

## Using NAICS to Identify National Industry Cluster Templates for Applied Regional Analysis

Christina M.L. Kelton\*, Margaret K. Pasquale, and Robert P. Rebelein

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Christina M.L. Kelton, Ph.D.  
College of Business  
Economics Center for Education & Research  
University of Cincinnati  
3120 D Edwards One  
Cincinnati, OH 45221-0223 U.S.A  
Tel.: (513)556-2983  
Fax: (513)556-2953  
Email: [chris.kelton@uc.edu](mailto:chris.kelton@uc.edu)

Margaret K. Pasquale, Ph.D.  
Epidemiology & Pharmacoeconomics  
P & G Pharmaceuticals, Inc.  
8700 Mason Montgomery Road  
Mason, OH 45040-9462 U.S.A.  
Tel.: (513) 622-3871  
Fax: (513) 622-4321  
Email: [pasquale.mk@pg.com](mailto:pasquale.mk@pg.com)

Robert P. Rebelein, Ph.D.  
Department of Economics  
Vassar College  
124 Raymond Ave., Box 290  
Poughkeepsie, NY 12604-0290 U.S.A.  
Tel.: (845) 437-7393  
Fax: (845) 437-7576  
Email: [rebelein@vassar.edu](mailto:rebelein@vassar.edu)

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\* Corresponding author. Authors are listed alphabetically. Christina Kelton is Professor of Economics in the College of Business at the University of Cincinnati; Margaret Pasquale was a Research Associate at the Economics Center for Education & Research at the University of Cincinnati when most of the research was conducted; Robert Rebelein is Assistant Professor of Economics at Vassar College. This research was inspired by the authors' involvement in a large regional cluster analysis commissioned by the Cincinnati USA Partnership. Our work benefited substantially from conversations with other faculty and development practitioners involved in the project, including Jeff Rexhausen, George Vredevelde, Howard Stafford, Eric Thompson, Marge Rotte, and Neil Hensley. We also thank two anonymous referees for their insights and suggestions; the manuscript benefited tremendously from their expertise.

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## Abstract

Whereas FESER and BERGMAN, 2000, developed the concept of national-level cluster templates and introduced a systematic methodology to identify such clusters, their technique and results were based on the now-outdated Standard Industrial Classification (SIC) system for categorizing industries. We update their results using the 1997 Benchmark Input-Output Accounts for the United States, which are based on the North American Industry Classification System (NAICS). Since the treatment of services is much more comprehensive under NAICS, we are able to expand on the Feser and Bergman manufacturing templates to identify more comprehensive mixed-sector templates. The cluster templates we determine can provide a foundation for regional economic development strategies.

Industry clusters   Input-output analysis   Industrial Linkages   Regional Development Policy  
JEL Classification:   R10, R11, R58

## INTRODUCTION

In the last decade, many states and communities have adopted cluster analysis as a policy-making tool in economic development. Target-cluster identification permits state and local governments to allocate scarce resources to the expansion and retention of a small group of key industries. The cluster approach to development has intellectual roots both in industrial organization economics and regional geography. While industrial economists stress inter-industry and inter-organization linkages as well as intra-industry competition (see, for example, AUDRETSCH and FELDMAN, 1996; PORTER, 1990, 1998; and YAMAWAKI, 2002), economic geographers and regional economists focus on the importance of agglomeration economies in industrial location and spatial concentration (DOERINGER and TERKLA, 1995; MARKUSEN, 1996).

PORTER, 1998, defines clusters as follows.

Clusters are geographic concentrations of inter-connected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies or common inputs. Finally, many clusters include governmental and other institutions --- such as universities, standard-setting agencies, think tanks, vocational training providers, and trade associations --- that provide specialized training, education, information, research, and technical support. (p. 78)

PORTER, 1998, explains that clusters represent a new spatial form of organization, significantly different from the traditional, hierarchal vertical integration of companies and markets. The fact that companies are clustered together in one region, and that the ongoing exchanges among them foster communication and trust, produces "advantages in efficiency, effectiveness, and flexibility." (pp. 79-80)

Indeed, economic development practitioners recognize the following advantages of industrial clusters: economic efficiencies that reduce costs (of information, of specialized inputs and infrastructure, and of skilled labor) for firms in the cluster; increased technological change and innovation encouraged by the cluster; reduced risk to investment in start-up companies in the cluster; and the generation of visibility and identity for a region. For the Greater Cincinnati region alone (a fifteen-county area, including counties in Ohio, Kentucky, and Indiana), over the last several years, no fewer than *six* separate studies have been undertaken to identify and describe important inter-industry linkages.<sup>1</sup>

It is relatively straightforward, using publicly available data, to measure regional industrial strength by way of shift-share analysis, location quotients, regional employment and establishment count, regional impact multipliers, and regional growth relative to national growth. Many of these methods are described in McCANN, 2001. In fact, it is tempting to identify clusters directly from the regional strengths of industries that may seem to be related to each other. However, except for regions with well-established clusters (e.g., the biotechnology clusters in the San Diego and Raleigh-Durham-Chapel Hill areas), this method of cluster identification gives little guidance to regional planners regarding development strategies.

FESER and BERGMAN, 2000, developed the idea of national cluster “templates” that include industries that are linked together, taking into account as many of PORTER’s, 1998, inter-industry relationships as possible. The templates provide a type of road-map for development planners to follow, as they seek to build upon a region’s existing strengths, by indicating what new industries they might attract that could readily interact with existing firms. Feser and Bergman also developed a statistical technique, based on factor analysis, to identify national-level clusters. (Although we refer to them as “clusters” throughout this paper, they are clusters without a regional context, and are better termed “cluster templates” as the titles of this paper and the Feser and Bergman paper suggest.) The Feser and Bergman technique reveals latent opportunities in a regional economy that would otherwise not become evident by merely examining current local trading patterns and employment statistics.<sup>2</sup> The technique is capable of identifying clusters that include vertically-linked as well as horizontally-linked industries. Moreover, it has the potential for uncovering government and university linkages as well. Unfortunately, the timing of the Feser and Bergman paper was unlucky. Their technique and results were based on the 1987 Benchmark Input-Output Accounts, which, in turn, were based on the Standard Industrial Classification (SIC) system for categorizing industries. Since current employment and establishment data for cluster analyses are collected on the new North American

Industry Classification System (NAICS), the Feser and Bergman results are now difficult to apply.

In this paper, we update FESER and BERGMAN, 2000, using the 1997 input-output tables, which are based on NAICS industries. In so doing, we are making a practical contribution to the literature on cluster analysis. It turns out that the Feser and Bergman technique is remarkably robust when applied to the NAICS industries and allows us to identify sixty-one national cluster templates. Whereas some of the cluster templates we identify are primarily for either manufacturing clusters or service clusters (or agricultural or mining clusters, for that matter), others include a mix of industries from different aggregate sectors. This result is an improvement over the Feser-Bergman set of SIC-based cluster templates, which are in the manufacturing sector only. It is also an improvement over the FESER and KOO, 2001, mixed-sector cluster templates, some of which are not economically reasonable, and, indeed, needed to be revised by Feser and Koo using additional, occupation-based data.<sup>3</sup>

### **SIC TO NAICS**

The 1997 Benchmark Input-Output Accounts from the U.S. Department of Commerce Bureau of Economic Analysis are based on NAICS. As opposed to the SIC system which classifies establishments that have similar products, NAICS groups together establishments with similar production processes. According to LAWSON, *et al.*, 2002, NAICS-based classifications are more in line with the principle underlying the input-output classifications of the Bureau of Economic Analysis. In addition, the NAICS-based classifications introduce considerable detail in the service sector, as opposed to the SIC system, and a completely new sector, "Information," has been added under NAICS. As a result of the NAICS changes, nearly US\$200 billion has been shifted from the goods-producing sectors to the service-providing sectors of the economy (LAWSON, *et al.*, 2002).

The 1997 Benchmark Input-Output Accounts present inter-industry transactions at three different levels of industry aggregation: the sector level, the summary industry level, and the detailed industry level. As did FESER and BERGMAN, 2000, we work with detailed industry level data. However, unlike Feser and Bergman, we include industries in the transportation, agricultural, construction, utilities, and service sectors of the economy. In total, we consider 483 Industries.<sup>4</sup>

## METHODOLOGY

We follow the factor-analysis technique described in FESER and BERGMAN, 2000. For two industries A and B to be considered part of the same cluster, they must be linked in one of the following four ways:

1. A buys directly or indirectly from B;
2. A sells directly or indirectly to B;
3. A and B have similar purchase patterns from other industries; or
4. A and B have similar sales patterns to other industries.

Let  $x_i$  ( $i = A, B$ ) be the vector of purchase shares for each industry  $i$ . (That is, the 483 elements of  $x_A$  indicate the fraction of purchases made by industry A that come from each of the 483 industries we consider.) Similarly, let  $y_j$  ( $j = A, B$ ) be the vector of sales shares for each industry  $j$ . Then, we construct four correlation coefficients to characterize the similarities in input-output structure between each pair of industries A and B. The specific correlation coefficients we estimate are as follows:

$r(x_A, y_B)$  measures the degree to which the buying pattern of industry A is similar to the selling pattern of industry B, i.e., the degree to which industry A purchases inputs from industries that B sells to;

$r(y_A, x_B)$  measures the degree to which the buying pattern of industry B is similar to the selling pattern of industry A, i.e., the degree to which industry B purchases inputs from industries that A sells to;

$r(x_A, x_B)$  measures the degree to which industries A and B have similar input purchasing patterns; and

$r(y_A, y_B)$  measures the degree to which A and B possess similar sales patterns, i.e., the degree to which they sell goods to a similar mix of buyers.

