



# ECONOMIC DEVELOPMENT STRATEGIC FRAMEWORK



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ANTONIO R. VILLARAIGOSA  
MAYOR

## The Community Development Department's Economic Development Strategic Framework

I am extremely pleased to present to the residents, business owners, and academic community of Los Angeles this Economic Development Strategic Framework. With the Mayor's economic development strategy as the roadbed, this framework will provide the road signs and mileposts to guide City leaders along the road to sustainable economic growth, particularly in the City's most economically challenged neighborhoods. These are the neighborhoods to which the majority of funding is provided through our federal partner agencies in the form of federal grants, government-backed loans, small business assistance, workforce assistance and tax incentives.

The research and writing of this Framework was a tremendous undertaking, utilizing thousands of staff hours provided by Community Development Department staff, interns, and the dedicated efforts of the volunteer Advisory Committee whose distinguished members are noted on the following pages. In particular, I would like to thank and commend Michael J. Yuzon, former Director of CDD's Economic Development Division, without whose vision, drive, commitment to excellence, and economic development expertise, completion of this Framework would not have been possible.

This is a living document; its tables, charts and other data shall be updated periodically to keep pace with changes in the local, national and world economies that it reflects. Nevertheless, it is a comprehensive look at where Los Angeles is at present, how the City stands in relation to our local and national competitors, which industries and industry clusters are in ascendance and which are in decline, and most importantly, where City leaders are best advised to place the scarce public resources that are at our disposal. Its success will be determined not by whether it is applauded by reviewers, but by how often and by whom it is used as the guidepost it is intended to be.

RICHARD L. BENBOW  
General Manager



# ECONOMIC DEVELOPMENT STRATEGIC FRAMEWORK

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Los Angeles County Community Development  
Commission  
State Employment Development Department

# ECONOMIC DEVELOPMENT STRATEGIC FRAMEWORK:



## EXECUTIVE SUMMARY



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## EXECUTIVE SUMMARY

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Los Angeles is the largest city in California and the second largest city in the nation. It is perhaps the most diverse city in the nation both economically and geographically. It is this diversity that has enabled the City to develop into a major driver of both the state and national economy. To maintain the City's economic prowess in the knowledge-based economy the City will need to adapt its economic development model.<sup>1</sup>

Consistent with the findings outlined within the City's General Plan under the Economic Development section, the Community Development Department ("CDD") identified the need to develop a detailed plan to better align its resources. In September 2005, the CDD recognized the need to use an emerging tool known as "Industry Cluster Analysis" to gain better insight into the City of Los Angeles' economy. It was clear that this analysis would assist the CDD in aligning its limited resources when it came to encouraging business expansion/retention and new business attraction in the City's most challenged census tracts. The goal was to establish a baseline economic development strategic framework which the CDD could utilize to enhance the competitive advantages of the City and stimulate business attraction, business retention and workforce development for the knowledge-based economy. This baseline strategic framework begins by examining the local economy during the period 1994 to 2001 and 2005 in order to provide both a short- and long-term snapshot, and compares the City of Los Angeles' economy to California and the nation as a whole during this same period.<sup>2</sup>

Historically in an industrial economy, location decisions followed a paradigm in which firms located near natural resources and transportation grids, while the employees would follow the firms. However, in today's post-industrial paradigm firms cluster around similar or related firms in and around places that, not only support their particular workforce profiles, but also increase competitive advantages. Employees, on the other hand, choose locations based on lifestyle with firms following the workforce. Competitive advantage has become increasingly fluid. In other words, the workforce mobility enables firm's competitive advantages to move as the workforce moves to meet its lifestyle needs.

Industry clustering, as developed by Michael Porter in "*Competitive Advantages of Nations*" in 1990, reflects the natural evolution of competitive success. A cluster is a group of firms that, through their interactions with each other and with their customers and suppliers, develop innovative, cutting-edge products and processes that distinguish them in the market place from firms in the same industry found in other places. In other words, the cluster is able to achieve competitive advantages for their group as a whole. Clusters are analyzed using three tools: the location quotient, shift-share analysis, and value chain analysis. Each tool reveals different aspects of the cluster.<sup>3</sup>

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<sup>1</sup> Popularized by Peter Drucker in "*The Age of Discontinuity*", it refers to the use of knowledge to generate economic benefits.

<sup>2</sup> The year's chosen were the only data available through the State Economic Development Department for employment information.

<sup>3</sup> A more detailed definition of each of these tools is explained in Section II - Industry Cluster Analysis.



# EXECUTIVE SUMMARY



The results of the study identified 8 industry clusters within Los Angeles based upon the analysis performed. These clusters stood out for their total numbers of persons employed, the rate of total employment growth, the average annual wage earnings of the industries within the industry cluster, and the demonstrated competitive advantages based on being located within Los Angeles:

1. Biomedical / Biotechnology
2. Entertainment and Creative Services
3. Healthcare
4. International Trade and Logistics
5. Manufacturing Value Chain
6. Professional, Business and Financial Services
7. Retail Trade
8. Tourism

Los Angeles' clusters are summarized in the following tables with their *Location Quotients ("LQ")* listed in parenthesis.<sup>4</sup>

Clusters Exceeding Local Economy Consumption			Clusters Not Meeting Local Economy Consumption		
Exporting Products and Services (Competitive Advantage)			Modestly Importing Products and Services (No Competitive Advantage)		
Entertainment and Creative Services	LQ=(2.53)	↑ 2%	Healthcare	LQ=(0.93)	↑ 14%
International Trade and Logistics	LQ=(1.43)	↑ 18%	Retail Trade	LQ=(0.88)	↔ Holding
Professional, Business and Financial Services	LQ=(1.33)	↑ 4%	Biotechnology	LQ=(0.82)	↓ 3%
Tourism	LQ=(1.12)	↑ 33%			
Manufacturing Value Chain	LQ=(1.11)	↑ 29%			
*LQ, 2005, Compared to Nation, (U.S. LQ =1.00)					
*LQ percent change from 2001 - 2005					

<sup>4</sup> For a more detailed definition of the Location Quotient please see Section II – Industry Cluster Analysis.



