

Business Clusters

Businesses everywhere tend to cluster geographically into production systems. Firms find it advantageous to be near their suppliers, customers, and other firms that produce similar goods. This proximity gives them the ability to transact business more cheaply and easily, resolve problems more quickly and efficiently and learn earlier about new and better practices.

Collaboration and co-operation are key concepts in the building of business clusters. Industrial restructuring has refocused economic thinking towards the potential of groups of small firms, rather than the predominant large and centrally controlled enterprises of the past.

Overseas examples show how vigorous leadership by local or regional government can stimulate and support the development of business clusters for the benefit of the whole community. The Waitakere City Council and Enterprise Waitakere have identified five activities that have an existing presence in the local economy, and have particular opportunities for growth in the medium term. These are:

- Marine and boat building sector,
- Viticulture horticulture and food processing (including wine),
- Film and video,
- Tourism,
- Environmental technologies.

The first three are discussed in this chapter as key issues, including the following:

1. **DEFINING 'CLUSTERS'**
2. **BUSINESS LINKS**
3. **MARINE CLUSTER**
4. **WINE INDUSTRY**
5. **FILM & VIDEO**

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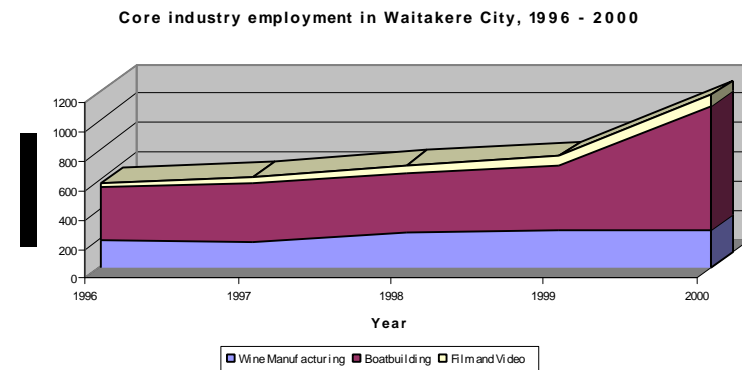
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KEY INDICATOR

Direct employment in the wine, boat building and film industries in Waitakere City – over 1172 full-time equivalent jobs in 2000, which is 2.7% of total employment in the city.

These industries each form the core of a business cluster, that is, for each person directly employed there are a high number of others employed in related trades.

For example the City's boatbuilders are supported by around 160 additional firms that are directly involved in subtrades including retailing, wholesale distribution,



Source: Statistics New Zealand Business Frame, 2001

importing, manufacturing related products, and the supply of raw materials to the marine industry.

As the number of people directly employed in these core industries grows, the overall cluster will grow so that the impact on total employment is significantly greater than the 2.7% of workers directly employed in producing film, marine and wine products.

1. DEFINING “CLUSTERS”

Cluster analysis looks at business not so much as part of an industry, but as part of an inter-related group of organisations working toward a common goal. To some extent this requires an attitudinal shift by participants away from patterns of working in isolation or competition, towards mutually beneficial collaboration. A prosperous regional economy thrives on strong connections between groups of related companies, and local civic institutions have a significant role to play as proponents of such relationships.

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A cluster consists of a ‘cluster core’ of highly specialised firms within the same industry. Closely linked to the core firms are ‘specialist supporting firms’ which supply specialised industry services to the core. Surrounding and supporting these components of the central core is a ‘supporting social infrastructure’, which is tightly linked to the central core by sharing a common vision. Finally, there is a ‘supporting physical infrastructure’, which consists of specialised facilities for the use of the cluster participants.

Successful cluster systems have been shown to share the following features:

- A common vision;
- A local leadership team, formulating a focused approach;
- Tight integration, with all participants moving in the same direction;
- Information spillovers, multiple linkages, and networks that build trust and bridge system gaps;
- A high degree of rivalry and competition, yet cooperation for the participants’ mutual advantage.

2. BUSINESS LINKS

Business links are an indicator of the connections necessary to foster robust clusters. In Waitakere City, useful business links (apart from direct trading) tend to be mainly with similar businesses (47% of businesses have such links) and trade organisations (46%). Links of all kinds have declined since 1997.