We then choose the largest of the four correlation coefficients as the best indication of the strength of the connection between the two industries. Repeating this process for all possible industry pairs yields a 483 x 483 symmetric matrix of "maximum correlation coefficients."

Principal components factor analysis with promax rotation leads to 103 factors with eigenvalues greater than one.<sup>5</sup> However, nearly 100 percent of the variance is explained by the top 61 factors; hence, applying the proportion criterion (conservatively) leaves us with 61 industrial clusters to interpret. Industries with factor loadings that exceed a minimum value (the "cutoff factor loading") are considered part of the industrial cluster that factor represents. Whereas FESER and BERGMAN, 2000, used a fixed cutoff value of 0.35, we do not. The specific cutoff factor loadings we use vary by factor and are listed in Appendix A. We selected low values generally in order to offer development planners maximum flexibility in target-industry selection for their clusters of interest. Moreover, with expertise in several of the clusters, including biotechnology, we could determine cutoffs that made economic sense. Nevertheless, other values could be chosen. The complete list of factor loadings is posted on the author's website (<http://irving.vassar.edu/faculty/rr/research.htm>) so anyone wishing to use the NAICS-based templates can apply his or her own desired cutoff values.

## **NATIONAL INDUSTRY CLUSTER TEMPLATES**

Appendix A lists the 61 factors in descending order of percentage variance explained. Our interpretations (that is, cluster names) appear in the second column. Two of the factors contain such a diversity of industries as to have inconclusive interpretations, and are so

identified in the table. Among the top ten industrial clusters, eight are primarily, though by no means exclusively, manufacturing clusters, one is a service-oriented cluster, made up of industries that provide services for households, while one is inconclusive. In a comparison with the top ten loadings in FESER and BERGMAN, 2000, four clusters are interpreted similarly: Metalworking, Vehicle Manufacturing, Processed Foods & Beverages (Packaged Food Products in Feser and Bergman), and Chemical Products (Chemicals and Rubber in Feser and Bergman).

The industrial clusters are not mutually exclusive. Indeed, with 61 factors and fairly low cutoff factor loadings, our approach favors larger clusters with significant overlap (although only one cluster, Fats & Oils, Factor 59, is a proper subset of another, Feed Products, Factor 37). For example, along with Processed Foods & Beverages, we also find separate Dairy Products, Soft Drinks, Fats & Oils, and Confectionery Products clusters. We identify a total of four clusters that feature textile, apparel, and textile-support industries. There is considerable overlap as well between Medical Supplies & Services and Biotechnology. The overlapping nature of the clusters gives economic development planners significant flexibility when applying the national cluster results to specific geographic regions. Table 1 shows that each of the 483 industries belongs to at least one of the 61 clusters. The modal number of clusters for each industry is two; 196 industries belong to exactly two clusters. There are seven very "popular" industries, each belonging to more than four clusters. Belonging to five clusters each are the following industries: Grain Farming (NAICS 11113, 11114, 11115, 11116, & 11119), Other Animal Food Manufacturing (NAICS 311119), Carpet and Rug Mills (NAICS 31411), Transit and Ground Passenger Transportation (NAICS 485), Architectural, Engineering, and Related Services (NAICS 5413), and Specialized Design Services (NAICS 5414). Architectural, Engineering, and Related Services (NAICS 5413) is a member, quite reasonably, of the following five clusters: Nonmetallic Construction Components (Factor 23), Construction (Factor 12), Consumer Services (Factor 2), IT Support Services (Factor 42), and Construction Materials (Factor 4).



Two of these clusters are primarily manufacturing clusters. Hence, we capture the importance of engineering services to consumers, to businesses, and also to heavy industries. Other Animal Food Manufacturing shows up, as might be expected, in Fats & Oils (Factor 59), Grain Products (Factor 17), Feed Products (Factor 37), and Dairy Products (Factor 25), as well as in Biotechnology (Factor 52) as a purchaser of pharmaceuticals.

One industry, Scientific Research and Development Services (NAICS 5417), belongs to six clusters, including Consumer Services (Factor 2), Biotechnology (Factor 52), Vehicle Manufacturing (Factor 8), Advanced Electronic Systems & Components (Factor 58), Glass Products (Factor 38), and Information Technology Support Services (Factor 42). These loadings are *prima facie* reasonable since, according to the Census Bureau's NAICS definition in OFFICE OF MANAGEMENT AND BUDGET, 1998, Scientific Research and Development Services comprises establishments "engaged in conducting original investigation undertaken on a systematic basis to gain new knowledge (research) and/or the application of research findings or other scientific knowledge for the creation of new or significantly improved products or processes (experimental development)." Certainly the high-technology clusters listed above would utilize such services, as would Glass Products (which includes fiber optics and optical devices) and Vehicle Manufacturing (for vehicle design).

While there are a few industrial clusters with industries from a single industrial sector, the vast majority of clusters have broader sectoral representation. Table 2 lists the industrial sectors represented in each cluster and shows that the following 13 clusters are comprised of only manufacturing industries (i.e., those in NAICS sectors 31, 32, and 33): Chemical Products, Plastics, Industrial Machinery & Equipment, Aluminum, Container Manufacturing, Fabricated Metal Products, Concrete & Cement, Industrial Textiles, Soft Drinks, Mobile Homes & Motor Homes, Aircraft Components, Small Metal Products & Parts, and Leather & Rubber Products. Vehicle Manufacturing (Factor 8), which was only a manufacturing cluster in FESER and BERGMAN, 2000, and FESER and KOO, 2001, here

includes mining, manufacturing, transportation, rental & leasing, professional & technical service, and other service industries. The Radios, Movies, & TV cluster (Factor 36) includes manufacturing, information, and professional & technical service industries along with industries in the arts, entertainment, and recreation sector of the economy. In Appendix B, available on the author's website (<http://irving.vassar.edu/faculty/rr/research.htm>), we give the precise industrial composition of each cluster template. Industries are listed in descending order of their factor loadings. In addition, Appendix B lists the 483 different industries and each of the clusters to which they belong.

As measured by receipts, there were seven trillion-dollar national clusters in 2002. At US\$5.3 trillion (almost half of U.S. gross domestic product), the Consumer Services cluster is by far the largest, followed by Business Support Services at US\$2.2 trillion. The next five high-receipts clusters are Medical Supplies & Equipment (US\$1.4 trillion), Entertainment & Performing Arts (US\$1.0 trillion), Insurance (US\$1.3 trillion), IT Support Services (US\$1.1 trillion), and Biotechnology (US\$1.3 trillion). Vehicle Manufacturing, the largest cluster in FESER and BERGMAN, 2000, ranks tenth with approximately US\$860 billion in receipts. Table 3 gives economic statistics for each cluster, including the number of firms and establishments, employment, employment growth, annual payroll, receipts, and annual salary.<sup>6</sup>

The last column (Annual Salary) in Table 3 is particularly interesting from an economic development perspective since high-income jobs are quite valuable to the community. At US\$73,473, the Information Processing Equipment cluster pays the highest average annual salary. Fossil Fuels at US\$64,996 and Mining Equipment at US\$60,181 rank second and third respectively. The clusters with average annual salaries between US\$50,000 and US\$60,000 include Electrical Equipment; Telecommunications; Entertainment & Performing Arts; Radio, Movies, & TV; Glass Products; Container Manufacturing; Insurance; Tobacco Products; Aircraft Components; and Advanced Electronic Systems & Components.

The fifth column of Table 3 shows the percentage change in employment each cluster experienced between 1998 (the first time employment was reported using NAICS) and 2002. The national trend from primary and secondary activities to tertiary employment is clearly indicated. Textile Products, Knitted Products, Copper, Industrial Textiles, Tobacco Products, Leather & Rubber Products, and Textile Support all experienced employment declines of more than 20 percent over the four years leading up to 2002. Large employment decreases are also observed in Metalworking, Electrical Equipment, Industrial Machinery & Equipment, Nonferrous Metals Processing, and a number of other generally manufacturing-oriented clusters. At the same time, employment in Consumer Services and Business Support Services grew by 9.11 percent and 11.36 percent, respectively, and employment in IT Support Services grew by 16.15 percent. Employment in the three healthcare-oriented clusters, Medical Supplies & Services, Biotechnology, and Medical Laboratories, grew by 8.45 percent, 5.51 percent, and 6.76 percent, respectively. The Entertainment & Performing Arts cluster as well as Radio, Movies, & TV also experienced employment growth during this time period, despite the March 2001 – November 2001 recession.

