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Guest Commentary: Realizing the Full Potential of Logistics Clusters

by Yossi Sheffi

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Supply chain practitioners are acquainted with the role of logistics clusters, but their knowledge of these hubs is still relatively shallow. For example, how many professionals are aware of the importance of logistics clusters as job creators or appreciate why these communities are such a successful worldwide phenomenon?

This lack of knowledge is even more pronounced in the wider business world, particularly when compared to other, better known concentrations of expertise such as Silicon Valley and Wall Street.

One of the aims of my new book *Logistics Clusters: Delivering Value and Driving Growth* (MIT Press, October 2012), is to help companies and governments understand the benefits of these entities.

This is important because I believe that more investment in logistics clusters will not only yield supply chain benefits, but broader economic paybacks that are urgently needed at the national and regional levels.

Logistics clusters are agglomerations of enterprises that share logistics know how and resources. Typical occupants of these hubs include third-party services providers, freight carriers, distribution centers, and corporate logistics departments.

A measure of their success is that logistics clusters can be found in almost any part of the world, often near consumer markets, in central location, or within ports and airports. They have become vital nodes in global supply chains.

Why has the concept thrived? There are a number of reasons.

Logistics clusters are self-reinforcing; they become more valuable to participants as they get bigger, which in turn attracts more companies and further growth. Many elements of this positive feedback loop are rooted in the economics of freight transportation. As the clusters

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expand, they attract higher freight volumes, enabling transportation carriers to use the largest conveyances at an improved rate of utilization. Furthermore, high freight volumes bring opportunities for follow-on loads. These factors reduce the cost per ton-mile hauled. The availability of large quantities of freight also enables carriers to offer better service levels in terms of more frequent and direct services to/from more locations. Low freight rates and superior levels of service attract more companies, feeding these factors further. The expanding community promotes trade growth, which also feeds the loop as the demand for cluster-based services increases.

Another feedback mechanism is the sharing of transportation and logistics assets within the hub. Pooling resources and expertise buffers resident companies against fluctuations in demand and the ebb and flow of freight traffic. Again, more enterprises are attracted to the community by advantages like these, bringing further supply chain efficiencies within reach.

A feature of logistics clusters that is commonly underrated – and one that accounts for much of the model's economic success – is their capacity to create jobs.

There are countless examples, but here are a few from the book. The logistics park Alliance Texas has attracted more than 265 companies employing 30,000 people, in addition to creating over 63,000 indirect jobs in 2011. The port of Rotterdam in the Netherlands employs 55,000 people directly and 90,000 indirectly. And the Memphis International Airport in the US is responsible for more than one out of every three jobs in the metro Memphis area.

But it is not only the number of jobs that is impressive. The range of employment opportunities offered by logistics clusters includes blue collar work in areas such as warehousing, white collar positions in IT, customer service, and management, and jobs linked to value-add activities including light manufacturing and repairs. In its Louisville Worldport hub, UPS employs hardware technicians to repair Toshiba laptops, and pharmacists to distribute medical supplies, for instance.

Moreover, since these communities attract companies from a wide cross-section of industries, employment is not tied to the fortunes of any one sector. Another key advantage is that in general it is not easy to outsource these jobs to offshore contractors. The late-stage customization of products that is carried in many clusters needs to be performed in close proximity to end markets. The economics of transportation also dictates that clusters – and hence the employers they host – should be located close to customers.

Even more opportunities for employment could be created by the demand for green supply chain solutions. These clusters are hubs of innovation for environmentally sustainable supply chain practices, owing to the dense freight traffic flows that they handle. As a result, many communities are acquiring a high level of expertise in green logistics.

Developing a logistics cluster requires the participation of all stakeholders. PLAZA, the large logistics park in Aragón, Spain, was conceived and developed through an effort involving the government, opposition parties, labor unions, the state, the city and all other members of civil society. Where logistics clusters failed or did not materialize is where there was no unity of purpose among stakeholders. Thus, while Panama is investing billions of dollars in expanding its canal and turning the waterway into a global logistics hub, Port Said, at the mouth of the Suez Canal, has never developed into such a hub. Despite its favorable location, very few of the thousands of container ships that transit the Suez Canal every year stop at Port Said.

As I argue in the book, I believe that the global network of logistics clusters will continue to expand and evolve. The reasons why these facilities have become an integral part of global supply chains are stronger than ever. In today's volatile business environment companies need the



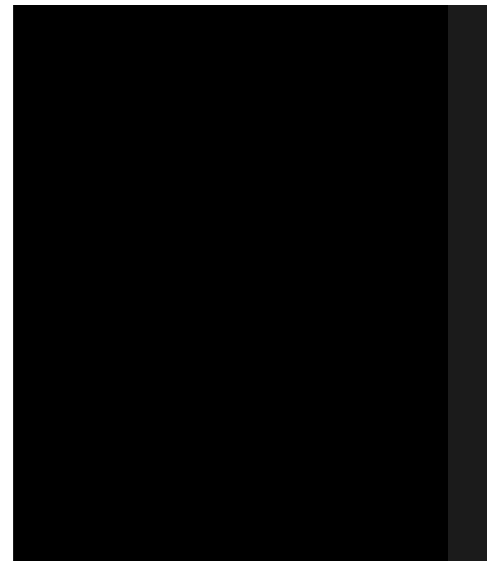
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operational flexibility and agility that logistics clusters offer.

We need more investment in logistics clusters from both the private and public sectors. And that requires a greater awareness of the economic and commercial benefits made possible by these communities.

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