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Table 1: Business links in Waitakere City

Business links with:	1997	2000
Industry associations & trade organisations	69%	46%
Other businesses like yours	57%	47%
Central or local government departments	n/a	22%
Universities/ Technical Institutes/Trade Schools	34%	21%
Business consultants/ training companies	28%	21%
Other	n/a	30%

Source: Survey of a sample of businesses in December 1997 and 2000, with a margin of error of +/- 5%.

3. MARINE CLUSTER

The local marine industry strongly exhibits the characteristics associated with successful business clusters overseas. The core of this cluster is represented by highly specialised firms, in close geographic proximity, with intense interaction between the firms. There is strong rivalry between firms, yet significant co-operation and high levels of trust and professional respect. Local businesses have a high profile in key national organisations, such as MAREX, BIA and NASNZ.

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The core of the cluster comprises around 42 boat building firms. Collectively they employ directly around 400 people although fluctuations in employment numbers are common.

The local boat-building industry is exceptionally export oriented. Export turnover of locally built boats (estimated at \$50 million a year in 1997) represents about a quarter of New Zealand's total boat-building exports. In 1997, annual turnover from the core boat-building companies exceeded NZ \$70 million a year.

Around 160 additional firms are directly involved in subtrades, retailing, wholesale distribution, importing, manufacturing related products, and the supply of raw materials to the marine industry.

The boat building industry requires specialised materials and services for construction of large high quality boats. Some links are being established with local suppliers, such as metalworkers, with potential to develop stronger links and industry clusters in the future.

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Around 20% of New Zealand's total boat-building apprentices work in Waitakere City. The total number of apprentices in New Zealand increased from 200 in 1997 to 400 in 2000, providing a further 40 jobs for Waitakere City school-leavers.

The Waitakere City boat-building industry is largely pleasure craft driven and is impacted significantly by marine recreation activities. Events, conditions and facilities that encourage recreational boating activities have a profound effect on the cluster's economic health.

Westpark Marina funnels economic activity into the rest of the cluster. The marina's developmental state is therefore very important. Westpark marina tenants hope to compete in the expanding service market for international boats and reduce the outflow of mobile operators currently driving to other marinas. Currently, restrictions on the type and height of buildings are causing concern to the industry.

Other pressures on the marine industry include the requirement for deep water to assist with launches of the large vessels being manufactured. Many of the existing manufacturers are based near the Henderson Creek with shallow water launch sites. The Hobsonville area provides access to deep water. With the possibility of the airbase land becoming available, yacht manufacturers and related businesses are proposing to establish business there. Sovereign Yachts has already established itself there. The Council is developing concept plans with key stakeholders to encourage the establishment of a marine cluster in the Hobsonville area, depending on the extent to which air base activities continue there.

Source: Enterprise Waitakere Marine Cluster Report and Council reports.

4. WINE INDUSTRY

Waitakere City became a wine producing area initially because it was close to the large Auckland market, the railway provided good transport links, and land was cheap. It was established largely by Dalmatian families who had come from a tradition of wine making in their homeland. It is a characteristic of winemakers in the area that many of them are still independent family owned businesses, with winemaking as a way of life.

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For many years Waitakere City was the largest grape growing and wine producing area in the country. In 1975 the local area had 37% of the national grape plantings. However, by 1998 there were only 92 hectares in vines, representing 1.2 % of the national acreage.

As the national wine industry has developed, the nature of the local industry has also changed. As West Auckland (Waitakere City plus Huapai/Kumeu) has become more urbanised, the area in vines has decreased, and wine companies have moved out of grape growing into juicing, blending, bottling and marketing using grapes grown elsewhere in the country. For example, Corbans Wines was initially a major local producer, and although its head office is still in Henderson, it has no current growing or bottling operations in West Auckland.

Using a Lincoln University methodology, the economic value of the West Auckland wine industry, including infrastructure (supply) companies, is estimated at \$335.5 million per year. This is calculated as set out below:

Table 2: Economic Value of West Auckland Wine Industry

	(\$ Million p.a.)
Grape Growing	3.5
Wine Production	150.0
Cellar Sales	2.0
Restaurant Services	2.0
Total Direct Sales	157.5
Local suppliers sales (local)	48
Structures and plant	10
Local suppliers sales (national)	120
TOTAL CLUSTER VALUE	335.5

In many respects the West Auckland wine cluster can be regarded as a service provider to the rest of the country. Wine industry supply businesses that were initially established to service the local industry now service the whole country. These businesses provide services such as wine making, blending, finishing, bottling, labelling, marketing, chemical supply, bottle supply, consulting services, engineering, barrels, corks, closures, crushing and bottling equipment, etc. There are no significant gaps in the local infrastructure and local winemakers can meet all their requirements in Waitakere City, or the greater Auckland area.

