

A STUDY OF KEY INDUSTRY CLUSTERS IN THE BUFFALO NIAGARA REGION



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EXECUTIVE SUMMARY

The Buffalo Niagara region is an eight-county area¹ in western New York, on the shores of Lake Erie and Lake Ontario. The region shares a border with Canada, located just southeast of Toronto. The Buffalo Niagara region is home to about 1.6 million people, with about 60% of the region's population residing in Erie County. Further, about 67% of the region's 675,000 jobs are located in Erie County.

Employment in the region declined an average of 0.1% per year during the 1998 to 2003 period, compared to an average annual increase of 0.3% in New York State and 0.6% throughout the United States. Even prior to the recession that struck throughout the United States from 2001 to 2003, employment growth in Buffalo Niagara was lagging the rest of the country. The **challenge for the region** is how to maximize the existing labor and other resources of the region so as to foster improved economic performance, especially as measured by employment growth and capital investment.

A major step in crafting a region's economic development strategy focuses on **what types of industries to target for growth and retention**. Industry targets may be chosen to meet varying community goals ranging from diversifying the economic base to increasing the average wage to utilizing natural and labor resources more fully and encouraging continued capital investment. A community's economic development efforts should focus on those industries in which the community has some clear competitive advantages. Further, industries selected need to be economically, environmentally and socially acceptable to the community.

This study is **based on the concept of industry clusters**. Industry clusters are geographic concentrations of interconnected companies and institutions in a particular field. Ideally, clusters also include the institutions and professional organizations that provide research assistance and support to the industry.

This study identifies five industry clusters that present strong opportunities for the future growth and vitality of the Buffalo Niagara region. Once key clusters were identified, further research compared industry employment concentration in the Buffalo Niagara region to the national economy. Where concentration of an industry is greater than the national economy, it is presumed that the production of goods and services is more than sufficient to meet local demand, and is therefore exported – either physically or financially. Where industries are highly concentrated it is presumed that a high degree of specialization among firms exists, a feature of competitive industry clusters.

¹ The Buffalo Niagara region includes Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans and Wyoming counties.

The following table summarizes the total employment and employment concentration for each of the five industry clusters and five industry subclusters included in this study. In addition, the Buffalo Niagara region's employment concentration rank out of the 50 largest metropolitan areas is included.

INDUSTRY CLUSTER SUMMARY DATA
Buffalo Niagara Region

Industry Cluster	Cluster Employment	Employment Concentration	Concentration Rank
Food and Food Processing	16,400	2.6%	1
Information Technology	5,400	0.8%	47
Life Sciences	8,500	1.3%	19
Medical Products	2,500	0.4%	22
Pharmaceuticals	2,100	0.3%	19
Research	3,900	0.6%	19
Machinery	17,400	2.7%	6
Transportation Equipment	17,600	2.8%	2
Automotive	14,200	2.2%	2
Aircraft and Aerospace	3,400	0.5%	18

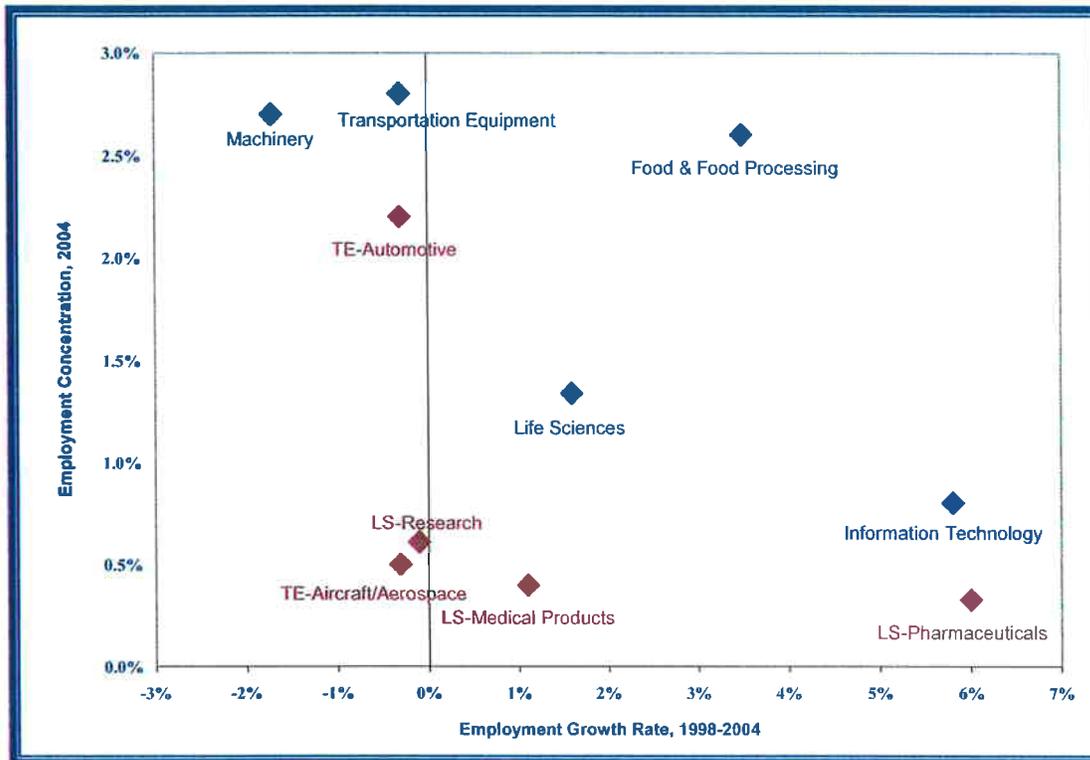
Source: Dun & Bradstreet, Inc., MarketPlace database, July-Sept. 2004.

