Introduction

Thank you for participating in our Toronto Region Economic Summit. The Summit is designed to bring together private sector leaders from leading economic clusters to advance overdue ideas and better drive regional competitiveness by fostering stronger collaboration within and across key industries. The Summit will encourage business leaders to take a leading role in advancing an economic cluster strategy for the Toronto Region.

A key component of the Summit’s agenda are a series of cluster break-out sessions where industry leaders from each cluster, including yourself, can discuss joint issues and business strategies to enhance their industry’s competitiveness position. Following the keynote address by Dr. Michael Porter, we would greatly appreciate you joining the Transportation & Logistics Cluster for a 2-hour roundtable session. This session will be moderated to ensure maximum amount of participation and feedback.

What follows below is a primer on the Transportation & Logistics Cluster to assist you with preparation for this break-out. The primer is structured around key themes as follows: the big picture; why we’re here; opportunities for the Transportation & Logistics Cluster; key facts about the Transportation & Logistics Cluster; and proposed discussion questions.

We wish to thank KPMG, the Summit’s presenting sponsor; and IHS Global Insight for their generous contribution to the Summit’s content development.

The Big Picture

We know what the Toronto Region’s strengths are: an enviable quality of life, a highly educated and diverse workforce and a critical mass of leading edge service and manufacturing-oriented industry clusters. Yet we can’t escape the effects of recent economic upheavals or the profound shifts in the global economic order, most notably the emergence of high-growth economies such as Brazil, China and India.

As part of the Toronto Board of Trade’s ongoing efforts to measure Toronto’s competitiveness we have been publishing since 2009 our annual Toronto as a Global City: Scorecard on Prosperity (Scorecard) report. The reports’ findings are consistent and point to a troubling reality that despite our market size and major institutional assets like research hospitals and universities, the Toronto Region punches well below its weight.

Scorecard 2012’s results are no different. Regardless of the indicator one looks at, whether it’s GDP and productivity growth or average size of IPOs our long-term performance puts us near the bottom of North American league tables. This has huge implications, not least of which is in on our ability to sustain and pay for the vital public investments we need to make in our social and physical infrastructure.

Nevertheless, as the Drummond report laid bare and as we see with the budgetary challenges of municipal governments across the Toronto Region, the fiscal space for major government economic stimulus is just not there. Clearly, if we wish to sustain the long-term economic vitality of the region our businesses must be at the forefront of change.

Undoubtedly, there is no simple recipe for generating economic growth. But today, we make an important and groundbreaking step. We are setting in motion the development of a business led roadmap to compete against the best-in-class city-regions from across the globe. It’s not about picking winners and elaborate industrial strategies. Instead, it’s about generating sensible approaches and collaborations between industry, government and other stakeholders that can enhance our business environment and make it that much more competitive and entrepreneurial.
On Monday March 26th, we will release Scorecard 2012 our benchmarking report which takes a unique and special lens on the North American position of Toronto’s key economic clusters. Scorecard 2012 will serve as a foundation document for the Summit. As clearly articulated in the Board’s provincial election campaign VoteOntario2011, cluster-based strategies will be an important element to drive economic growth and investment in the Toronto Region. Additionally, these strategies can provide a strong impetus for better positioning and branding of Toronto’s unique selling points.

**Why We’re Here**

With the help of economic consulting firm IHS Global Insight, the Toronto Region Economic Summit is the first step in helping kick-start a creative collaboration within and between Toronto’s key industry clusters. The firm has led many successful regional economic cluster strategies around the world including the Puget Sound (Greater Seattle Area); Bangalore (India); and Ottawa. But first, a bit about clusters and why we think they’re important. Clusters are groups of interconnected companies in a particular sector that are located close to one another. Significantly, clusters also include related institutions like universities, government and trade associations which support clusters in different ways through workforce training, sector supports and advocacy. Examples of successful clusters recognized globally include New York as well as Toronto’s Financial Services, Silicon Valley’s Information & Communication Technologies (ICT), Boston’s Life Sciences and Israel’s High-Tech.

