

# **Cluster-Based Economic Development in Mendocino County**

*Developing Industry Clusters  
Economic Growth Opportunities of Visitor Services in Mendocino County*

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Business Services Network:

**Mendocino County Workforce Investment Board  
Economic Development & Financing Corporation  
Mendocino Private Industry Council, Inc.  
West Company  
Mendocino County Executive Office  
Mendocino County Workforce Investment Board  
Mendocino County Promotional Alliance**

631 South Orchard Avenue  
Ukiah, CA 95482-5011

Study conducted by the Center for Economic Development (CED)  
California State University, Chico  
Chico, California 95929-0765  
Phone: 530-898-4598  
Fax: 530-898-4734  
[www.csuchico.edu/cedp/](http://www.csuchico.edu/cedp/)



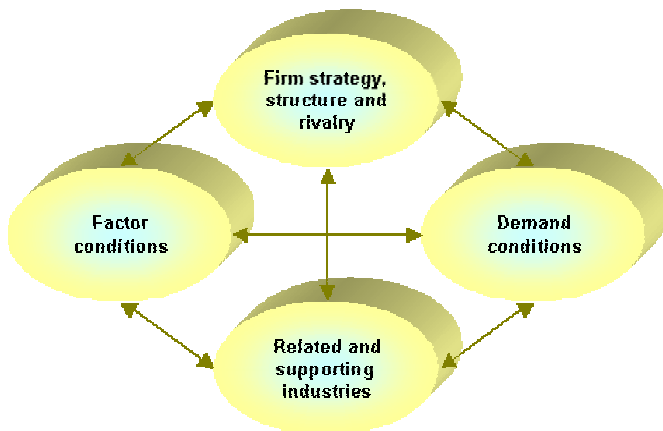
## Introduction

Cluster-based economic development is a complex strategy, but successful implementation has proven to greatly benefit local economies in America.

The 21<sup>st</sup> Century concept of clusters started with Harvard Business School's Michael Porter, who defines clusters as "groups of similar and related firms concentrated in a small geographic area."<sup>1</sup> A cluster can be vertical (businesses in a particular supply chain in the same community) or horizontal (a group of businesses in the same industry or serving the same source of demand).

A cluster often develops around a unique good supplied in the community (such as wine grapes) or an industry leader in the community (such as Microsoft). Both vertical and horizontal clusters may develop around both of these drivers.

Porter's diamond of advantage concept is as follows:



**Firm strategy and rivalry:** the degree to which a community's firms compete and innovate

**Demand conditions:** the degree to which a firm's product is demanded in the community

**Related and supporting industries:** the degree to which a firm's suppliers exist in the community

**Factor conditions:** the degree to which infrastructure and support necessary to the firm exists in the community

While most clusters in America developed without government influence, governmental agencies can encourage a cluster to develop by building the means by which local businesses interact and buy goods and services from each other.

<sup>1</sup> Porter, Michael E. The Competitive Advantage of Nations. Simon & Schuster. 1990.

## Components of the Visitor Services Cluster

The visitor services cluster includes businesses that provide services for, or manufacture products primarily for sale to, visitors to Mendocino County. It also includes businesses that primarily offer products and services for the aforementioned businesses. The following list includes all sectors analyzed as part of the visitor services cluster in this report.

### Agriculture Sector:

- Grain farming
- Vegetable and melon farming
- Tree nut farming
- Fruit farming
- Greenhouse and nursery production
- All other crop farming
- Forest nurseries, forest products, and timber tracts
- Fishing
- Agriculture and forestry support activities

### Manufacturing Sector:

- Confectionery manufacturing from cacao beans
- Confectionery manufacturing from purchased chocolate
- Fruit and vegetable canning and drying
- Cookie and cracker manufacturing
- Coffee and tea manufacturing
- Mayonnaise, dressing, and sauce manufacturing
- Soft drink and ice manufacturing
- Breweries
- Wineries
- Wood container and pallet manufacturing (includes coopers)
- Vitreous china and earthenware articles manufacturing
- Miscellaneous fabricated metal product manufacturing
- Boat building
- Motorcycle, bicycle, and parts manufacturing
- Musical instrument manufacturing
- Buttons, pins, and all other miscellaneous manufacturing

### Transportation Sector:

- Rail transportation
- Scenic and sightseeing transportation and support
- Warehousing and storage

### Retail Sector:

- Food and beverage stores
- Gasoline stations
- Clothing and clothing accessories stores
- Sporting goods, hobby, book and music stores
- Miscellaneous store retailers, not elsewhere classified
- Nonstore retailers

