



Cluster Analysis Process

1. Identify clusters

- Factor analysis to determine which industries were associated with job and income growth by county
- Interviews with local economic development officials

2. Assess clusters

○ Quantitative analysis:

- Location quotients to confirm importance
- Identify industry mix and competitive shift effects with shift-share analysis
- Use input output tables to evaluate linkage potential

○ Focus groups to identify nature and extent of firm inter-relationships, regional strengths and weaknesses, common needs and opportunities

3. Determine outlook and policy options



Cluster/Industry Analysis Discussion

Hudson Valley cluster analysis

- What clusters were identified?
- What did they learn from the two case study clusters?
- What was the resulting economic development agenda?

Fairhaven Industry Analysis

- What information did it provide?
- How useful was it in guiding economic development plans?
- How does it compare to North Carolina Apparel Industry study?

Industry vs. Cluster Analysis

- What are their relative advantages and disadvantages?
- Are they substitutes or compliments?
- What might lead you to use one approach vs. the other?