

Rising Star

Exploding three myths about the Northeast Ohio economy.

BY EDWARD W. (NED) HILL AND JOHN R. BRANDT

The recent news that Northeast Ohio is helping to lead a nationwide economic recovery initially struck many as the lead-in to another late-night Cleveland insult, something along the lines of: *Unfortunately, there isn't much of an export market for pierogis or burning rivers.* Cue laughtrack. *Ha ha ha.*

Yet the numbers don't lie, and the region's broad-based resurgence is no joke, rating 10th among 50 U.S. metro areas (according to a report from the Brookings Institution and the London School of Economics). But the question on everyone's mind — not just in Akron or Cleveland or Lorain or Youngstown, but in every regional economy — is what comes next. Does our region have the potential to not just survive, but to thrive in a 21st-century economy?

The answer for Northeast Ohio is an unequivocal “YES” — but only if the region and its decision-makers can give up three myths about Northeast Ohio's future that hinder our ability to begin the hard work that will make growth and renaissance possible.



Myth #1: Manufacturing is dead, at least in Northeast Ohio and the U.S.

Balderdash. In fact, our strength in manufacturing has powered the region's recovery from the Great Recession, as factories revved up Northeast Ohio's corporate revenues and profits. But these factories, and the companies that own them, are changing rapidly, in fundamental ways. Smaller plants making younger products — fueled by lots and lots of capital — will dominate manufacturing in the Neoeconomy.

To cite just one example, Northeast Ohio is a *global* center for the medical-imaging industry — a historical strength that now features local representation by five global competitors with deep supply chains. We house critical facilities for Philips Medical, Hitachi and Siemens; M2M moved here from New Jersey, while ViewRay arrived from Florida. All together, they've invested some \$369 million into the Northeast Ohio imaging industry. Why? Because these companies — and those in other sectors — bet on communities in which industry-specific talent, knowledge and innovation are readily available.

It's important to remember, however, that today's manufacturing is NOT your father's manufacturing. Advances in information technology and logistics — combined with the elimination of trade barriers around the globe — have allowed companies to fragment themselves into separate functions (production, product design, customer service, etc.) located thousands of miles away from each other. The days of low-wage, low-value-added factory jobs are gone along Lake Erie's shores.

Our research indicates that regions that want to remain competitive in manufacturing must focus on two key functions that drive innovation and revenue: product design/development and headquarters/administrative functions. These functions not only drive corporate income, they also create the highest-paying jobs — with careers that are "sticky," too, meaning that they tend to remain rooted in a particular place next to similarly focused firms, talent and capital. Eaton and Parker-Hannifin are but two large examples of the "stickiness" of headquarters, while MTD illustrates the importance of leading-edge product design and development in the lawn-care industry.

Bottom line: Northeast Ohio retains a key legacy advantage in many industries.

Myth #2: Northeast Ohio needs to hitch its star to new industries to compete in the 21st century.

This is the great lie of economic development: *If we want to be part of the future, we need to launch industries of the future.* That would be terrific if anyone actually *knew* what the industries of the future will be — but long experience teaches that we don't. Renewable energy, for instance, has gotten a lot of media atten-

Where Does Ohio's GSP Come From?

In 2008, manufacturing's contribution to Gross State Product was 50% greater than the national average — 20.3% compared to 13.7%

INDUSTRY	Ohio's Real Gross State Product in Millions \$2,000			Location Quotient of GDP Ohio Relative to the U.S.**		
	2002	2006	2008	2002	2006	2008
All Industry Total*	373,457	387,345	385,559			
Agriculture, forestry, fishing and hunting	1,517	2,121	2,474	0.4	0.5	0.6
Mining	1,365	1,082	966	0.3	0.3	0.3
Utilities	7,397	7,036	7,478	1.1	1.0	1.1
Construction	14,159	11,335	9,408	0.9	0.8	0.8
Manufacturing	80,612	82,827	78,404	1.6	1.5	1.5
Durable Goods	54,417	59,239	56,403	1.8	1.7	1.6
Nondurable Goods	26,064	23,838	22,302	1.3	1.2	1.2
Wholesale Trade	24,160	25,507	25,299	1.0	1.1	1.1
Retail Trade	28,120	30,590	31,579	1.0	1.0	1.0
Transportation and Warehousing	10,778	13,259	13,144	1.0	1.1	1.1
Information	10,966	13,105	14,221	0.6	0.6	0.6
Finance and Insurance	26,519	30,740	28,452	0.9	0.9	0.9
Real Estate, Rental and Leasing	40,785	37,857	37,729	0.9	0.8	0.8
Professional and Technical Services	19,154	22,226	25,882	0.8	0.8	0.8
Management of Companies and Enterprises	10,049	10,501	10,270	1.4	1.7	1.7
Administrative and Waste Services	9,618	10,898	11,314	0.9	1.0	1.0
Educational Services	2,372	2,534	2,636	0.8	0.8	0.8
Health Care and Social Assistance	27,006	30,074	31,051	1.1	1.2	1.2
Arts, Entertainment and Recreation	2,754	2,730	2,801	0.8	0.8	0.8
Accommodation and Food Services	7,929	8,311	8,475	0.8	0.8	0.8
Other Services, except Government	8,583	8,201	7,952	1.0	1.0	1.0
Government	39,903	38,177	38,600	0.9	0.9	0.9

*Due to rounding, totals may not be exact.