While a few of the five industry clusters exhibited strong employment concentrations but slow or no employment growth in recent years, it was decided there is value in recognizing large employment sectors of the local economy. These industry clusters are important to study and understand in order to target business support and retention efforts.

The Buffalo Niagara region ranks among the top ten metropolitan areas for employment concentration in the Food and Food Processing, Transportation Equipment and Machinery industry clusters. The Buffalo Niagara region does not rank as high in the Life Sciences and Information Technology industry clusters; however, these industry clusters provide new and unique opportunities to diversify the economic base of the region. The outlook for growth in the Life Sciences and Information Technology industry clusters is positive.

The following chart depicts the average annual employment growth rate over the past six years and the current employment concentration for each of the five industry clusters and five industry subclusters. In general, the prime opportunities for a region exist in those industry clusters that are exhibiting strong employment growth. Further, it is important to note those industries that have current strong concentrations of employment, as retention efforts related to those industries should be a key component of the region's economic development strategy.

EMPLOYMENT GROWTH RATE AND EMPLOYMENT CONCENTRATION
Buffalo Niagara Region
All Industry Clusters



Focus group discussions provided valuable insight into each industry cluster as it exists in the Buffalo Niagara region. In addition to specific insights for each industry cluster, some common themes emerged providing insight into overall opportunities and business advantages, as well as challenges to future growth.

Opportunities and Business Advantages

Higher Education – The higher education system in the Buffalo Niagara region provides an excellent support system for businesses in the region. There are approximately 30 two-year and four-year higher education institutions in the Buffalo Niagara region. Of these, there are 15 regional higher education institutions with a total enrollment of more than 1,000 students each, including eight institutions that are part of the State Universities of New York (SUNY) system and seven independent or private institutions. All 30 institutions have a combined enrollment of over 100,000 students and more than 20,000 graduates annually.

Access to Skilled Labor – With a labor force of nearly 795,000 people, the Buffalo Niagara region’s workforce represents one of New York’s greatest assets. The region enjoys a large, well-educated population and an abundant supply of entry-level and

experienced labor. Indeed, 86.4% of the adult population has graduated from high school, ranking the region #24 out of the 45 largest metropolitan areas. The region boasts a diverse employment base that is highly productive and brings with it a very strong work ethic.

Quality of Life – The Buffalo Niagara region boasts an attractive quality of life and should be promoted. The Buffalo Niagara region offers numerous entertainment venues ranging from major league sporting events to theatre and other cultural attractions to a wide variety of winter and summer outdoor recreational activities. Independent rankings put Buffalo Niagara on par with much larger cities in cultural and entertainment rankings. For example, *AmericanStyle*, a nationally distributed lifestyle magazine aimed at art enthusiasts and collectors, named Buffalo one of the nation's Top 10 Arts Destinations for the third consecutive year in its annual readers' poll in 2004.

Low Cost of Living – The Buffalo Niagara region offers the second lowest median home price out of the 133 metropolitan areas included in the National Association of Realtors' quarterly report. The median home price in the Buffalo Niagara region rose to \$93,000 in 2004 compared to the national median price of \$184,100.

