The Ottawa Cluster as a Global Player

By

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- Ottawa’s first cluster was built around the fur trade, which was started by Champlain in 1608
- Its second was built around the timber industry, which was started by Philemon Wright in1800
- The latter was truly a cluster in that it attracted a number of supporting industries like a foundry industry that turned out axes of all descriptions and wood stoves that made lumber camps possible
- In fact, the wood stove was the region’s first high-tech product; nobody had built an appliance that would allow wood to be burned in an iron container sitting on a wooden floor

- No town was worth its salt unless it had a foundry that turned out wood stoves
- They also turned out farm implements
- Two Ottawa entrepreneurs by the name of Ahearn and Soper pioneered the development of electric stoves in the late 1800s
- As recent as 1950, Ottawa had one of the largest manufacturers of electric stoves in North America- Beach Foundry

- Even though the Canadian market for stoves was reasonably large, such companies had to rely heavily on foreign markets for their survival
- Their challenges were very similar to those faced by our high-technology industry of today - risk capital hard to come by, fluctuating exchange rates, protectionism, skills shortages, etc.
- But they survived and prospered
- They even created their own bank – the Bank of Ottawa – later absorbed by the Bank of Nova Scotia

- The roots of our current high- technology industry can be traced directly to the lumber industry
- The early investors were Peter Mahoney who financed Computing Devices and James MacLaren who financed Lumonics
- Angel investors played a much larger role - on a relative basis- than they do today
- There is now a much greater reliance on venture capital and on foreign sources of venture capital in particular

- How is Ottawa doing in the new era of globalization?
- If the goal is to build world class multinational companies, we are not doing very well; our companies are being absorbed into foreign-owned MNEs before they can reach a critical mass
- If the goal is to supply leading edge R&D services to a large number of such companies located elsewhere, we are doing very well

- The R&D strategy has many potential disadvantages and potential pitfalls
- Other countries (India, Pakistan, Poland, Hungary,etc.) are now able to provide similar services at much lower costs
- Our R&D incentives will be very costly to maintain if we want to compete with low-wage R&D suppliers
- By limiting our exposure to a very small segment of the entrepreneurial process, we are depriving ourselves of the skills necessary to build world class MNEs

- Our productivity numbers will always look bad because the sales-per-employee for an R&D company will always be lower than for its parent company
- The R&D branch plants will exacerbate our brain drain because they will act as conduits into their parent companies where there is a greater diversity of career opportunities

- How do we turn more of our fledgling companies into world-class MNEs ?
- We must provide the early investors in those companies with more buyout alternatives – our pool of buyout capital is much smaller, on a relative basis, than its U.S. counterpart and is less experienced in high-technology investing
- We much launch the companies properly so they can be attractive to financial buyers as well as strategic buyers at a reasonably early stage
- We might consider incentives for management buyouts

- Why worry about it?
- Technology can serve as a powerful tool of economic diversification; Newfoundlanders should have alternatives to jobs in Fort McMurray
- We should not be satisfied with such a low percentage of world trade in technology-based products and services
- We should not be satisfied with call centres as our share of the global high-technology pie

Our productivity in this sector will always