** If location quotient equals 1, industry share of GSP is at national average.

tion recently (*Wind turbines in Lake Erie! Ooh! Ahh!*), but at 18 to 23 cents a kilowatt hour at a time when the industrial rate for electricity is closer to 5 cents, and ever-cheaper natural gas coming on line through vast Marcellus Shale deposits in Ohio and Pennsylvania, the industry has little chance of generating local profits (or jobs) for a generation or more. And even if we could reliably pick and foster the industries of the future, there's no guarantee that we could out-hustle and out-compete other locations. Take biotech, for example; Even a cursory Google or literature search can find hundreds of communities worldwide hoping to build their fortunes as biotech regions. Call us crazy, but the odds of all of them hitting the

same small target seem slim at best.

A better strategy for Northeast Ohio is to focus on and expand what we already know and do well: innovation in materials, revitalized consumer products, finding niches in energy markets that are not price-sensitive, and a sophisticated industrial base linked to applied chemistry. We are fans of JumpStart's approach to fostering development — i.e., paying *less* attention to industries and *more* attention to individual firms and their growth-oriented business plans. Why? Because for all the talk and hyperbole about new and emerging industries, there's no silver bullet that can transform a slow-moving, traditional economy into a vibrant, high-

performance juggernaut overnight. We need silver buckshot. Economic development is always based on a regional portfolio of products — for Northeast Ohio, think insurance, chemistry, materials, medical equipment, and headquarters and management— and the quality and costs of local resources to produce them. The good news for our region is that the single most important resource — a skilled workforce — is already a local strength. The bad news is that we need to *keep investing* in that workforce if we want to remain competitive.

Myth #3: Health care will lead the region's economy going forward.

If only it were true! Health care (services) is an important employer in the region, and will certainly grow as demographics take over (we baby boomers aren't getting younger). The problem is that for most communities, health care is a *local* industry — which ends up making it a zero-sum game: Nearly all the revenues enjoyed by *local* hospitals, clinics and physicians come from *local* employers and employees. And while it's true that Northeast Ohio's health-care industry does *import* some patients (and their revenues), thanks to the excellent reputations of institutions such as the Cleveland Clinic and University Hospitals, it's not enough to make health care an engine of long-term growth. In fact, we have a vibrant health-care industry primarily because we are, sadly, disproportionately old and, not-so-sadly, disproportionately well-insured. *What's good for the health care industry isn't necessarily good for those who make the insurance payments.* What we really need are high-growth companies that innovate and sell great products outside Northeast Ohio — and then bring those revenues and profits back home to employees, investors and philanthropic causes in our hometowns.

Let's get going! +

About the Authors



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Good Fortune

Fortune 1000 Companies Headquartered in NEO (2010)

RANK	COMPANY	CITY	REVENUE (\$ Millions)
141	Goodyear Tire & Rubber	Akron	16,301.0
161	Progressive	Mayfield Village	14,563.6
179	FirstEnergy	Akron	12,967.0
194	Eaton	Cleveland	11,873.0
230	Parker Hannifin	Cleveland	10,309.0
319	Sherwin-Williams	Cleveland	7,094.2
356	KeyCorp	Cleveland	6,068.0
440	TravelCenters of America	Westlake	4,699.8
453	Lubrizol	Wickliffe	4,586.3
540	J.M. Smucker	Orrville	3,757.9
562	Timken	Canton	3,548.4
646	Aleris International	Beachwood	2,996.7
688	Diebold	North Canton	2,741.5
750	Cliffs Natural Resources	Cleveland	2,342.0
754	Nacco Industries	Cleveland	2,328.4
765	Medical Mutual of Ohio	Cleveland	2,283.4
811	PolyOne	Avon Lake	2,060.7
836	Jo-Ann Stores	Hudson	1,990.7
859	Applied Industrial Technologies	Cleveland	1,923.1
920	Lincoln Electric Holdings	Cleveland	1,729.3
937	Invacare	Elyria	1,693.1
938	American Greetings	Cleveland	1,690.7
949	Ferro	Cleveland	1,657.6

SOURCE: RICHARD OSBORNE