The Summit’s keynote speaker, the renowned business theorist Dr. Michael Porter, convincingly documents in his research how the geographic clustering of firms in related industries is critical to increasing productivity and innovation. These leading firms typically sell to markets beyond their local region. In addition, the presence of clustered industries generates opportunities for the success of regions, by creating a solid economic and institutional infrastructure which generates good paying jobs which in turn support local businesses in sectors like retail and restaurants.

So how does Toronto fare in terms of its concentration of clustered industries? On the positive side, Toronto has an excellent industry and cluster mix. However, cluster effectiveness, as measured by wages, innovation and productivity, demonstrates shortcomings when we compare ourselves with high-performing US city-regions like Seattle, San Francisco and Boston.

Since Toronto is home to many of the nation’s key industrial clusters from auto & parts to finance, to ICT and creative industries, it is critical we develop cluster-based strategies that boost the competitiveness of these sectors. According to Scorecard 2012, the following five clusters, out of ten selected for the study, show the most strength. These clusters are ranked among the top five in North America based on a unique set of economic indicators:

- Auto & Parts (#1 out of 12)
- Food & Beverage (#3 out of 12)
- Transportation & Logistics (#3 out of 12)
- Financial Services (#5 out of 12)
- Bio-Pharma & Bio-Medical (#5 out of 12)
The Summit will focus on six clusters as mentioned below to ensure ideal collaboration among participants.

- Advanced Manufacturing (includes Auto & Parts, Aerospace and Advanced Materials)
- ICT & Creative Industries (includes ICT and Creative & Entertainment)
- Life Sciences (includes Bio-Pharma & Bio-Medical, Hospitals and Medical Research Institutes)
- Food & Beverage
- Transportation & Logistics
- Energy

Example Of a Local Success Story: Financial Services Cluster Strategy

A good example of a cluster strategy in the Toronto Region is the Toronto Financial Services Alliance (TFSA) which convened key industry, government and educational sector stakeholders to develop a comprehensive cluster strategy for Toronto’s financial services cluster. This strategy is a great template of what could be achieved with other clusters.

Among other things, the strategy identified several emerging sub-clusters (risk & retirement management and support to mining, gas and oil companies) where Toronto can compete well on a global scale. The efforts of the TFSA members are recognized internationally, with Toronto ranked among the top ten financial centers of the world according to Global Financial Centers Index. Importantly, the reputation of Canada’s banking system soared in the wake of the recent recession further positioning Toronto as a strong global financial centre. When Forbes named Canada as the number one country to do business in 2011, the banking sector was showered with kudos: “Canada’s major banks, however, emerged from the financial crisis of 2008-09 among the strongest in the world, owing to the financial sector’s tradition of conservative lending practices and strong capitalization.” No doubt, banks are not the only ones to continue to lean on “Brand Canada” for future growth.

Canada’s four largest public pension funds manage $640 billion of combined assets and are seen as global best-in-class for sound long-term strategy, governance and compensation practices in the world, owing to the financial sector’s tradition of conservative lending practices and strong capitalization.

Opportunities for Transportation & Logistics Cluster: Background Material

Transportation and logistics (T&L) is one of the world’s largest industries. Its sectors range from trucking firms to airlines, rail transport, courier services, shipping, warehousing/distribution centers and logistics services. With the fragmentation of manufacturing activities and growing international and intra-firm trade, T&L activities have become more global, complex and sophisticated. An unprecedented array of products are crossing borders using different modes and generating a multitude of interconnected logistics activities across various sectors, including natural resources, manufacturing and services. Like ICT & Creative Industries cluster, this sector is both an important enabler of economic activity in other sectors and a source of economic activity in its own right.