### Real Estate and Rental and Leasing Sector:

- Automotive equipment rental and leasing

### Professional, Scientific, and Technical Services Sector:

- Advertising and related services

### Amusement and Recreation Sector:

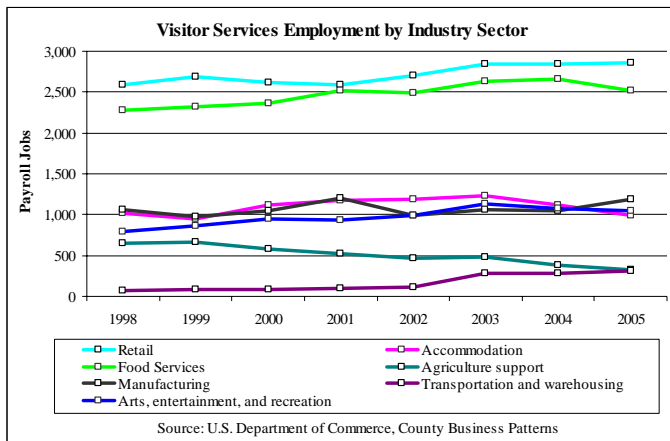
- Performing arts companies
- Independent artists, writers, and performers
- Promoters of performing arts and sports and agents
- Museums, historical sites, zoos, and parks
- Fitness and recreational sports centers
- Other amusement, gambling, and recreation industries

### Accommodations and Food Services Sector:

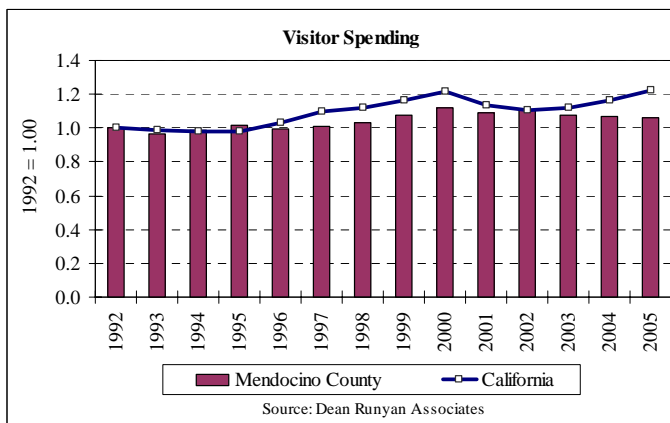
- Hotels and motels, including casino hotels
- Other accommodations
- Food services and drinking places

## Mendocino Visitor Service Trends

The visitor services cluster has been growing in Mendocino County. Most of the cluster's major industry sectors show a trend of increasing employment between 1998 and 2005, the only exception being agriculture support. The accommodation sector experienced a decline in employment after 2003, although that may be temporary as explained below. Together, retail and food services employ more than half of all visitor service workers in the county. In addition, manufacturing, arts and recreation, and accommodation each employ more than 1,000 people.



Mendocino County is a visitor destination catering primarily to in-state vacationers. Primary visitor draws include the Bay Area, Sacramento, and the Northern Sacramento Valley. Analysis of visitor spending shows a slight decline since 2002. That is likely due to a prolonged economic slump in the Bay Area that lasted through 2004. When spending data for 2006 is released, analysts should be able to determine if the Bay Area slump was truly the cause of a visitor slump in the county.

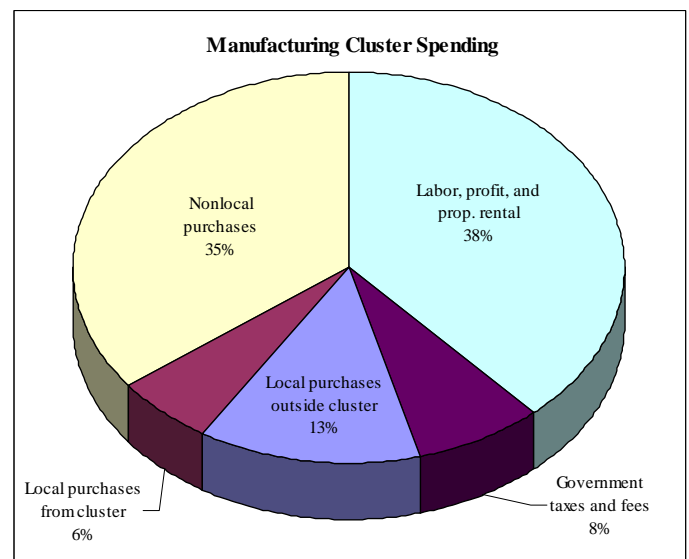


Overall, visitor spending in Mendocino County has not kept pace with growth statewide since 1992. Therefore, there may be untapped opportunities to further increase visitation to the county.