### **THE BIOTECHNOLOGY CLUSTER**

Encouraging biotechnology cluster development has become a priority of many state and local economic developers over the last five to ten years. Biotechnology industries tend to be attractive targets for economic development because of their relatively high wages (our Biotechnology cluster has an average annual salary of US\$48,580 --- well above the average U.S. 2002 industrial salary of US\$35,081) and because of the potential for export outside the region by some of its component industries. Employment in the Biotechnology cluster grew 5.51 percent between 1998 and 2002. Moreover, employment and output growth forecasts for the next decade, provided by the Bureau of Labor Statistics, are

optimistic, implying continued additional opportunities in biotechnology for entrepreneurs, established firms, employees, and geographic regions.<sup>7</sup>

The factor analysis technique leads to an obvious Biotechnology cluster candidate: Factor 52. Its 14 industries, listed in Table 4, include both Pharmaceutical and Medicine Manufacturing (NAICS 3254) and Scientific Research and Development Services (NAICS 5417), which, according to an October 2003 U.S. Department of Commerce report, *A Survey of the Use of Biotechnology in U.S. Industry*, account for approximately 70 percent of the surveyed firms' primary NAICS codes. In other words, most of the biotechnology work being accomplished, at least in the private sector, is done by firms in 3254 and 5417.<sup>8</sup> Although the average cluster wage is US\$48,450, according to Table 3, average salaries are considerably higher in the two core industries: US\$66,742 in Pharmaceutical and Medicine Manufacturing (NAICS 3254) and US\$64,357 in R & D (NAICS 5417). Also included are three medical device manufacturing industries, which makes sense since many new medical devices must go through an approval process with the Food and Drug Administration (FDA) similar to that required for new pharmaceutical products. The medical equipment industries in the cluster are Surgical Appliance and Supplies Manufacturing (NAICS 339113), Surgical and Medical Instrument Manufacturing (NAICS 339112), and Electromedical and Electrotherapeutic Apparatus Manufacturing (NAICS 334510). Five end users of biomedical services also load onto Factor 52, that is, form part of the biotechnology cluster. Other Animal Food Manufacturing (NAICS 31119), Dental Laboratories (NAICS 339116), and Veterinary Services (NAICS 541940) purchase a significant amount of pharmaceutical products, while Other Ambulatory Health Care Services (NAICS 6214, 6215, and 6219) and Hospitals (NAICS 622) purchase both pharmaceuticals and surgical devices. Linked as vendors to these latter two industries are Paperboard Container Manufacturing (NAICS 322210), Industrial Gas Manufacturing (NAICS 325120), and Sanitary Paper Product Manufacturing (NAICS 322291). Finally, eight of the industries in the cluster are heavy users of Management of Companies and Enterprises (NAICS 55), an industry with average

annual salary of US\$70,287 in 2002. Smaller firms in these eight industries tend to outsource managerial functions, including strategic and organizational planning.

The Biotechnology cluster template we identify includes industries across broad sectors of the economy, including manufacturing, healthcare, and services. It could not have been uncovered through identification of manufacturing clusters alone, nor with the SIC system at all as FESER and KOO, 2001, showed. Indeed, according to DUN AND BRADSTREET, 2006, three top private-sector biotechnology employers in the Cincinnati region --- P & G Pharmaceuticals, Endo-Ethicon, and Kendle International --- have primary NAICS codes of 3254, 339113, and 5417, respectively. Interestingly, Cincinnati Children's Hospital, very active in biotechnology in the regional economy, has 5417 as its primary NAICS code (rather than Hospitals, NAICS 622).

Table 5 shows dollar linkages between industries in the biotechnology cluster; these values are taken from the Input-Output Accounts. The pharmaceutical industry (NAICS 3254) is shown to sell US\$1.4 billion to the Veterinary Services industry (NAICS 541940), while purchasing US\$1.6 billion from Scientific Research and Development Services (NAICS 5417). Other purchasers of pharmaceuticals include ambulatory health care, dental laboratories, animal food manufacturing, and hospitals. Meanwhile, pharmaceutical industries purchase management services, scientific R & D services, paperboard containers, industrial gases, and a small amount of animal food. Significant linkages, representing at least four percent of the sales of the selling industry *or* at least four percent of the purchases of the buying industry, are depicted in Figure 1.

The linkages shown in Figure 1 are for the entire U.S. economy. As such, they indicate potential, rather than actual, regional linkages; it is not necessarily the case that (for example) local scientific research firms sell to local pharmaceutical firms. However, in a series of thirty-two interviews with biotechnology executives in the greater Cincinnati area, most firms indicate they would prefer to sell more locally as well as buy more of their inputs locally, meaning that building up the pharmaceutical sector, for example, will help the

scientific research industry and vice versa. Although too small to appear as an arrow in Figure 1, one interview revealed a connection between a firm classified in the scientific research industry and one producing surgical devices, in NAICS 339113.<sup>9</sup>

A 2004 Milken Institute report (DEVOL, *et al.*, 2004), develops an Overall Composite Biotech Index by evaluating metropolitan areas for their human capital, risk capital, inputs into research and development, and other regional features. According to this report, the following five metropolitan areas were ranked first through fifth, respectively, as having strong biotech presences: (1) San Diego, (2) Boston, (3) Raleigh-Durham-Chapel Hill, (4) San Jose, and (5) Seattle-Bellevue-Everett. For these five regions, as well as for the Cincinnati-Middletown region, which aspires to specialize in biotechnology, we computed location quotients for each of the cluster's 14 industries from Table 4. (A location quotient, or LQ, is the share of a region's employment in the cluster industry divided by the share of the nation's employment in that same industry. A value larger than one indicates that the region is specialized in that industry.) The results are given in Table 6. Interestingly, the one common industry specialization across all five regional centers is in NAICS 5417, Scientific Research and Development Services. San Diego is four times more specialized in this industry than the nation as a whole, while the Raleigh-Durham-Chapel Hill area and San Jose are even more specialized in this activity. Boston has an LQ of 2.70 implying high industry concentration as well. The Seattle area's LQ is somewhat lower (1.47), but still indicates specialization in the industry. The Cincinnati-Middletown area's LQ of 1.60 gives the aspiring region some optimism regarding its future in biotech. However, where the Cincinnati-Middletown area lags behind the leading regions is in the core applications of biotechnology to pharmaceuticals and medical devices. Each of the biotech centers, as identified in the Milken Institute report, is specialized in at least one of the following three industrial applications: Pharmaceutical and Medicine Manufacturing (NAICS 3254), Surgical and Medical Instrument Manufacturing (NAICS 339112), and Electromedical and Electrotherapeutic Apparatus Manufacturing (NAICS 334510). Indeed, San Diego is

specialized in all three industries, with LQs of 1.81, 1.44, and 1.96, respectively. Boston, as well, is specialized in all three core applications, with LQs of 1.76, 2.17, and 5.71, respectively. In the Raleigh-Durham-Chapel Hill area, the main application is pharmaceuticals; the area has an LQ of 3.63 in Pharmaceutical and Medicine Manufacturing. This region is not particularly specialized in medical devices. The opposite situation exists in San Jose. Here the LQs for Surgical and Medical Instrument Manufacturing and Electromedical and Electrotherapeutic Apparatus Manufacturing are 5.99 and 7.25, respectively. Seattle, the fifth biotech center, is also specialized in the latter industry (NAICS 334510), with an LQ of 3.81. The Cincinnati region, as of 2004, is not specialized in either pharmaceuticals or medical devices. As for most of the other industries in the cluster template, Table 6 suggests that they need not be located within a region for it to be a successful biotech center. San Diego, for example, imports most of its paperboard containers, sanitary paper products, and industrial gases from outside the area.

### **IMPLICATIONS FOR ECONOMIC DEVELOPMENT**

The cluster approach has a number of clear advantages over other methods for economic development. First, it is a focused approach that directs scarce development resources, including the time necessary for strategic planning and economic analysis, toward those industries development planners feel will bring the most benefit. The approach does not mean that firms outside the targeted clusters will be ignored but may suggest they be given secondary priority. Second, the cluster approach forces regional developers to think about linkages between industries that many times play a role in their location decisions, and subsequent spatial patterns. Firms that require rail or water transportation, for instance, tend to locate near these transportation sources. Firms that support biotechnology activity in either pharmaceuticals or medical devices tend to locate near their biotechnology customers. Of course, spatial implications are not always present since there are hospitals, large consumers of pharmaceuticals, in every major metropolitan area regardless of the

presence of large pharmaceutical companies. But, it is good to know that if a pharmaceutical company locates in a region, it has local hospitals, as well as hospitals outside the region, that it can sell to (and/or collaborate with). In addition to identifying vertical linkages between buyers and sellers, the cluster approach also picks up on horizontal relationships among industries. One of the clusters identified above, for example, consists primarily of industries that sell to automobile producers. These industries neither buy from nor sell to each other. In these clusters, there is one key industry that brings a number of others to the region to support it. Third, the particular cluster approach described in this paper allows development planners to “think outside the box.” Rather than concentrate simply on the industries that are currently strong in the region, they can start with national cluster templates to determine what might be possible in the region. Especially for the regions in the United States that depend critically on declining clusters (for example, textiles in southeastern regions of the United States), this approach shows that there may be potential to “remake themselves” based on national trends in inter-industry linkages.