Like other clusters and sectors, in 2010-2011 T&L industries saw a global rebound. In 2010, North America’s transportation and logistics industry had revenues of close to US$ 2 trillion dollars. Increased traffic was enjoyed by passenger airlines, marine shipping firms and courier companies. This reflected in part the recovery in global goods trading which had by the beginning of 2011, returned to pre-recession levels. Though this bounce back in business was felt most in fast-growing, emerging nations like Brazil and China, it’s notable that between 2006-2011 investments in Canadian distribution centres increased by 106% (main areas of investment located in Ontario, Alberta, Quebec and British Columbia); a sign of the sectors vibrancy in Canada.
Peering into the future, according to IHS Global Insight’s projections for the next five years, T&L will continue to grow at a respectable clip. The sector will be buoyed by number of positive trends:

- The sharp increase in international trade which has propelled transportation and logistics activities to the forefront of business strategy
- Manufacturers, retailers and natural resources industries are relying on their T&L networks to deliver seamless, integrated, secure, reliable and efficient solutions to leverage their global value chains
- The use of continental logistics strategies is an emerging trend across numerous industries
- Small and medium-sized firms are investing in distribution centres to better respond to customer mandates and to integrate further into global value chains

As the Scorecard 2012 illustrates the Toronto Region’s T&L cluster is well placed to grow in this evolving global business environment, given its size, firm density and infrastructure assets like the Toronto Pearson Airport and the Toronto Port. Even so, the sector must be mindful of several potential threats to its long-term position:

- Rising energy costs/low carbon compliance requirements
- Inadequate transportation infrastructure road and rail
- Skill shortages across T&L sub-sectors like trucking
- External and macro economic factors such as strong dollar, global trade disruptions, etc.

Coping with these diverse challenges will put a premium on looking at creative IT solutions, identifying efficiencies in work processes and having effective talent development and management strategies.

CHART 1: Future North American Growth for Leading Toronto Clusters

Chart 1 provides an overview of Toronto’s leading clusters across three dimensions, two Toronto based and one North American:

- Cluster employment concentration, relative to the size of Toronto’s economy (far left side of chart)
- Size of cluster relative to Toronto economy (bubbles central axis)
- Projected North American growth rates for Toronto’s leading clusters (bottom of chart).

Overall, these clusters are expected to grow by 2.9% the next four years, with

T&L
T&L expected to grow by just under 4%

ICT & Creative Industries
ICT is expected to grow at about 5%, while creative/entertainment should grow at just under 3%

Food & Beverage
Food and beverage is expected to grow by almost 2%

Health-life Sciences
Health and life sciences expected to grow by about 4%

Advanced Manufacturing
Two big segments of Toronto’s advanced manufacturing cluster, auto & parts and aerospace, are slated to grow by about 4% and 10% respectively.
Transportation & Logistics Cluster: Background Material

Key Facts

- **Relative Strength in North America (Scorecard 2012, Economic Clusters Lens):** Toronto ranks 2nd in this cluster. This is largely a result of strong real GDP growth over the past decade at 3.6% compared to North American average of 1.4% for this cluster. Moreover, the cluster grew double the rate of the overall real GDP growth in Toronto during the same period.

- **Concentration of Firms:** Strong results on firm density (Toronto is ranked ahead of 11 other metros in our lens) which makes it easier to attract new talent to the local economy and makes it easier to market the region externally in this cluster.

  When taking relatively low employment concentration in this cluster in Toronto, it would appear that Toronto is characterized by a large number of small firms. This sector accounts for nearly 2% of Toronto’s real GDP – about the same as the Auto & Parts cluster and slightly less than Food & Beverage cluster.

- **Proximity to North American Markets:** Toronto has access to a large and wealthy population base giving it the biggest market size in North America with market potential of $US 5.2 trillion. Scorecard 2012 ranks Toronto #5 out of 23.

  Toronto is a great hub for distribution because of the sector’s connectivity to rail, air and trucking industry.

