

# **The Evaluation of the U.S. Small Business Administration's Regional Cluster Initiative -- Year One Report Executive Summary**

In September 2010, the U.S. Small Business Administration (SBA) launched the Regional Cluster Initiative, a pilot program to promote and support ten clusters — geographically concentrated groups of interconnected businesses, suppliers, academic institutions, service providers, and associated organizations — across a wide variety of industries and regions throughout the United States. The SBA's Cluster Initiative provides funding to the organizing entities of the ten clusters in order to increase opportunities for small business participation within the clusters, promote innovation in the industries on which the ten clusters are focused, and enhance regional economic development and growth. This report describes the preliminary findings and outcomes from the first-year evaluation of the SBA's Initiative.

The ten clusters in the SBA's Initiative are involved in a range of industries, from agriculture and transportation to energy and flexible electronics. They vary in age/length of time established, stage of development (emerging, developing, mature), and governance structures. Three of the clusters, termed Advanced Defense Technology clusters, are specifically focused on meeting the needs of the defense industry, while the remaining seven clusters, termed Regional Innovation Clusters, focus on innovative and leading technologies in a variety of industry areas. One feature all of the clusters have in common is their focus on emerging and high technology. All the clusters in the initiative rely on the region-specific strengths of the private sector, the skilled labor associated with that sector, and the specializations of the regional and/or national research community.

This report examines the ten clusters participating in the initiative in detail, including their various stakeholder participants and the services and activities provided by the clusters, with a focus on small business participants. The report also evaluates the initial outcomes observed during the first year of the initiative, including the employment, revenue, and payroll of the small businesses as well as their ability to spur innovation and obtain financing. Furthermore,

the report analyzes the regional economic impact of the economic activity of the clusters' small business participants. Finally, the report presents various "lessons learned" by the clusters during the first year. Some of the key findings, outcomes, and learning opportunities are summarized below.<sup>1</sup>

During year one of the initiative, the ten clusters grew and developed their networks across a wide spectrum of stakeholders, ranging from universities/research institutions and foundation/nonprofit organizations to business associations and public sector agencies. The most marked growth has been in small business participation. As detailed in the sections below, total small business participation in the ten clusters grew by over 275% during year one. The ten clusters, which in October 1, 2010 had a total of 179 small business participants, grew to include 672 small businesses as of October 1, 2011. To the extent that these partnerships are strong and active, their growth is expected to lead to the strengthening of the clusters themselves.

The study also examines the compelling interests that drive stakeholder participation in clusters. As reported through survey results, the primary reasons for small business participation in the clusters were to network with other small businesses and to gain access to new markets. Among the large organizations surveyed, which consisted of large businesses, universities, research institutions, public sector agencies, foundations, and nonprofit organizations, the predominant reason reported for joining the cluster was to help spur regional economic development. The next most-cited reasons for participation were to find potential partners for technology transfer and to gain access to new technologies with commercial potential.

Given their industry-specific focus and interconnected networks of specialized mentors, experts, partners, suppliers, and customers, clusters are uniquely positioned to provide high-value, targeted connections between small and large businesses, private industry and universities, and suppliers and federal contractors. The services, activities, and events the clusters provided to small business participants during year one focused on several key areas: (a) facilitating targeted

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<sup>1</sup> This report focuses on the ten clusters participating in the SBA's September 2010 Regional Cluster Initiative. To date, the SBA has also invested in two additional cluster initiatives. The first was a pilot collaboration program with several other federal agencies, also launched in September, 2010, that awarded funds to three clusters—a cluster in the greater Philadelphia area focused on energy-efficient buildings, a cluster in Florida focused on space shuttle shutdown transition, and a South West Ohio Water Cluster. More recently, in September 2011, the SBA participated in the Jobs and Innovation Accelerator Challenge, a collaborative funding opportunity coordinated with the Department of Commerce's Economic Development Agency and the Department of Labor's Employment and Training Administration, which provided funding to 20 clusters engaged in a variety of industries in the U.S.

connections and networking among the small businesses themselves, between the small businesses and large companies, and between small businesses and the government; (b) providing targeted market and supply chain analysis; (c) increasing small business access to funding opportunities through prospecting, providing technical assistance, and matchmaking/networking activities; (d) creating key linkages between businesses and academic institutions in the transfer of new technology or concepts into the marketplace; (e) increasing export opportunities through counseling, workshops, and connections/referrals; and (f) providing small businesses with showcasing and demonstration opportunities to highlight small business innovation. Clusters saw the highest small business participation at one-on-one sessions focused on finance, contracting opportunities, and intellectual property, and training sessions focused on business development.