After national clusters are identified, they should then be screened based on their strengths in the regional economy and their potential for leading to significant regional economic development. ECONOMICS CENTER FOR EDUCATION & RESEARCH, 2004, describes six screening criteria that are recommended in selecting target clusters. (1) The cluster should have high average salaries, impacting positively on local incomes. (2) The cluster should have a strong employment base (as measured by the percent of cluster employment in the region) in order to have a high enough chance to take root and succeed (except, of course, for those regions attempting a makeover). (3) The cluster should have industries that serve more than just the local economy; it should have an export base since new money from outside the region can help facilitate economic development by way of impact multipliers. (4) The cluster should have a reasonably high location quotient, signifying strong presence in the region relative to the national economy. (5) The cluster



should exhibit strong national growth in employment. National trends may indicate where there are opportunities to “catch a wave” that can help boost the local economy. (6) The cluster should exhibit strong relative local growth (local growth minus national growth). If a cluster shows a high value on this screening criterion, it means that either the region is able to succeed in the face of an adverse national trend or it can outperform the industry's already positive national growth rate.

Development planners must be aware of the limitations of the data that are currently available. First, the level of aggregation in the input-output table is a problem in some cases, especially in the service industries. Although NAICS is certainly an improvement over the SIC system in this regard, it is still the case that information for the manufacturing industries is much more detailed than the information available for the service industries. For example, numerous studies, including CORTRIGHT and MAYER, 2002, have mentioned the importance of venture capital to biotechnology start-ups. However, Miscellaneous Intermediation (including Venture Capital), or NAICS 523910, is not broken out in the detailed input-output table, and, hence, does not load onto the Biotechnology cluster (Factor 52). Furthermore, firms in NAICS industry 541380 (Testing Laboratories) contribute to medical device testing for FDA approval. Since 541380, however, is but a small part of Architectural, Engineering, and Related Services (NAICS 5413 in the input-output table), it fails to load as well onto the Biotechnology cluster. Second, in screening the clusters for a development portfolio, the most commonly used data are *County Business Pattern* data, which cover private, nonagricultural employment. In the case of Cincinnati, though, the data omit the area's largest employer, the University of Cincinnati, with approximately 15,000 employees --- an important omission for any cluster (like Biotechnology) that relies on university-based research. Indeed, the addition of the Genome Research Institute in 2002 as part of the University of Cincinnati will not be captured by *County Business Patterns*. Other problems, like data suppression, make it hard to obtain regional-specific

employment estimates for certain, usually smaller, industries. Finally, the national-cluster-template approach is still very new. It has yet to stand the test of numerous applications.

## **CONCLUSION**

Regional policy makers involved in strategic economic development are often interested in identifying a small group of target industries that are critical to the future growth of the region and on which they can focus their expansion and retention efforts. While it is relatively straightforward to determine which industries are currently strong in an area, this information provides little guidance regarding other industries they might credibly seek to attract to the area in order to take advantage of potential synergies among industries. In this paper, we provide a list of sixty-one national industry cluster templates, identified using factor analysis and the most recent, detailed industrial input-output table. We anticipate that this list will provide the foundation for a wide range of regional analyses, particularly when coupled with other tools of economic development. This work improves on previous research by using the latest industrial classification system. It produces mixed-sector cluster templates that capture the various and rich relationships among primary, secondary, and tertiary industries in the U.S. economy.

## NOTES

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<sup>1</sup> The six studies are *Target Marketing Strategy*, by the WADLEY-DONOVAN GROUP, 1999; *Kentucky Clusters: Industrial Interdependence and Economic Competitiveness*, by FESER and KOO, 2001; *An Ohio Technology-Based Economic Development Strategy*, by BATTELLE MEMORIAL INSTITUTE, 2002; *Hamilton County's Comparative and Competitive Advantages*, by NOLAN, 2003; *Northern Kentucky New Economy Readiness Strategy*, by ANGELOU ECONOMICS, 2004; and *Identification of Industry Clusters for Guiding Economic Development Efforts in Cincinnati USA*, by the ECONOMICS CENTER FOR EDUCATION & RESEARCH, 2004. Although each of the studies includes a biotechnology cluster, each study defines this cluster differently. The study done by the Economics Center used the FESER and BERGMAN, 2000, technique applied to summary industries. The biotechnology cluster identified was less than satisfactory; working with detailed industries produces a much stronger result.

<sup>2</sup> It is worth noting that our method is not the only systematic, quantitative approach to cluster identification. For example, FESER, 2003, suggests a statistical methodology for identifying clusters of industries that have similar occupation patterns. Using both supply-chain and occupational approaches (based on national data) in tandem could provide an especially rich base for regional cluster analyses.

<sup>3</sup> Twenty-eight value-chain clusters are identified in FESER and KOO, 2001, pp. 63-69. Included in the Printing and Publishing cluster are General Medical and Surgical Hospitals (SIC 8062), Psychiatric Hospitals (SIC 8063), and Testing Laboratories (SIC 8734). Included in the Chemicals and Plastics Cluster are Offices and Clinics of Optometrists (SIC 8042), Kidney Dialysis Centers (SIC 8092), and Specialty Outpatient Facilities (SIC 8093). Moreover, none of the 28 clusters provides a good approximation to biotechnology. Pharmaceuticals is identified as an independent cluster with only four industries: Medicinals and Botanicals (SIC 2833), Pharmaceutical Preparations (SIC 2834), Diagnostic Substances (SIC 2835), and Biological Products, Excluding Diagnostics (SIC 2836).

<sup>4</sup> Of the 490 detailed industries in the 1997 Benchmark Input-Output Accounts, only seven are omitted from the factor analysis. Wholesale Trade (NAICS 42) and Retail Trade (NAICS 44 and 45) are omitted due to their two-digit level of aggregation. In some initial work,

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these industries proved too aggregated to load meaningfully on factors. If there is greater detail in future benchmark tables produced by the Bureau of Economic Analysis, consideration should be given to working again with these sectors. Moreover, Private Households (NAICS 814), Federal Electric Utilities (S00101), State and Local Government Passenger Transit (S00201), State and Local Government Electric Utilities (S00202), and General Government Industry (S00500) are omitted as well from the analysis. These industries sell only to final purchasing sectors; they have no intermediate industrial sales. Moreover, they are excluded from both the *2002 Economic Census* and *County Business Patterns*. We do, however, maintain two final industries: Hospitals (NAICS 622) and Nursing and Residential Care Facilities (NAICS 623); hospitals, at least, are expected to load onto healthcare clusters identified.

<sup>5</sup> We use a promax rotation, rather than the varimax rotation in FESER and BERGMAN, 2000, since the promax rotation accounts for inter-factor correlations (which are present to some degree in our data). The results are generally robust to the rotation technique used.

<sup>6</sup> These statistics are taken from *Statistics of U.S. Businesses*, 2002 and 1998, U.S. DEPARTMENT OF COMMERCE Bureau of the Census, accessed, on June 4, 2006, at <http://www.census.gov/csd/susb/usalli02.xls>, <http://www.census.gov/csd/susb/usalli98.xls>, respectively. Note that FESER and BERGMAN, 2000, report value added for clusters identified. Since value added data are available only for manufacturing industries, we instead report total receipts, which are collected consistently across all sectors of the economy.

<sup>7</sup> The Bureau of Labor Statistics forecasts substantial growth in both employment and real output in Pharmaceutical and Medicine Manufacturing (NAICS 3254) and Scientific Research and Development Services (NAICS 5417). The 2004-2014 forecast for pharmaceuticals is a 2.3 percent annual average growth in employment and a 3.3 percent annual average growth in real output. The forecast for R & D is a 2.5 percent annual average growth in employment and an impressive 4.8 percent annual average growth in real output. See U.S. DEPARTMENT OF LABOR Bureau of Labor Statistics, *Employment and Output by Detailed Industry*, accessed on June 4, 2006, at <http://www.bls.gov/emp/empinddetail.htm>.

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<sup>8</sup> See the 2003 U.S. Department of Commerce Report, *A Survey in the Use of Biotechnology in U.S. Industry*. Out of the 897 biotechnology users surveyed by the Department of Commerce that reported being in any industry at all, 333 were in Scientific R & D Services (NAICS 5417); 301 were in Pharmaceutical and Medicine Manufacturing (NAICS 3254); 36 were in Electromedical and Electrotherapeutic Apparatus Manufacturing (NAICS 334510); 20 were in Medical and Diagnostic Laboratories (NAICS 6215); 16 were in Food Manufacturing and Beverage and Tobacco Product Manufacturing (NAICS 311 and 312, respectively); and 19 were in Basic Chemical Manufacturing (NAICS 3251). Most of these industries load onto the Biotechnology cluster as identified in this paper.

<sup>9</sup> Interviews were conducted in Spring 2006 in the context of a study commissioned by the Hamilton County Regional Planning Commission.