# EXECUTIVE SUMMARY



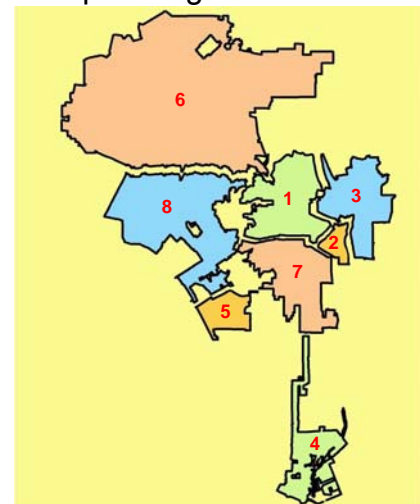
A weighted-average ranking summary of all industry clusters outlining their employment size, employment growth, average wages and LQ's is provided as follows:

Industry Cluster	Average Employment 2005	Rank	Annual Average Employment Growth 2001-2005	Rank	Average Wage 2005	Rank	Location Quotient 2005	Rank	Weighted Average	Rank
Professional, Business & Financial Services	460,871	1	2.66%	2	\$61,740	1	1.33	3	76%	1
Entertainment	177,800	5	-0.04%	7	\$58,025	3	2.53	1	59%	2
Tourism	208,141	3	3.19%	1	\$25,116	8	1.12	4	49%	3
International Trade & Logistics	104,130	7	1.33%	6	\$45,253	5	1.43	2	44%	4
Manufacturing Value Chain	243,436	2	-0.34%	8	\$41,829	6	1.11	5	39%	5
Healthcare	147,440	6	2.54%	3	\$46,776	4	0.93	6	36%	6
Retail Trade	180,823	4	1.97%	5	\$30,837	7	0.88	7	26%	7
Biotechnology	42,058	8	2.26%	4	\$59,513	2	0.82	8	23%	8
Weight:		25%		15%		20%		40%	100%	

One major implication of utilizing an industry cluster analysis as a tool for economic development is better resource allocation and alignment. The allocation of resources and alignment of activities is essential for business attraction, business retention and workforce development. In order for Los Angeles to build competitive advantage in the 21<sup>st</sup> Century economy, the development of new and traditional approaches to these elements is not necessary but critically important for the City's economic success. Los Angeles' historical approach to economic development served it well when the nature of competitive advantage was inherently geographic and did not dissipate with the passage of time – location was the key advantage. However, the knowledge based economy is now about building a place that provides firms with the opportunity to create competitive advantages while at the same time addressing quality of life issues that the workforce is demanding.

This study also addresses the geographic diversity of the City and reviews the distinct sub-economies that make up the City's economic base. Given the fact that the CDD's products and services are place-based due to the funding eligibility criteria, it was also critical to provide a methodology that also analyzed clusters by locations. As a result the strategy divided the City into eight distinct geographical planning areas. These areas are as follows:

1. Central City
2. Downtown Core
3. Eastside
4. Harbor
5. Los Angeles International Airport (LAX)
6. San Fernando Valley (SFV)
7. South Los Angeles (SLA)
8. Westside





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## EXECUTIVE SUMMARY

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By combining the industry cluster analysis with the geographic planning areas, the CDD developed a baseline economic development strategic framework that provides an action plan to support the Mayor's vision for Los Angeles' future economic prosperity and long-term fiscal competitiveness in the 21<sup>st</sup> Century economy. The CDD established six major goals based on the findings from the industry cluster analysis that would enable the City to strengthen and enhance its competitive advantages in industries that drive the core industry clusters. Those six major goals are:

1. Increasing employment in the core industries;
2. Creating higher average-wage job opportunities;
3. Targeting growth industries within the core industry clusters;
4. Creating stronger private and public economic partnerships;
5. Developing targeted educational and job training programs for key industries; and
6. Leveraging Los Angeles' world-class distribution facilities.

The strategic framework then proposes 21 specific program initiatives in order to accomplish the six major goals outlined above.<sup>5</sup>

The report is organized into six major sections. The Executive Summary presents a brief synopsis of the overall economic development strategic framework. Part I: Introduction, presents an overview and introduction to the strategy. Part II: Industry Cluster Analysis provides the basis for overall action plans. Part III: Implementation and Action Plan, provides the overall framework for more cooperative and focused action plans. Part IV: the Marketing Plan will ensure that the implementation and action plan is effectively accomplished. Part V: Appendix, presents all of the supporting data and analysis.

This strategy is just one component of the Mayor's Citywide Economic Development Policy and Strategy and is by no means an all-inclusive strategy for the City. The Mayor's economic development plan includes:

- Increasing the number and quality of jobs;
- Positioning the City as a hub for international trade flow; and
- Prepare residents for quality jobs through workforce development and training.

Implementation of this strategic framework will support the Mayor's economic development plan, while at the same time assisting to achieve the City Council's economic development goals.

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<sup>5</sup> A detailed outline of each of these goals and program objectives can be reviewed in Section III of this study.