Population Center – Many businesses locate near large population centers to minimize distribution costs and minimize the time to market. The Buffalo Niagara region is located within 500 miles of 55% of the United States population (including large east coast population centers) and 62% of the Canadian population (including nearby Toronto).²

Proximity to Customer Base – The Buffalo Niagara region is located in geographic proximity to the major trading centers of the Northeast and is a bi-national gateway for commerce. Over 51 million people live within 300 miles of the Buffalo Niagara region.

Transportation Connections – Many businesses rely on the transportation infrastructure to move end products to clients and customers. The Buffalo Niagara region has one of the most highly developed rail systems in the world, encompassing nearly 1,000 miles of rail and including one of the largest railheads in the United States. Further, the Buffalo Niagara region is linked to Canada through seven different ports of entry.

Quality Transportation Networks – The 2005 *Urban Mobility Study* by the Texas Transportation Institute reveals that peak period travelers in the Buffalo Niagara region experience 13 hours of delay annually due to congested roads, earning the region a rank of 65 out of 85 areas. The national average is 47 hours of annual delay per peak period traveler.

Access to Foreign Markets – The Buffalo Niagara region's proximity to Toronto provides unique opportunities to tap into the Canadian market. For example, seven major auto producers have manufacturing facilities in Ontario, within 70 to 90 miles of the Buffalo Niagara region, providing opportunities for Buffalo Niagara companies to begin or

² Buffalo Niagara Enterprise, *Buffalo Niagara Location Advantage Fact Sheet*, www.buffaloniagara.org.

increase their role as a supplier to these Canadian companies. On a more worldwide scale, China, Japan and Asia have entered an age of unprecedented economic growth and present growth opportunities for several of the industry clusters.

Challenges

High Taxes – While the quality of life in the Buffalo Niagara region provides an opportunity to attract and retain businesses, high taxes and poor government fiscal policy are a challenge for the region.

High Energy Costs –The Buffalo Niagara region has high energy costs making it hard for large energy users to be competitive.

High Workers' Compensation Rates – Along with high taxes, businesses in the Buffalo Niagara region are affected by the high cost of workers' compensation insurance in the State of New York.

Foreign Competition – Most United States industries are facing pressures from increasing import competition. Buffalo Niagara region businesses are not immune from this competition and are also facing pressures from external competition and imports.

Image – Focus group participants indicated the Buffalo Niagara region is unfairly perceived as a less than desirable place to live and do business. This perception needs to be improved to reflect the many advantages of the Buffalo Niagara region.

Workforce Retirees – Some regional businesses will be affected by a large share of the workforce retiring within the next five years. It may be difficult to replace the skilled workers with new employees due to a lack of skill sets in younger workers.

Strategic Initiatives

Business leaders in the Buffalo Niagara region are aware of many of the challenges facing business growth in the region. The Buffalo Niagara Partnership NOW campaign is focused on a list of 11 specific strategic initiatives that the region's business leaders believe to be the most critical to immediately improving Buffalo Niagara's competitive position. The following is a brief summary of the mission of each strategic initiative which is actively being pursued by the Buffalo Niagara Partnership NOW campaign.³

1. *Buffalo Permitting Reform* - Complete the streamlining of Buffalo's Department of Permit and Inspection Services and continue to examine the process of development.

³ Buffalo Niagara Partnership, *Buffalo Niagara Partnership NOW*, 16th Quarterly Report, April 2005 – June 2005.

2. *Commercialization of Life Science Technologies* – Increase and accelerate the results from technology transfer and commercialization of cutting edge research, leading to the successful creation of new enterprises, growth companies, and ultimately, to a critical mass of life science activities that make the Buffalo Niagara region a global competitor and hot bed for innovation in the 21st century.
3. *Cross Border Facilitation* – Seeking Canadian and U.S. authorization of and resource allocation for “shared border management” and further facilitation of trade and travel between the U.S. and Canada in the Buffalo/Fort Erie, Lewiston/Queenston corridor.
4. *Downtown Buffalo Neighborhood* – Facilitate the creation of vibrant downtown Buffalo residential neighborhoods with the amenities, services and look which create a unique urban lifestyle.
5. *Local Development Delivery System* – Integrate the region’s Industrial Development Authorities, local development corporations and other related entities into a closely-knit collaborative network that is customer friendly and development savvy.
6. *Local Tax* – Reduce the local tax burden by conducting a non-partisan, independent analysis of the county’s finances and services that will specify and verify the current budget situation, project future budgets and provide specific recommendations for how Erie County government can provide services in a more fiscally responsible and effective manner.
7. *Low Cost Hydropower* – Preserve the amount of low cost hydropower available for new and existing industrial consumers and expand the pool of commercial and industrial consumers eligible for such power.
8. *Regional Land Use* – Establish a regional land use/infrastructure plan. Establish an entity to oversee and implement the plan with the appropriate authority and utilizing all necessary tools.
9. *Regional Tourism* – To enhance the bi-national region as an international tourism destination by improving cooperation and coordination among tourism-related for-profit and not-for-profit entities and tourism promotional agencies and by influencing local, state/provincial and federal governments to change policies, regulations and laws as required facilitating this enhancement.
10. *Shovel Ready Land* – To increase the region’s competitiveness by creating a site portfolio containing enough real estate product for the target industry sectors and those local industries in growth mode.
11. *Workforce Development* – To have the region’s workforce development system be more responsive to current and projected employer needs that relate to retaining and attracting of qualified workers.