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**Table 1**  
**Number of Industries Belonging to Different Numbers of Clusters**

|                             | Number of Clusters |     |     |     |    |   |   |     |
|-----------------------------|--------------------|-----|-----|-----|----|---|---|-----|
|                             | 0                  | 1   | 2   | 3   | 4  | 5 | 6 | > 6 |
| <b>Number of Industries</b> | 0                  | 111 | 196 | 130 | 39 | 6 | 1 | 0   |

**Table 2**  
**Sector Representation in Clusters**

| Cluster (Number)                         | NAICS Sectors Represented*                                 |
|------------------------------------------|------------------------------------------------------------|
| Metalworking (1)                         | 21,23,32,33                                                |
| Consumer Services (2)                    | 11,22,23,48,49,52,53,54,56,61,62,71,72,81,OOD <sup>a</sup> |
| Processed Foods & Beverages (3)          | 11,31,32,33,71                                             |
| Construction Materials (4)               | 21,31,32,33,54                                             |
| Electrical Equipment (5)                 | 33,81                                                      |
| Paper Products (6)                       | 11,22,31,32,33,51                                          |
| <i>Inconclusive (7)</i>                  | 21,31,32,33,51,53,54,56                                    |
| Vehicle Manufacturing (8)                | 21,31,32,33,48,53,54,81                                    |
| Chemical Products (9)                    | 31,32,33                                                   |
| Plastics (10)                            | 31,32,33                                                   |
| Automotive Components (11)               | 31,32,33,54,61,81                                          |
| Construction (12)                        | 11,21,23,33,54,LG <sup>b</sup>                             |
| Textile Products (13)                    | 11,31,32,33                                                |
| Wood Products (14)                       | 11,23,32,33                                                |
| Industrial Machinery & Equipment (15)    | 33                                                         |
| Industrial Transportation (16)           | 21,23,32,33,48,61,71                                       |
| Grain Products (17)                      | 11,31,32,33                                                |
| Furniture & Household Items (18)         | 11,31,32,33                                                |
| Nonmetallic Mineral Products (19)        | 32,33,48,49,54                                             |
| Petroleum Products (20)                  | 21,22,32,48,49                                             |
| Printing & Publishing (21)               | 31,32,33,51,56,81                                          |
| Agriculture, Hunting, & Forestry (22)    | 11,31                                                      |
| Nonmetallic Construction Components (23) | 32,33,54                                                   |
| Medical Supplies & Services (24)         | 31,32,33,48,49,53,54,56,61,72                              |
| Dairy Products (25)                      | 11,31,32,33,54                                             |
| Aluminum (26)                            | 33                                                         |
| Knitted Products (27)                    | 11,31,32,33                                                |
| Business Support Services (28)           | 31,32,33,48,49,52,53,54,56,72,FG <sup>c</sup>              |
| Telecommunications (29)                  | 33,51,81                                                   |
| Fossil Fuels (30)                        | 21,22,32,33,53,54                                          |
| Copper (31)                              | 21,33                                                      |
| Nonferrous Metals Processing (32)        | 21,33                                                      |
| Information Processing Equipment (33)    | 33,51                                                      |
| Entertainment & Performing Arts (34)     | 31,32,33,51,53,54,55,56,61,71,81                           |
| Residential Construction (35)            | 21,23,32                                                   |

| <b>Cluster (Number)</b>                       | <b>NAICS Sectors Represented</b> |
|-----------------------------------------------|----------------------------------|
| Radio, Movies, & TV (36)                      | 33,51,54,71                      |
| Feed Products (37)                            | 11,31,32                         |
| Glass Products (38)                           | 32,33,54                         |
| Container Manufacturing (39)                  | 32,33                            |
| Insurance (40)                                | 52,OOD <sup>a</sup>              |
| Fabricated Metal Products (41)                | 32,33                            |
| IT Support Services (42)                      | 21,51,54,56,61,62,81             |
| Concrete & Cement (43)                        | 32,33                            |
| Mining Equipment (44)                         | 21,22,32,33                      |
| Industrial Textiles (45)                      | 31,32                            |
| Air Travel (46)                               | 32,33,48,49,56,72                |
| Tobacco Products (47)                         | 11,31                            |
| Transportation Equipment (48)                 | 33,48,81                         |
| Animal Products (49)                          | 11,31,32,72                      |
| <i>Inconclusive</i> (50)                      | 21,31,32,33,51,53,54,62,71,72    |
| Soft Drinks (51)                              | 31,32,33                         |
| Biotechnology (52)                            | 31,32,33,54,55,62                |
| Mobile Homes & Motor Homes (53)               | 32,33                            |
| Aircraft Components (54)                      | 31,33                            |
| Small Metal Products & Parts (55)             | 33                               |
| Medical Laboratories (56)                     | 32,33,51,62                      |
| Leather & Rubber Products (57)                | 31,32,33                         |
| Advanced Electronic Systems & Components (58) | 33,54                            |
| Fats & Oils (59)                              | 11,31                            |
| Textile Support (60)                          | 31,33,56                         |
| Confectionery Products (61)                   | 11,31,32                         |

<sup>a</sup> OOD: Owner-Occupied Housing

<sup>b</sup> LG: State & Local Government Enterprises

<sup>c</sup> FG: Federal Government Enterprises

**\* NAICS Sector Titles**

- Sector 11 Agriculture, Forestry, Fishing and Hunting
- Sector 21 Mining
- Sector 22 Utilities
- Sector 23 Construction
- Sector 31-33 Manufacturing
- Sector 48-49 Transportation and Warehousing
- Sector 51 Information
- Sector 52 Finance and Insurance
- Sector 53 Real Estate and Rental and Leasing
- Sector 54 Professional, Scientific, and Technical Services
- Sector 55 Management of Companies and Enterprises
- Sector 56 Administrative and Support and Waste Management and Remediation Services
- Sector 61 Educational Services
- Sector 62 Health Care and Social Assistance
- Sector 71 Arts, Entertainment, and Recreation
- Sector 72 Accommodation and Food Services
- Sector 81 Other Services (Except Public Administration)

**Table 3**  
**Cluster Summary Statistics for 2002\***

| <b>Cluster (Number)</b>           | <b>Firms</b> | <b>Estab-<br/>lishments</b> | <b>Employment</b> | <b>% Empl<br/>Change<br/>98-02</b> | <b>Annual Payroll<br/>(US\$1,000)</b> | <b>Receipts<br/>(US\$1,000)</b> | <b>Annual<br/>Salary<br/>**</b> |
|-----------------------------------|--------------|-----------------------------|-------------------|------------------------------------|---------------------------------------|---------------------------------|---------------------------------|
| Metalworking (1)                  | 91,788       | 98,532                      | 3,727,947         | -15.68                             | 147,385,748                           | 772,856,141                     | 39,535                          |
| Consumer Services (2)             | 2,896,275    | 3,547,975                   | 53,852,456        | 9.11                               | 1,590,226,236                         | 5,298,555,468                   | 29,529                          |
| Processed Foods & Beverages (3)   | 34,763       | 38,340                      | 1,676,159         | -0.34                              | 51,417,747                            | 472,892,643                     | 30,676                          |
| Construction Materials (4)        | 154,357      | 176,994                     | 3,644,725         | -3.01                              | 149,993,188                           | 622,489,296                     | 41,153                          |
| Electrical Equipment (5)          | 31,823       | 35,249                      | 1,639,883         | -19.75                             | 86,726,901                            | 433,252,024                     | 52,886                          |
| Paper Products (6)                | 73,938       | 84,143                      | 2,048,057         | -11.03                             | 80,367,050                            | 425,732,035                     | 39,241                          |
| <i>Inconclusive</i> (7)           | 172,480      | 222,957                     | 6,960,007         | 4.44                               | 225,269,153                           | 559,976,708                     | 32,366                          |
| Vehicle Manufacturing (8)         | 218,705      | 245,755                     | 3,857,380         | -6.43                              | 152,618,106                           | 860,609,619                     | 39,565                          |
| Chemical Products (9)             | 11,032       | 13,463                      | 714,795           | -14.50                             | 33,572,667                            | 330,974,186                     | 46,968                          |
| Plastics (10)                     | 14,798       | 17,937                      | 988,217           | -12.04                             | 36,934,296                            | 257,466,568                     | 37,375                          |
| Automotive Components (11)        | 188,513      | 204,649                     | 3,678,971         | -1.06                              | 123,119,242                           | 557,085,945                     | 33,466                          |
| Construction (12)                 | 380,424      | 397,584                     | 3,864,199         | 7.11                               | 180,464,910                           | 893,254,511                     | 46,702                          |
| Textile Products (13)             | 27,631       | 29,125                      | 875,167           | -33.88                             | 23,195,698                            | 128,142,752                     | 26,504                          |
| Wood Products (14)                | 46,473       | 48,933                      | 1,164,929         | -6.92                              | 38,253,870                            | 214,770,944                     | 32,838                          |
| Industrial Machinery & Eqpt (15)  | 39,494       | 41,619                      | 1,304,291         | -17.24                             | 53,753,835                            | 268,139,099                     | 41,213                          |
| Industrial Transportation (16)    | 12,703       | 19,232                      | 1,889,403         | 6.64                               | 60,494,011                            | 245,150,272                     | 32,018                          |
| Grain Products (17)               | 13,768       | 15,215                      | 266,744           | -3.01                              | 9,283,714                             | 99,639,693                      | 34,804                          |
| Furniture & Household Items (18)  | 32,500       | 34,129                      | 965,530           | -8.86                              | 34,495,272                            | 228,467,539                     | 35,727                          |
| Nonmetallic Mineral Products (19) | 125,650      | 145,700                     | 1,898,816         | 2.71                               | 69,538,236                            | 268,234,039                     | 36,622                          |
| Petroleum Products (20)           | 36,385       | 54,158                      | 1,861,598         | 0.30                               | 76,852,331                            | 703,862,998                     | 41,283                          |
| Printing & Publishing (21)        | 126,982      | 136,778                     | 1,737,739         | -1.35                              | 58,296,245                            | 265,872,312                     | 33,547                          |
| Ag, Hunting, & Forestry (22)      | 3,780        | 3,982                       | 63,505            | -0.87                              | 1,708,002                             | 8,331,040                       | 26,896                          |
| Nonmet Construction Cmpts (23)    | 110,876      | 123,941                     | 1,752,637         | 2.27                               | 85,422,165                            | 253,631,127                     | 48,739                          |
| Medical Supplies & Services (24)  | 778,026      | 971,371                     | 18,368,987        | 8.45                               | 428,742,874                           | 1,418,025,689                   | 23,341                          |
| Dairy Products (25)               | 43,270       | 46,382                      | 1,009,088         | 4.32                               | 38,845,777                            | 345,936,139                     | 38,496                          |
| Aluminum (26)                     | 1,835        | 2,066                       | 149,630           | -17.69                             | 5,833,957                             | 38,343,711                      | 38,989                          |
| Knitted Products (27)             | 8,155        | 8,807                       | 402,592           | -26.49                             | 11,488,873                            | 70,848,350                      | 28,537                          |
| Business Support Services (28)    | 553,670      | 779,942                     | 10,818,466        | 11.36                              | 510,508,994                           | 2,224,794,897                   | 47,189                          |
| Telecommunications (29)           | 50,703       | 86,501                      | 1,563,791         | 2.85                               | 80,430,439                            | 425,124,615                     | 51,433                          |
| Fossil Fuels (30)                 | 61,654       | 77,984                      | 1,459,055         | -1.27                              | 94,833,048                            | 878,163,505                     | 64,996                          |
| Copper (31)                       | 1,361        | 1,618                       | 121,155           | -23.98                             | 4,787,747                             | 33,706,979                      | 39,518                          |
| Nonferrous Metals Processing (32) | 12,057       | 12,494                      | 208,453           | -15.93                             | 7,807,153                             | 37,801,050                      | 37,453                          |
| Information Processing Eqpt (33)  | 21,983       | 26,322                      | 860,991           | -1.16                              | 63,259,719                            | 285,059,899                     | 73,473                          |
| Enter & Performing Arts (34)      | 329,700      | 408,388                     | 7,352,524         | 9.62                               | 386,894,841                           | 1,038,695,806                   | 52,621                          |