  With Ontario’s trade becoming increasingly global and sensitive to supply chain disruptions (i.e. the most recent tsunami & earthquake in Japan and flood in Thailand have essentially paralyzed international trade in certain types of highly advanced products), this cluster is absolutely critical to an advanced manufacturing cluster.

- **High-Value Added Potential:**
  critical enabling industry which ensures competitiveness of all export-oriented industries in our region. This industry heavily relies on productivity improvements in the ICT cluster and is the backbone of international trade.

- **Ability to tap into export markets:**
  The World Bank’s recent report Connecting to Compete: Trade Logistics in the Global Economy ranked Canada in the top 15 out of 155 countries on a country’s ability to efficiently move goods and connect manufacturers and consumers with international markets. This report looked at country’s logistics performance from the point of view of efficiency of the customs clearance process, quality of trade and transport-related infrastructure, competence and quality of logistics services, ease of arranging competitively priced shipments, ability to track and trace consignments, etc.
Discussion Questions for Breakout Sessions

The Board understands that Toronto’s businesses – though often competitors with each other in the marketplace – must collaborate to improve the competitiveness of Toronto’s economy. With this in mind, we see today’s Summit as the first step (see Four Steps to a Successful Cluster Strategy) on Page 8 in a consultative process looking at ways we can strengthen Toronto’s sample of key industry clusters such as Food & Beverage; ICT & Creative Industries; Advanced Manufacturing; Life Sciences; and Transportation & Logistics. Energy will be looked at as an enabling cluster to support the above-mentioned clusters. These five clusters (with their own unique and distinct opportunities for growth and development) have been selected as a starting point to highlight different stages of cluster development and evolution.

By supporting infrastructure development, facilitating the collaboration of business, research, and universities, through the financing of R&D projects etc., governments also have an important role to play in supporting this process.

The primary objective of the break-out session is to examine key strengths and opportunities in your cluster. Specific examples of questions your facilitator will be exploring during the session include:

1. Existing Cluster Leadership Base
   - What are your cluster’s comparative advantages (i.e., are there specific areas we excel at nationally & internationally?)
   - How well do firms in your cluster collaborate (e.g., with competitors, supply chains) on issues of common concern (e.g., workforce training, infrastructure)?
   - If all stakeholders critical to your cluster work together, what can be achieved collectively?

2. Cluster Business Environment
   - What are the main threats to competitiveness of your cluster in domestic and international markets?

3. Cluster’s Access to Talent
   - What are cluster’s key skills and talent strengths/challenges?
     - Access to specialized talent?
     - Access to leadership talent (i.e. management expertise)?
     - Access to on-the-job workforce talent training?
     - Educational institutions – are they responding to supply/demand issues?

4. Cluster Accessibility & Infrastructure
   - What are key infrastructure and accessibility strengths/challenges?
     - Broadband connectivity/ICT infrastructure?
     - Transport (roads, rail, air, public transit)?
     - Energy?
     - Infrastructure cost issues – fees, charges, rates?

5. Innovation / Commercialization of R&D
   - How well does your cluster promote innovation (new product development, business process/systems, strategy etc.)?
     - Links with universities - tapping into R&D, partnering on commercialization activity?
     - Driving innovation and improved product performance through relationships with suppliers and/or customers?
Four Steps to a Successful Cluster Strategy:

Step 1: Mobilization:
- Recruit a private sector leader who can conscript broader participation
- Leader must convince participants that a cluster approach will improve their bottom line
- Rally around a common, tangible goal

Step 2: Diagnosis:
- Use data analysis tools to identify the strengths, weaknesses and challenges of the region’s strongest clusters

Step 3: Collaboration
- Devise cluster Working Groups with members from small and large firms
- Create Action Plans

Step 4: Implementation
- Assign to an existing - or create a new-body to manage the cluster initiative
- Identify sources of financing
- Monitoring system

8) http://www.plunkettresearch.com/transportation-supply-chain-logistics-market-research/industry-trends
10) http://www.pwc.com/gx/en/transportation-logistics/global-transportation-logistics-publications.jhtml