In addition to the strategic initiatives, there are various financing and incentive programs that may be available to companies to help reduce the cost of doing business in the Buffalo Niagara region. Financial assistance can be obtained through a variety of sources including local industrial development agencies, economic development groups, chambers of commerce, and state and local governments. Financing programs include assistance in securing venture capital and working capital funds, low interest loan programs and traditional funding options. In addition, various regions may offer additional business development incentives such as Empire Zone benefits and other tax credit and tax abatement programs.

Conclusion

While there are opportunities and challenges for all businesses in the Buffalo Niagara region, each industry cluster provides a focus for efforts to foster and develop businesses in the region. Economic development goals may range from bolstering the employment base and capital investment in one industry cluster to increasing employment in a number of industry clusters in order to diversify the economic base. These goals are not mutually exclusive; the desired outcome is to bring or maintain the balance of the local economy. The decision of which industry clusters to actively pursue needs to consider the community's goals for industry specialization and economic diversification.

While there is value in the data and information contained in this report in and of itself, the true importance of any industry cluster study is in the role that it plays in the formation of economic development strategy. Ideally, industry cluster data and information is used in a multi-level approach to community positioning, broken into a series of strategic steps and execution steps.⁴ Specifically, these steps include:

Strategic Step 1: *What companies or industries do we want?*

Based on an analysis of existing industry clusters and market trends that may support the growth of emerging industry clusters, determine what types of businesses the community would like to target for both retention and recruitment efforts.

Strategic Step 2: *What needs do these companies have?*

Numerous factors play into a company's decision to expand or relocate its operations. The savvy economic developer will know what these locational factors are and will recognize that these factors differ by industry.

Strategic Step 3: *How do we meet their needs better than our main competitor cities?*

While it is important to know who your competitors are for various industries, it is also important to know how your business climate compares. By documenting your competitive position through detailed business advantages and disadvantages, you are

⁴ Developed by Development Research Partners and ccintellect, a Denver-based marketing company.

developing a framework for implementing solutions to your most pressing business issues.

Execution Step 1: *Identify recruitment versus retention opportunities.*

Just because you want an industry to grow and expand in your community does not mean that you will be successful. Be honest. If your location does not meet the needs of the industry better than your competitors, you may need to shift your efforts from a marketing and recruitment strategy to a retention and product development strategy.

Execution Step 2: *Develop authentic messaging.*

Use what you know about your community and what the industry needs to develop marketing messages that are authentic and believable. Do not try to sell your community as some place that it is not. Be able to prove your statements.

Execution Step 3: *Develop focused marketing & PR efforts.*

Armed with the decisions and information on the types of industries desired and why your community offers a better location than your competitors, determine the best means for reaching the industry decision makers. Is it website, printed materials, magazine or newspaper ads, personal visits or some combination of methods?

This study completes Strategic Step 1 and Strategic Step 2. While much of the work on Strategic Step 3 has been completed, more specialized comparisons between the Buffalo Niagara region and the key competitors for each industry need to be made. Once that is completed, it is time for the Buffalo Niagara region to begin executing the economic development plan in a deliberate fashion.

The economy is a constantly changing, dynamic force. Market conditions are not static. The development of the ideal, balanced economy is just that – an ideal. Developing a balanced economy requires frequent review of economic conditions and opportunities and challenges to maximize growth potential and success. Through constant monitoring of the most recent data and experience available, and frequent adjustments in economic development efforts, your community will move towards the creation of the ideal, balanced economy.