The availability of comprehensive production facilities and a comprehensive local infrastructure gives the Auckland region a big economic advantage over other areas for the production of wine. Although there are number of issues that are facing the industry, most of them are national issues.

There are a number of overlaps and synergies between the wine industry and the horticulture industry. However, as noted in the “Economic Development” chapter, although the ‘West’ is well known for its long association with viticulture, horticulture and fruit growing businesses (including viticulture) together with other agriculture, forestry, fishing and mining now account for less than 1% of Waitakere City’s businesses.

It is important to recognise that the West Auckland wine industry is a growth industry, in spite of falling grape production. There has been continuing expansion and investment in production equipment and facilities as wine making in West Auckland expand to process increased plantings elsewhere.

In Waitakere City there is significant pressure from various sources that could inhibit the future activities of wine growers. Residential sprawl is the main threat with wineries in Upper Harbour Drive, Lincoln Road, and Don Buck Road being affected by nearby housing developments that threaten to encroach on their land or pressure them to reduce noise and spray drift. Some of these wineries are considering moving out of the City, and three already have. In the short term the loss of these three wineries will not have a serious impact on the local economy. However, if the trend continues, it will seriously diminish the potential to use wineries as a marketing icon for tourism in the City.

In response, the Council is investigating the recommendation from the wine cluster report that a special vineyard and winery area be recognised in the Proposed District Plan. This is aimed at preserving the existing wine activities in that area.

Although there has been a shift away from growing to processing of grapes, the aesthetic importance of having areas in the City with grapes on the vine is recognised. Some wineries have retained a small area of vines as an acknowledgement of their heritage value and the impact on wine tourism and other marketing ventures.

Source: Enterprise Waitakere Wine Cluster Report and Council reports.



Vineyard Factories

5. Film and video

Although there is significant film activity occurring in Waitakere City, this activity is highly dependent on the locational advantages of the natural environment. This is particularly attractive to overseas production companies, and in fact the bulk of filming activity in Waitakere City is funded from overseas.

In terms of a cluster, the Waitakere City film industry does not in itself have the linkages and critical mass to qualify as a cluster. Rather the wider Auckland region has a film industry cluster of which Waitakere City is a subset, albeit a very significant part. Waitakere City's film industry can be described as an 'emerging cluster' because it exhibits some of the features of successful clusters but lacks others.

The Waitakere City film industry exhibits:

- highly specialised firms within the same industry,
- geographic proximity,
- intense interaction between firms:
 - * tight supplier customer links,
 - * informal and hard business networks,
 - * new firms spawning,
- specialist support firms,
- supporting infrastructure by way of common vision and some specialised facilities (buildings and locations), and
- a specialised ecosystem (i.e. a contained system with particular structure and dynamics).

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Waitakere City locations have been used:

- for the production of television drama series for international markets,
- by some television commercial producers based in Auckland, and
- by many producers of feature film and television drama based in Auckland.

The industry is labour intensive, generating high employment numbers short term. Film making is possibly the largest freelance profession in the country. Most individuals are employed on contract for the duration of the production or a shorter period depending on their function (e.g. actors, extras). The episodic nature of film work, means that many of its self employed people are multi-skilled, working in other fields as well as film (some of them entertainment).

It would be fair to say that the producers of 'Hercules', 'Xena', 'Young Hercules', and the historical drama 'Greenstone', collectively employed the largest group of people working in feature films and TV series in New Zealand at the time. Pacific Renaissance Pictures Ltd employed in excess of 450 people through 'Hercules' and 'Xena' with at least another 220 working for Pacific Island Pictures on 'Young Hercules'. Communicado's production of 'Greenstone' employed in excess of 170 people.

Altogether this was the largest concentration of people working in the NZ film industry, outside of television broadcasting. The industry generates significant work opportunities within Waitakere City and in particular around the West Coast beaches, which local residents have been able to take advantage of. A high proportion of trades and craftspeople employed are from within Waitakere City, reflecting the City's strength in construction trades. On the other hand, technical employees and actors tend to be drawn from throughout the region.