| Cluster (Number)                              | Firms   | Estab-<br>lishments | Employment | % Empl<br>Change<br>98-02 | Annual Payroll<br>(US\$1,000) | Receipts<br>(US\$1,000) | Annual<br>Salary<br>** |
|-----------------------------------------------|---------|---------------------|------------|---------------------------|-------------------------------|-------------------------|------------------------|
| Residential Construction (35)                 | 183,405 | 185,610             | 1,134,952  | 12.27                     | 46,543,310                    | 347,339,622             | 41,009                 |
| Radio, Movies, & TV (36)                      | 81,242  | 97,839              | 1,419,541  | 8.99                      | 73,098,538                    | 305,897,236             | 51,494                 |
| Feed Products (37)                            | 1,957   | 3,036               | 334,201    | 2.02                      | 8,596,831                     | 94,230,070              | 25,724                 |
| Glass Products (38)                           | 17,009  | 20,144              | 620,002    | 10.11                     | 33,810,498                    | 103,988,474             | 54,533                 |
| Container Manufacturing (39)                  | 968     | 1,457               | 218,920    | -13.57                    | 11,442,490                    | 88,841,599              | 52,268                 |
| Insurance (40)                                | 132,828 | 172,514             | 2,376,265  | 1.71                      | 119,977,665                   | 1,335,345,579           | 50,490                 |
| Fabricated Metal Products (41)                | 12,680  | 13,678              | 581,601    | -13.70                    | 21,704,387                    | 120,250,829             | 37,318                 |
| IT Support Services (42)                      | 544,045 | 613,309             | 7,934,919  | 16.15                     | 379,925,334                   | 1,060,094,559           | 47,880                 |
| Concrete & Cement (43)                        | 11,329  | 15,876              | 444,113    | -8.58                     | 17,114,134                    | 85,078,717              | 38,536                 |
| Mining Equipment (44)                         | 6,606   | 16,395              | 770,382    | -7.98                     | 46,362,051                    | 386,995,767             | 60,181                 |
| Industrial Textiles (45)                      | 2,130   | 2,611               | 239,627    | -26.17                    | 7,273,594                     | 50,114,350              | 30,354                 |
| Air Travel (46)                               | 427,596 | 569,461             | 9,532,901  | 5.19                      | 148,146,573                   | 722,418,979             | 15,541                 |
| Tobacco Products (47)                         | 114     | 133                 | 24,031     | -26.37                    | 1,379,716                     | 39,426,765              | 57,414                 |
| Transportation Equipment (48)                 | 57,053  | 65,775              | 990,649    | -0.30                     | 36,788,353                    | 157,801,177             | 37,136                 |
| Animal Products (49)                          | 382,623 | 510,104             | 8,781,839  | 6.86                      | 110,627,038                   | 451,735,817             | 12,597                 |
| <i>Inconclusive</i> (50)                      | 93,515  | 127,910             | 3,188,566  | -4.02                     | 78,410,299                    | 437,435,687             | 24,591                 |
| Soft Drinks (51)                              | 6,216   | 8,452               | 420,897    | -8.97                     | 15,763,640                    | 130,550,263             | 37,452                 |
| Biotechnology (52)                            | 107,586 | 157,524             | 10,422,719 | 5.51                      | 506,332,479                   | 1,284,108,813           | 48,580                 |
| Mobile Homes & Motor Homes (53)               | 3,733   | 4,340               | 492,649    | -9.86                     | 22,293,074                    | 283,473,893             | 45,251                 |
| Aircraft Components (54)                      | 5,319   | 6,311               | 744,697    | -18.48                    | 39,921,099                    | 201,845,130             | 53,607                 |
| Small Metal Products & Parts (55)             | 6,086   | 6,393               | 306,411    | -16.45                    | 12,285,787                    | 60,351,933              | 40,096                 |
| Medical Laboratories (56)                     | 37,689  | 57,502              | 1,318,575  | 6.76                      | 52,258,110                    | 182,253,708             | 39,632                 |
| Leather & Rubber Products (57)                | 8,652   | 9,658               | 430,074    | -20.34                    | 15,403,118                    | 84,547,623              | 35,815                 |
| Advanced Electronic Systems & Components (58) | 76,305  | 85,377              | 2,037,266  | -3.75                     | 117,708,837                   | 404,928,219             | 57,778                 |
| Fats & Oils (59)                              | 1,348   | 2,049               | 62,175     | -8.17                     | 2,373,154                     | 49,666,486              | 38,169                 |
| Textile Support (60)                          | 33,814  | 36,825              | 799,006    | -29.74                    | 21,360,101                    | 99,339,730              | 26,733                 |
| Confectionery Products (61)                   | 3,312   | 3,818               | 181,743    | -4.52                     | 6,066,337                     | 57,757,141              | 33,379                 |

Source: U.S. DEPARTMENT OF COMMERCE Bureau of the Census, *Statistics of U.S. Businesses*, 2002 and 1998.

\* Clusters are not mutually exclusive. The following industries were excluded from the calculations in Table 3: S00102, S00203, S00800, 111110, 111120, 111130, 111140, 111150, 111160, 111190, 111200, 111310, 111320, 111331, 111332, 111333, 111334, 111335, 111336, 111339, 111400, 111910, 111920, 111930, 111940, 111991, 111992, 111998, 112100, 112200, 112300, 112400, 112500, 112900, 230130, 230140, 230310, 230320, 230330, 230340, 482000, and 491000. Data for them were not available either from the *2002 Economic Census* or from *County Business Patterns*. Because of these exclusions, values for some of the clusters, such as Agriculture, Hunting, & Forestry, are severely understated.

\*\* Average salary is calculated by dividing annual cluster payroll by cluster employment.

**Table 4**  
**Industries in the Biotechnology Cluster**

| <b>NAICS</b> | <b>Industry</b>                                               | <b>Factor Loading</b> |
|--------------|---------------------------------------------------------------|-----------------------|
| 325400       | Pharmaceutical and Medicine Manufacturing                     | 0.8788                |
| 541940       | Veterinary Services                                           | 0.7476                |
| 550000       | Management of Companies and Enterprises                       | 0.5178                |
| 541700       | Scientific Research and Development Services                  | 0.3942                |
| 621B00 *     | Other Ambulatory Health Care Services                         | 0.3691                |
| 322210       | Paperboard Container Manufacturing                            | 0.3454                |
| 325120       | Industrial Gas Manufacturing                                  | 0.3213                |
| 339116       | Dental Laboratories                                           | 0.3134                |
| 339113       | Surgical Appliance and Supplies Manufacturing                 | 0.3013                |
| 339112       | Surgical and Medical Instrument Manufacturing                 | 0.3006                |
| 322291       | Sanitary Paper Product Manufacturing                          | 0.2860                |
| 311119       | Other Animal Food Manufacturing                               | 0.2715                |
| 334510       | Electromedical and Electrotherapeutic Apparatus Manufacturing | 0.2550                |
| 622000       | Hospitals                                                     | 0.2340                |

\* 621B00 = 6214 + 6215 + 6219.