## State of the Existing Cluster

According to IMPLAN, the visitor services cluster was responsible for over \$1 billion in revenue to businesses and organizations, which is about 25 percent of all economic activity in the county.

A strong cluster is indicated by local purchases from the cluster exceeding all nonlocal purchases. Local purchases within the cluster represent a strong reliance on local supporting industries, and industries with businesses that supply many products and services to each other. It represents dollars circulating multiple times in the local economy, meaning that each visitor dollar spent in the local economy benefits individuals employed outside the business making the initial sale.



Source: IMPLAN Economic Impact Modeling System

In Mendocino County's visitor services cluster, nonlocal purchases (yellow in the chart above) is nearly twice that of local purchases within the cluster (dark blue). Therefore, much needs to be done for the visitor services cluster in Mendocino County to achieve its full potential as an engine of economic growth.

Generally, the county has been successful at generating a large volume of visitor spending, but little has happened to develop this revenue source into an industry cluster with strong recirculation of dollars. The following two sections explore, in more depth, spending leakages and the resulting untapped business opportunities that, if exploited, would permit development of a more fully integrated visitor services industry cluster.

## Visitor Services Suppliers

The first step in determining what needs to happen to develop a strong visitor services cluster is to examine what cluster businesses are buying outside of the county. If the county can take action to stop this leakage of dollars, a stronger cluster will be built.

Utilizing IMPLAN, the CED is able to estimate the value of imports by industry. The top fifteen nonlocal suppliers to the Mendocino County's visitor services cluster are listed below with the amounts purchased outside the county. Primary visitor service cluster sector(s) are shown in parentheses with that sector's dollar contribution to the leakage. In some cases, the sector(s) are responsible for all of the cluster's leakage in that category. (All values are given in millions of dollars.)

**\$ 37 spent at nonlocal wineries** (\$37 by local wineries)

**\$ 33 spent at nonlocal wholesale trade companies**  
(\$19 by local wineries)

**\$ 14 spent at nonlocal glass container manufacturers**  
(\$10 by local wineries)

**\$ 14 spent at nonlocal investors/holding companies**  
(\$6 by local wineries/restaurants)

**\$ 10 spent at nonlocal electricity suppliers**  
(\$5 by local restaurants/accommodations/wineries)

**\$ 10 spent at nonlocal real estate companies**  
(\$5 by local food/accommodations)

**\$ 9 spent at nonlocal pesticide manufacturers**  
(\$5 by local fruit farms)

**\$ 7 spent at nonlocal metal can manufacturers**  
(\$7 by local breweries)

**\$ 7 spent at nonlocal banks** (\$3 by local food/wineries)

**\$ 7 spent at nonlocal advertising companies**  
(\$2 by local wineries)

**\$ 7 spent at nonlocal cardboard box manufacturers**  
(\$5 by local wineries and breweries)

**\$ 6 spent at nonlocal soft drink and ice manuf.**  
(\$5 by local restaurants)

**\$ 6 spent at nonlocal commercial printers**  
(\$4 by local wineries)

**\$ 6 spent at nonlocal petroleum refineries**  
(\$1 by local fruit farms)

**\$ 5 spent at nonlocal fruit farms** (\$5 by local wineries)

The data indicates that leakage is widespread throughout the visitor services cluster. This explains why so many cluster purchases are from nonlocal companies as shown on the previous page. A lot of the products sold by Mendocino County wineries, restaurants, fruit farms (primarily grapes), and breweries are made using products purchased from outside the county. More intra-county transactions will have to be made if the cluster is to strengthen and generate a greater economic impact.

## Visitor Services Customers

The leading customers of the Mendocino County visitor service cluster are listed below with the amount spent at cluster businesses. The leading product or service purchased by each customer type and amount that customer spends in that sector is shown in parentheses. The 2004 value of purchases is given in millions of dollars.