The industry, particularly the international feature film component, is highly mobile. Offshore productions come to New Zealand because it is an English speaking, safe, politically stable country, with varied, accessible scenery concentrated within a relatively small region, with reverse seasons (compared with the northern hemisphere) and a low dollar. The international reputation of New Zealand films and crews is growing, as are relationships with producers and broadcasters offshore.

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Important reasons for productions coming to Waitakere City are the bush, the beaches and the buildings.

The Auckland region has a shortage of large film studio space for lease to film companies. Therefore, producers have looked for high stud building complexes with parking and privacy that can be adapted. The availability and proximity of useable buildings to Waitakere City's exterior locations is the key reason why Pacific Renaissance Pictures and feature film producers build interior sets in Waitakere City and deal with local firms in constructing those sets.

Industry participants note that a key area in which local authorities can positively influence the long-term future of filming in their region is to make available and preserve their own stock of high stud building complexes. Examples identified in Waitakere City include the Corban Winery Estate and the Hobsonville airbase.

In 1997 industry complaints led the Waitakere City Council to review its regulatory provisions regarding the granting of resource consents for filming. As a result of this review Enterprise Waitakere established a “one-stop shop” for processing resource consents for filming on certain locations. Industry response to this new initiative has been highly complimentary, with industry sources quoting the Waitakere City model as “best practice” for other local authorities. There is continuing dialogue between the Waitakere City Council, Enterprise Waitakere and the film industry to address ongoing issues and needs.



Business Clusters

C A S E S T U D Y

FILM AND MULTIMEDIA PROSPECTS

In a recent address to the local industry, Studios USA Senior Vice President Richard expressed his faith in the region's future in film and multimedia and indicated its importance, as shown in the following comments:

"A bit of background: If you deduct Wellington's `Lord of the Rings' bonanza, Waitakere City's film cluster accounts for 55% of New Zealand's film output, according to the Auckland Regional Council. Waitakere City film production began on Piha Beach in 1912. From famous films such as The Piano and Memory and Desire, to Asian soaps, commercials and Shortland Street, the next big production to be shot here will be Super Fly. Xena and Hercules were both produced at Avondale's Pacific Renaissance studios and were supported by dozens of firms and thousands of people in the West Auckland / Waitakere City region. For these two successful television shows alone, Waitakere City's film cluster shot 23 million feet of film and produced 312 hours of quality programming in a seven-year period.

“ *It's time to get out and beat the bushes in the overseas markets to bring production down here.* **”**

The community benefited from more than \$400 million injected into local economy through budgets covering cast and crew (which accounted for half the \$400m), more than 1000 vendors, including fabric, construction, food, and office supplies. Last season Pacific Renaissance employed 220 people, but at the height of its production it employed 700 people.

Where to look for future growth? One big area is offshore post-production of digital video effects, including 3D and animation sent around the world on approval. One Berlin studio, for example, cannot get its work into a backed-up Cologne-based post-production house. The Berliners would gladly send their work to New Zealand at considerable cost savings and more rapid turn-around. The other growth area is the increasing demand for science fiction product, which uses the same skill sets as Xena, such as digital effects and animation.

Now is the perfect time for Waitakere City to market itself, particularly with the success of such films as Vertical Limits and the increasing visibility of blockbuster Lord of the Rings.

It's time to get out and beat the bushes in the overseas markets to bring production down here. In New Zealand you get fabulous locations and excellent quality in cast and crews."

WHAT THE COUNCIL IS DOING:

The following are some of the actions the Waitakere City Council is taking:

- The Council provides funding to Enterprise Waitakere, which provides business support programmes and training programmes such as 'Be Your Own Boss'.
- Enterprise Waitakere provides information and business development seminars on a range of topics under the Government's BIZinfo and BIZ programmes.
- Enterprise Waitakere has done research on business clusters in Waitakere City.
- Enterprise Waitakere provides advice to businesses looking to invest in the City, runs an annual business awards programme, and supports the development of fast growing sectors such as film, marine, tourism and wine.
- The Council provides infrastructure and services such as water and sewerage, which enable the economy to function efficiently.
- The Council has a pivotal role in city design. Through regulation, encouraging town centre development and passenger transport, it supports a city form that enables businesses to function with minimal adverse impacts.
- The Council provides Cleaner Production advice to businesses.

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WHAT YOU CAN DO:

- Recognise clusters and support their growth by buying locally, working locally, and investing locally
- Education.
- On the job training.
- Set up businesses that will help grow a cluster of businesses.
- Encourage staff to work from home in Waitakere City.

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