**Table 5**  
**Input-Output Linkages in Biotechnology**  
**(In Millions of 1997 U.S. Dollars)**

| NAICS Seller | NAICS Buyer |        |        |        |         |        |        |        |        |        |        |        |        |        |
|--------------|-------------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|              | 325400      | 541940 | 550000 | 541700 | 621B00* | 322210 | 325120 | 339116 | 339113 | 339112 | 322291 | 311119 | 334510 | 622000 |
| 325400       | na          | 1440.5 | 0.0    | 0.0    | 2021.7  | 0.0    | 0.0    | 147.6  | 0.0    | 0.0    | 0.0    | 1122.7 | 0.0    | 7131.1 |
| 541940       | 0.0         | na     | 0.0    | 0.0    | 0.0     | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 161.5  |
| 550000       | 6619.0      | 0.0    | na     | 173.3  | 808.7   | 2134.0 | 390.2  | 46.1   | 705.7  | 911.2  | 222.7  | 405.9  | 459.1  | 5450.1 |
| 541700       | 1615.5      | 11.0   | 0.0    | na     | 40.1    | 99.2   | 95.1   | 4.5    | 124.6  | 161.8  | 15.1   | 39.8   | 82.9   | 739.7  |
| 621B00*      | 0.0         | 106.5  | 0.0    | 0.0    | na      | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 186.1  |
| 322210       | 928.5       | 12.5   | 16.8   | 32.7   | 45.7    | na     | 4.9    | 9.4    | 172.7  | 198.0  | 212.2  | 17.0   | 45.0   | 287.3  |
| 325120       | 139.8       | 10.6   | 1.9    | 50.3   | 192.1   | 4.0    | na     | 0.8    | 0.0    | 0.1    | 0.0    | 0.0    | 0.0    | 888.2  |
| 339116       | 0.0         | 0.0    | 0.0    | 0.0    | 0.0     | 0.0    | 0.0    | na     | 35.0   | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| 339113       | 0.0         | 106.0  | 0.0    | 0.0    | 227.1   | 0.0    | 0.0    | 0.0    | na     | 327.1  | 0.0    | 0.0    | 0.0    | 1678.9 |
| 339112       | 0.0         | 112.4  | 0.0    | 0.0    | 585.8   | 0.0    | 0.0    | 4.4    | 551.0  | na     | 0.0    | 0.0    | 0.0    | 2440.6 |
| 322291       | 0.0         | 76.2   | 0.0    | 0.0    | 147.4   | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | na     | 0.0    | 0.0    | 908.4  |
| 311119       | 3.2         | 98.4   | 0.0    | 29.7   | 0.0     | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | na     | 0.0    | 0.0    |
| 334510       | 0.0         | 7.2    | 0.0    | 0.0    | 111.2   | 0.0    | 0.0    | 0.0    | 149.5  | 5.9    | 0.0    | 0.0    | na     | 633.5  |
| 622000       | 0.0         | 0.0    | 0.0    | 0.0    | 0.0     | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | na     |

na: not applicable

\* 621B00 = 6214 + 6215 + 6219.

**Table 6**  
**Location Quotients in U.S. Biotechnology Centers**

| NAICS   | Industry                                        | Metropolitan Statistical Area |                     |                             |                       |                      |                         |
|---------|-------------------------------------------------|-------------------------------|---------------------|-----------------------------|-----------------------|----------------------|-------------------------|
|         |                                                 | San Diego <sup>a</sup>        | Boston <sup>b</sup> | Raleigh-Durham <sup>c</sup> | San Jose <sup>d</sup> | Seattle <sup>e</sup> | Cincinnati <sup>f</sup> |
| 325400  | Pharmaceutical and Medicine Manufacturing       | 1.8090                        | 1.7562              | 3.6278                      | 0.2992                | 0.2907               | 0.8289                  |
| 541940  | Veterinary Services                             | 1.0461                        | 0.7279              | 1.5231                      | 0.6815                | 1.0883               | 0.9939                  |
| 550000  | Management of Companies and Enterprises         | 0.6614                        | 1.3225              | 1.1716                      | 1.8431                | 1.3300               | 1.1680                  |
| 541700  | Scientific Research and Development Services    | 4.2729                        | 2.7047              | 5.5601                      | 5.8249                | 1.4713               | 1.6043                  |
| 621B00* | Other Ambulatory Health Care Services           | 1.0546                        | 1.3152              | 0.8314                      | 0.6801                | 1.3971               | 0.8235                  |
| 322210  | Paperboard Container Manufacturing              | 0.2950                        | 0.5146              | 0.8729                      | 0.6380                | 0.5659               | 2.4243                  |
| 325120  | Industrial Gas Manufacturing                    | 0.2067                        | 0.3894              | 0.8108                      | 0.5585                | 0.5155               | 1.4720                  |
| 339116  | Dental Laboratories                             | 0.9474                        | 0.8855              | 0.9168                      | 2.2791                | 1.4911               | 0.6880                  |
| 339113  | Surgical Appliance and Supplies Manufacturing   | 1.7862                        | 0.8564              | 1.2494                      | 0.8006                | 0.4351               | 0.7149                  |
| 339112  | Surgical and Medical Instrument Manufacturing   | 1.4355                        | 2.1657              | 0.6716                      | 5.9884                | 0.3378               | 0.6442                  |
| 322291  | Sanitary Paper Product Manufacturing            | 0.0131                        | 0.0000              | 0.2971                      | 0.0000                | 0.0000               | 0.0000                  |
| 311119  | Other Animal Food Manufacturing                 | 0.0449                        | 0.0114              | 1.2020                      | 0.0380                | 0.1274               | 0.7705                  |
| 334510  | Electromedical and Electrotherap. App. Manufac. | 1.9559                        | 5.7059              | 0.0000                      | 7.2500                | 3.8093               | 0.3711                  |
| 622000  | Hospitals                                       | 0.7701                        | 1.1975              | 1.3159                      | 0.7794                | 0.7635               | 0.9631                  |

\* 621B00 = 6214 + 6215 + 6219.

<sup>a</sup> San Diego-Carlsbad-San Marcos, CA

<sup>b</sup> Boston-Cambridge-Quincy, MA-NH

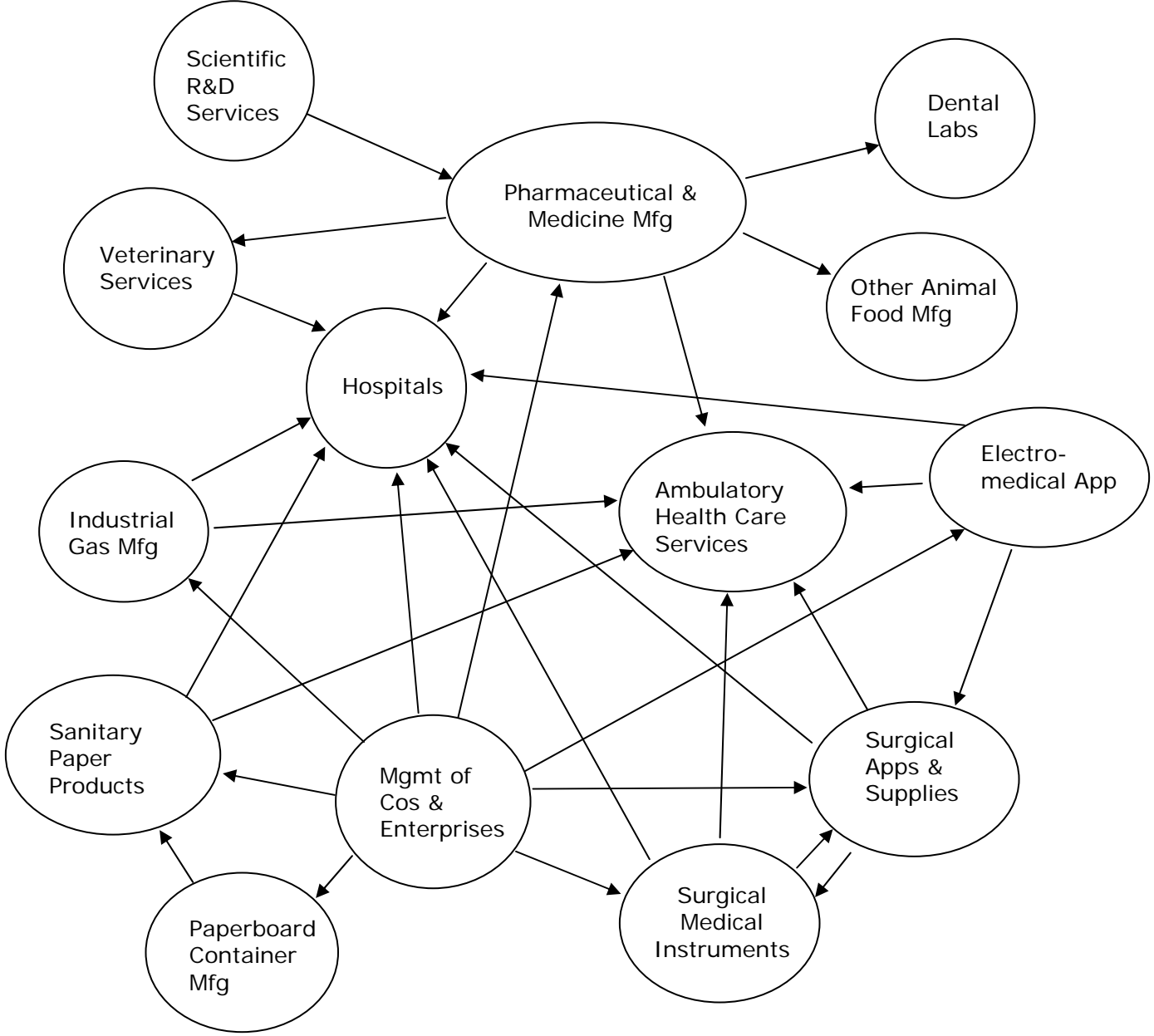
<sup>c</sup> Raleigh-Cary, NC, and Durham, NC

