Successful clustering: Business models and management skills

Summary
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The European Cluster Collaboration Platform, on behalf of the European Commission, organises the EU Clusters Talk “Successful clustering: Business models and management skills” on 24 January, 8:30 – 9:45 CET, to discuss different existing business models for cluster organisations, essential skills for cluster managers, and strategies to successfully foster innovation and creativity.

Agenda of the meeting
Moderation: Jennifer Baker
1. News from the European Cluster Collaboration Platform
   Nina Hoppmann & Jan-Philipp Kramer, team members, European Cluster Collaboration Platform
2. Cluster development
   Marek Przeor, Team Leader - Cluster Policy, DG GROW, European Commission
3. Panel debate
   Alain Tubiana, Head of Master “Collective Intelligence and Innovative Ecosystems in Europe”, University of Strasbourg
   Ásta Kristín Sigurjónsdóttir, Cluster Manager, Iceland Tourism Cluster
   Christian Rangen, Cluster expert and founder, Engage // Innovate
   Gisela Sanchez, European Project Manager, Finance Innovation
   Marcos Suárez, Project Manager, Basque Energy Cluster
4. Funding opportunities
   Nina Hoppmann, team member of the European Cluster Collaboration Platform

Key messages

- There is a need for a foundational understanding of what a cluster business model is.
- We need to differentiate between the business model, which focuses on the financial aspects (revenue sources, income and costs), and the strategy, which encompasses the cluster’s overarching goals and methods for achieving them.
- Finding the right funding mix can be influenced by the strategy, external factors (such as availability of funds), or the service provision for the members.
- The level of engagement between the cluster management and its member organisations is crucial for opening new strategic opportunities.
- There are high expectations regarding skills for a cluster manager. They include flexibility, creativity, agility, team leadership, networking, resource management, entrepreneurial leadership, and being a “knowledge angel”.
1. News from the European Cluster Collaboration Platform

Nina Hoppmann & Jan-Philipp Kramer, team members, European Cluster Collaboration Platform

After the introduction by moderator Chris Burns, the following news items were presented:

1. Save the date for the European Cluster Conference on 7-8 May 2024.
2. Publication of Code of Conduct tool for a healthy, fair and environmentally friendly food system
3. New input paper on the cluster policy landscapes and collaboration opportunities in the European Union and Canada
4. Invitation to public roundtable on 29 February for the green and digital transition of the mobility ecosystem
5. Call for expression of interest to join the Critical Medicines Alliance
6. Episode of euronews Business Planet on how clusters are helping Europe’s aerospace industry take off
7. Free trial of the Trend Universe for all ECCP users with a profile and new innovation trends

2. Cluster development

Marek Przeor, Team Leader - Cluster Policy, DG GROW, European Commission

Marek Przeor started his input from the often misunderstood distinction between geographic concentrations of interconnected companies and related organisations, known as clusters, and the entities designed to manage and animate these clusters, referred to as cluster organisations. He emphasised the critical role of experienced cluster managers in navigating the complexities of cluster development and governance, which vary significantly across different regions, countries, and municipalities. Cluster organisations are vehicles for developing clusters and enhancing the broader industrial ecosystem.

Knowledge transfer, innovation, and crisis management are pivotal roles of clusters, which became clear in light of the challenges posed by COVID-19 and the current geopolitical tensions. Marek Przeor outlined the various functions of clusters, such as infrastructure sharing, specialised services provision, education and training, and export and trade facilitation. These functions are integral to achieving the goals of collaborative innovation, commercialisation, and global expansion. Additionally, the emergence of shared value clusters and the alignment with government policies and regulations are important for supporting the business objectives of cluster members while advancing public administration goals at regional or national levels.

Cluster managers need effective communication, leadership skills, and emotional intelligence in order to drive the European clusters towards leading the green and digital transitions and building resilience. Marek Przeor reiterated the importance of financial sustainability for clusters, advocating for a reduced dependence on public funding.
3. Panel debate

The panel discussion focused on the difficulties of defining and implementing a cluster business model, the differentiation between the business model and the strategy, and the optimal skills set of a cluster manager.

**Cluster business model**

Alain Tubiana underscored the *complexity* of achieving financial sustainability in cluster organisations. This challenge is likened to what he humorously referred to as the "Platypus Complex". Cluster organisations face the delicate task of providing services to their members without transforming into consultancy firms. They need to navigate between the *roles of service provider and industry facilitator*. This balancing act involves generating revenue through service offerings while maintaining the core mission and value proposition of the cluster. Finding the right funding mix means balancing between leveraging private investments and utilising public funds.

Ásta Kristín Sigurjónsdóttir explained that most of the largest clusters in Iceland are almost entirely privately funded. This contrasts with the more common mix of public and private funding seen in other parts of Europe and around the world. She noted that while initial public funding might support the establishment and early growth of cluster organisations, the real challenge emerges in sustaining operations and continuing development after the initial three to five years of public funding. This transition period is crucial, as organisations must strategize on becoming self-sufficient and ensuring long-term viability.