This study also found that a majority of the clusters leveraged one or more of the SBA's resource partners: Small Business Development Centers, Women's Business Centers, and SCORE. The clusters also utilized the expertise of third-party organizations such as university-based technology centers to provide hands-on product design, prototyping, and manufacturing assistance, as well as assistance with licensing new technologies, technology validating and testing services, and fostering partnerships with federally funded labs and other organizations for joint research and development. Over 85% of the small businesses surveyed reported that the services and activities provided by the cluster were unique and could not be found elsewhere.

Clusters also spent a portion of their time during year one on cluster management and strategic planning activities. In evaluating the percentage of time each cluster spent on providing external services versus internal cluster management, this study suggests that there is a correlation between the age of the cluster (the date the cluster was originally established) and the percentage of the funding the cluster allocates to providing services. The three clusters that devoted the greatest percentage of their SBA funding to providing services were also among the oldest clusters in the initiative. By contrast, the three clusters that allocated a greater percentage of funding to cluster management than to service provision, were also among three of the youngest clusters in the SBA's Initiative.

Several key outcomes were observed during year one. Among the preliminary outcomes, there is evidence of new business formation within the clusters and job creation in small

businesses that participated in the clusters. Seven new businesses were started after cluster participation during the first year of the initiative, three of them in the Monterey, California area focused on the agricultural technology supply chain. The average full-time employment in the small businesses that participated in the clusters increased by 7.6% during year one. Average total employment, including both full-time and part-time employees, grew by 11.2%.

The small businesses that participated in the clusters also experienced growth during the first year of the initiative. During year one, the average revenue of small business participants increased by 13.7%. Nearly all the clusters involved in the initiative—9 out of 10—experienced an increase in the average revenue of small business participants. The average payroll (total compensation paid to employees) of small business participants also increased by 23.4%, with all ten clusters experiencing an increase in the average payroll of small business participants. The expectation is that this growth in jobs, revenue, and payroll—one of the longer-term outcomes of the SBA's Initiative—may increase over a longer horizon than just the first year.

Preliminary findings based on the small businesses' self-reporting suggest that the clusters have played a role in spurring innovation among small business participants. Approximately 69% of the small businesses that indicated having sought or received cluster services reported having developed new products or services as a result of their cluster participation. In addition, 54% of the small businesses that indicated having sought or received cluster services reported having commercialized new technology as a result of their cluster participation. While only 22% of the small businesses that indicated having sought or received cluster services reported having pending patent applications as a result of their participation in the cluster, the expectation is that over time, as clusters strengthen and build networks, the number of patents applied for and obtained may increase.

The clusters have also provided services during year one of the initiative to assist small businesses to obtain contracts and subcontracts, private capital and loans, Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) awards, and other grants. Cluster administrators exercised their judgment to provide the value of economic activity related to two categories: first, activity that was tied in a direct way to the assistance the cluster provided to the small business participants, and second, activity that was indirectly tied to the cluster by virtue of the small business being an active participant in the cluster. They reported

that small business participants in the ten clusters obtained contracts or subcontracts totaling over \$217 million. As reported, small business participants also obtained nearly \$48 million in external funding through private funding sources (venture capital, angel capital); SBIR/STTR awards, which as reported totaled over \$6.5 million, were also an important revenue source for some of the cluster participants. The value of the grants reported during year one was \$1.7 million.

The initial findings and outcomes presented in this report indicate that the clusters have increased opportunities for small business participation within the ten clusters and made strides toward promoting innovation in their respective industries, and that the small businesses that participated in the clusters impacted regional economic development and growth. These preliminary findings will be further measured during the year-two evaluation of the SBA's Initiative. The following are possible additional areas of focus and outcomes of interest of the year-two evaluation: 1) additional inputs such as the number of cluster outreach sessions, one-on-one counseling sessions, and matchmaking efforts; 2) additional outcomes focused on innovation such as the number of patents applied for and obtained and the number of new technologies licensed; and 3) the possible relationship between the types and degree of cluster engagement activities and services provided to small business participants and the levels of economic activity networked by the clusters. The year-two evaluation will also aim to learn more about the extent to which these regionally based clusters are developing and fostering networks beyond their regions and accessing global markets, opportunities, and partnerships. Such expanded networks have already been observed in several of the clusters, and further development outside the region is anticipated to continue.