<sup>d</sup> San Jose-Sunnyvale-Santa Clara, CA

<sup>e</sup> Seattle-Tacoma-Bellevue, WA

<sup>f</sup> Cincinnati-Middletown, OH-KY-IN

Source: *2004 County Business Patterns*. Location quotients are based on the most recent metropolitan area definitions provided by the U.S. Census Bureau. Those definitions may be found at <http://www.census.gov/population/www/estimates/metrodef.html> (accessed on 15 July 2006). For some regions, only a range of employees in an industry was reported in *2004 County Business Patterns*. For these regions, we used county-level data on the size distribution of establishments to narrow down the range. Then, the midpoint of this narrower range was taken as the point estimate. In all cases, we were able to narrow down the range considerably using this approach.



**Fig. 1 Biotechnology Cluster**



**Appendix A**  
**Summary Results: Principal Components Factor Analysis**

| <b>Factor</b> | <b>Factor Interpretation</b>        | <b>Eigenvalue</b> | <b>Percent Variance Explained</b> | <b>Cutoff Factor Loading</b> | <b>Number of Industries</b> |
|---------------|-------------------------------------|-------------------|-----------------------------------|------------------------------|-----------------------------|
| 1             | Metalworking                        | 97.40             | 20.17                             | 0.19                         | 88                          |
| 2             | Consumer Services                   | 40.44             | 8.37                              | 0.31                         | 65                          |
| 3             | Processed Foods & Beverages         | 27.85             | 5.77                              | 0.40                         | 37                          |
| 4             | Construction Materials              | 22.89             | 4.74                              | 0.21                         | 50                          |
| 5             | Electrical Equipment                | 20.73             | 4.29                              | 0.24                         | 31                          |
| 6             | Paper Products                      | 15.54             | 3.22                              | 0.17                         | 28                          |
| 7             | <i>Inconclusive</i>                 | 13.93             | 2.88                              | 0.40                         | 28                          |
| 8             | Vehicle Manufacturing               | 12.11             | 2.51                              | 0.25                         | 32                          |
| 9             | Chemical Products                   | 11.68             | 2.42                              | 0.29                         | 22                          |
| 10            | Plastics                            | 10.84             | 2.24                              | 0.30                         | 17                          |
| 11            | Automotive Components               | 9.83              | 2.03                              | 0.27                         | 20                          |
| 12            | Construction                        | 9.56              | 1.98                              | 0.30                         | 18                          |
| 13            | Textile Products                    | 9.42              | 1.95                              | 0.30                         | 18                          |
| 14            | Wood Products                       | 7.89              | 1.63                              | 0.18                         | 26                          |
| 15            | Industrial Machinery & Equipment    | 7.66              | 1.59                              | 0.20                         | 40                          |
| 16            | Industrial Transportation           | 7.47              | 1.55                              | 0.29                         | 16                          |
| 17            | Grain Products                      | 6.91              | 1.43                              | 0.22                         | 15                          |
| 18            | Furniture & Household Items         | 6.39              | 1.32                              | 0.25                         | 26                          |
| 19            | Nonmetallic Mineral Products        | 6.04              | 1.25                              | 0.24                         | 20                          |
| 20            | Petroleum Products                  | 5.98              | 1.24                              | 0.29                         | 13                          |
| 21            | Printing & Publishing               | 5.59              | 1.16                              | 0.30                         | 11                          |
| 22            | Agriculture, Hunting, & Forestry    | 5.51              | 1.14                              | 0.30                         | 13                          |
| 23            | Nonmetallic Construction Components | 5.25              | 1.09                              | 0.30                         | 17                          |
| 24            | Medical Supplies & Services         | 5.10              | 1.06                              | 0.21                         | 23                          |
| 25            | Dairy Products                      | 4.86              | 1.01                              | 0.15                         | 18                          |
| 26            | Aluminum                            | 4.68              | 0.97                              | 0.30                         | 8                           |
| 27            | Knitted Products                    | 4.52              | 0.94                              | 0.09                         | 14                          |
| 28            | Business Support Services           | 4.43              | 0.92                              | 0.23                         | 17                          |
| 29            | Telecommunications                  | 4.28              | 0.89                              | 0.36                         | 8                           |
| 30            | Fossil Fuels                        | 4.16              | 0.86                              | 0.22                         | 12                          |
| 31            | Copper                              | 3.92              | 0.81                              | 0.30                         | 8                           |

| <b>Factor</b> | <b>Factor Interpretation</b>             | <b>Eigenvalue</b> | <b>Percent Variance Explained</b> | <b>Cutoff Factor Loading</b> | <b>Number of Industries</b> |
|---------------|------------------------------------------|-------------------|-----------------------------------|------------------------------|-----------------------------|
| 32            | Nonferrous Metals Processing             | 3.79              | 0.78                              | 0.30                         | 10                          |
| 33            | Information Processing Equipment         | 3.61              | 0.75                              | 0.21                         | 9                           |
| 34            | Entertainment & Performing Arts          | 3.54              | 0.73                              | 0.22                         | 25                          |
| 35            | Residential Construction                 | 3.53              | 0.73                              | 0.25                         | 9                           |
| 36            | Radio, Movies, & TV                      | 3.38              | 0.70                              | 0.17                         | 9                           |
| 37            | Feed Products                            | 3.31              | 0.69                              | 0.17                         | 14                          |
| 38            | Glass Products                           | 3.28              | 0.68                              | 0.25                         | 9                           |
| 39            | Container Manufacturing                  | 3.16              | 0.65                              | 0.41                         | 5                           |
| 40            | Insurance                                | 3.06              | 0.63                              | 0.50                         | 4                           |
| 41            | Fabricated Metal Products                | 3.03              | 0.63                              | 0.21                         | 19                          |
| 42            | Information Technology Support Services  | 2.97              | 0.62                              | 0.23                         | 20                          |
| 43            | Concrete & Cement                        | 2.91              | 0.60                              | 0.23                         | 11                          |
| 44            | Mining Equipment                         | 2.83              | 0.59                              | 0.23                         | 10                          |
| 45            | Industrial Textiles                      | 2.71              | 0.56                              | 0.40                         | 7                           |
| 46            | Air Travel                               | 2.66              | 0.55                              | 0.23                         | 9                           |
| 47            | Tobacco Products                         | 2.62              | 0.54                              | 0.30                         | 4                           |
| 48            | Transportation Equipment                 | 2.56              | 0.53                              | 0.23                         | 10                          |
| 49            | Animal Products                          | 2.53              | 0.52                              | 0.19                         | 14                          |
| 50            | <i>Inconclusive</i>                      | 2.43              | 0.50                              | 0.24                         | 14                          |
| 51            | Soft Drinks                              | 2.41              | 0.50                              | 0.20                         | 9                           |
| 52            | Biotechnology                            | 2.34              | 0.48                              | 0.23                         | 14                          |
| 53            | Mobile Homes & Motor Homes               | 2.32              | 0.48                              | 0.22                         | 10                          |
| 54            | Aircraft Components                      | 2.25              | 0.47                              | 0.21                         | 10                          |
| 55            | Small Metal Products & Parts             | 2.22              | 0.46                              | 0.23                         | 10                          |
| 56            | Medical Laboratories                     | 2.12              | 0.44                              | 0.23                         | 11                          |
| 57            | Leather & Rubber Products                | 2.12              | 0.44                              | 0.19                         | 13                          |
| 58            | Advanced Electronic Systems & Components | 2.06              | 0.43                              | 0.24                         | 15                          |
| 59            | Fats & Oils                              | 2.03              | 0.42                              | 0.30                         | 6                           |
| 60            | Textile Support                          | 2.01              | 0.42                              | 0.30                         | 6                           |
| 61            | Confectionery Products                   | 2.00              | 0.41                              | 0.20                         | 10                          |