Christian Ragen highlighted the need for a *foundational understanding* of what a cluster business model truly is. Many cluster organisations - including managers and board members - lack a precise grasp of the concept and they do not "speak the same language". While many clusters have “great intentions”, the lack the necessary understanding and strategic guidance to navigate their financial and organizational challenges effectively. Fundamental aspects of a cluster’s business model are identifying *revenue sources* (public, private, and project-based), *outlining cost elements*, and understanding the *dynamics* between these financial streams. Christian Ragen estimated that only about 2% of clusters have successfully mastered their business model.

Gisela Sanchez illustrated the case of her French cluster. Initiated by the government, the cluster developed the own trajectories over time, operating now with 90% private funding. The cluster took a *customised* approach to meet the varied needs of its members. By offering a broad range of services tailored to the specific demands, the cluster demonstrates a responsive and member-focused strategy.

Marcos Suárez confirmed that the challenge lies in aligning a cluster’s value proposition with the *diverse needs* of its members and navigating the complexities of funding. He pointed out that funding, in many respects, is influenced by *external factors*, including the regional innovation ecosystem and available financial resources. This *flexibility in funding sources* enables clusters to tailor their activities and services to deliver value in alignment with both their capabilities and the expectations of their members.
Cluster strategy

Christian Rangen underlined the importance of distinguishing between a cluster's business model and its strategic orientation. The business model focuses on the financial aspects—revenue sources, income, and costs—while the strategy encompasses the cluster's overarching goals and methods for achieving them. For the latter, he differentiates between:

- **Grow**: Clusters aimed at growing an existing industry typically see members content with the status quo, showing limited interest in radical funding changes for the cluster.

- **Transform**: Clusters in industries undergoing significant transformation find themselves at the forefront of change. Market trends and industry shifts necessitate rapid adaptation, and clusters become agents of transformation. In such scenarios, there is a heightened willingness - often born out of necessity - among members to fund cluster initiatives to accelerate change.

- **Build**: Clusters with a focus on emerging industries face the toughest funding challenges. These sectors often lack a broad membership base and established support activities, making it difficult to garner interest and financial support for cluster activities.

Ásta Kristín Sigurjónsdóttir agreed that while the strategy and business model are distinct, market changes and external challenges necessitate an adaptive approach to both. For the tourism cluster in Iceland, such adaptability has translated into easier access to funding for European and Nordic projects, especially when these projects align with solving pressing issues that the industry and the wider community face. Building revenue streams from membership fees, projects, and programmes becomes more feasible when the cluster is effectively addressing the real and immediate needs of its members and the industry.

Marcos Suárez added that many clusters might have a mix of growth, transformation, and building scenarios simultaneously, for example because of the different focus areas of a single cluster. Additionally, the diverse types of members can have different priorities, which required a tailored approach.

Christian Rangen introduced the concept of the “DNA” of a cluster, which is characterised by the composition of key individuals and priorities within the cluster, including board members and their focus areas, which collectively shape the cluster's strategic direction and operational dynamics. A critical point of discussion is the nature of engagement between the cluster management and its member organisations. The level of engagement, often limited to operational or project-focused discussions, may miss strategic opportunities and overlook potential resources and support at higher organisational levels. He advocated for a strategic shift in engagement practices, suggesting direct connections with the highest levels of leadership within member organisations. Such engagement can unveil new perspectives, priorities, and access to more significant budgets and funding resources that could support the cluster's initiatives and objectives more effectively.

Skills

Alain Tubiana added that this perspective ties closely to the competencies required of cluster managers, where beyond the pursuit of sustainability, member engagement is a key concern. Furthermore, he named the ability to handle complexity is indeed a critical skill for cluster managers. Clusters must adapt to evolving industry landscapes, including the transformation of value chains and the push towards circularity.
For Gisela Sanchez, critical skills for cluster managers are flexibility, creativity, agility, and team leadership. These skills, when combined, equip cluster managers to handle the competing demands and diverse factors that characterise the cluster environment.

Regarding the question how to foster innovation and creativity among the members, Marcos Suárez identified fostering connection, providing competitive intelligence, creating collaborative platforms, and acting as a catalyst. Given these responsibilities, the skills essential for cluster management extend beyond traditional leadership competencies to include strategic networking, gaining market and industry insight, and providing a clear vision to support innovation.

Alain Tubiana added three critical dimensions that underscore the complexity and dynamism of managing a cluster organisation, which are resource management, entrepreneurial leadership, and being a “knowledge angel”. The latter involves acting as a consultant who is deeply engaged across various fields, ambitious for the cluster’s success, and possessing extensive connections.

4. Funding opportunities

Nina Hoppmann, team member of the European Cluster Collaboration Platform

Closing the EU Clusters Talk, Nina Hoppmann shared the following examples of funding opportunities:

1. Alliances for Education and Enterprises; deadline 7 March 2024
2. Expanding Academia-Enterprise Collaborations; deadline 19 September 2024
3. Industrial leadership in AI, Data and Robotics boosting competitiveness and the green transition (AI Data and Robotics Partnership); deadline 19 March 2024
4. Opportunities for SMEs: Calls from Euroclusters; published on European Cluster Collaboration Platform