**\$ 650 spent by domestic nonlocal households and businesses** (\$242 at wineries)

**\$ 221 spent by local households** (\$93 at restaurants)

**\$ 43 spent by foreign households and businesses** (\$19 at wineries)

**\$ 25 spent by wineries** (\$16 at fruit farms)

**\$ 8 spent by state and local government** (\$6 at restaurants and hotels)

**\$ 6 spent by fruit farms** (\$5 at agriculture support activities)

**\$ 6 spent by borrowed money for equipment, construction, etc.** (\$4 at food stores/service stations)

**\$ 5 spent by landscaping services** (\$2 at greenhouses and nurseries)

**\$ 5 spent by restaurants** (\$2 at wineries and other restaurants)

**\$ 3 spent by cattle ranching** (\$3 at general crop farms)

While, the primary customers of the visitor services cluster are visitors, including domestic and foreign households and businesses, local households also provide a significant customer base, especially to restaurants. Some of the visitors are the result of state and local government as they are brought to the area through conventions and retreats. However, this list shows that intra-county, intra-cluster transactions are relatively limited and further development is needed in order to build a strong cluster.

The one intra-county intra-cluster transaction chain shown above is restaurants buying goods from wineries, wineries buying goods from fruit farms, and fruit farms buying services from agriculture support. Also shown are non-cluster industries buying products produced by the cluster, such as landscaping services buying nursery products and cattle ranches buying goods from general crop farms.

While the county is good at generating visitor spending, much remains to be done if the county wants to capture the full potential economic benefit of visitor spending by providing goods and services that visitor-serving businesses need.

## Strengthening the Cluster

There are two primary ways that Mendocino County can strengthen the visitor services cluster.

### **1. Increase the number of visitors (direct impact)**

One way to expand the visitor services cluster is to increase the number of visitors. This strategy also involves selling more goods and services directly to visitors. Strategies can include the following:

- Co-marketing local products, lodging, restaurants, and other attractions frequented by visitors at local wineries and other existing visitor draws.
- Developing additional major visitor draws. Existing vacant property, especially in Fort Bragg, offer an opportunity.
- Marketing the county as a vacation area to a wider audience. This not only involves advertising, but increasing access through highway improvements and the potential initiation of rail or air service to the county.

### **2. Capture more economic impact (secondary impact)**

Capturing the economic impact of visitor services involves supplying more of the goods and services that businesses serving visitors need, then marketing these products and services to businesses countywide. This need is conventionally met through the private sector, although there are actions that the public sector can take to help.

- Fund a more comprehensive study to identify market opportunities to sell to visitor-serving businesses in Mendocino County. This involves focus groups and surveys of visitor-serving businesses to determine where they purchase the goods they sell and the services they utilize. This study would go beyond the model-based approach applied in this brief to identify additional business creation and expansion opportunities.
- Institute a “buy local” campaign among the counties visitor-serving businesses. Local businesses selling more locally-produced products to visitors can increase intra-county transactions in the cluster.

## Policy Recommendations

Mendocino County does a good job of attracting visitors and visitor spending, but more can be done to improve the local economy by supplying products and services to visitors. Policy recommendations focus on retaining and increasing the number of visitors and on capturing more of their economic impact.

### **1. Support and expand existing visitor marketing efforts**

The efforts of organizations like the Mendocino County Promotional Alliance, the Mendocino County Lodging Association, and the Mendocino Winegrape and Wine Commission attract a significant number of visitors. These efforts must continue in order to avoid a decline in direct visitor spending. Expansion of these efforts should lead to a greater number of visitors in the future from which the county can capture the resulting economic impact.

### **2. Support and expand infrastructure utilized by visitors**

Visitors utilize not only infrastructure attractions like the railroad upon which the Skunk Train travels, but also the county’s roads, utilities, and other types of infrastructure. The county must provide adequate infrastructure to serve not just the local population, but visitors as well. Inadequate infrastructure could prevent the return of some visitors in the future. The county should study the adequacy of existing infrastructure and whether any improvements could potentially lead to an expansion of the visitor base or supporting industries.

### **3. Support business creation and expansion**

Because much of the investment that could capture additional economic impact will have to be made privately, diligently support efforts by local and even nonlocal entrepreneurs to start and expand businesses designed to sell products and services to visitor-serving businesses. This can be done through existing entrepreneur development programs such as the Economic Development Financing Corporation, WEST Company, and existing redevelopment agencies. Additional strategies such as economic gardening, can help local business owners discover local markets in Mendocino County.

### **4. Advertise business market potential to entrepreneurs**

Where markets to sell products and services visitor-serving businesses are found, such as those shown in this brief report, advertise the potential to existing local businesses in order to generate more intra-county transactions in the cluster. It is the expansion of these types of transactions that will lead to a strong visitor services industry cluster.