

An interview with Yossi Sheffi on Logistics Clusters

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Yossi Sheffi from MIT's Sloan School of Management presented at the SCL Europe meeting in Berlin today, and spoke about his upcoming book on logistics clusters. These comments provide some highlights from his discussion and I met with him to discuss more on these issues.

What is a cluster? A cluster in its simplest form is a group of people who have similar business interests. Examples include Silicon Valley, Hollywood, Wall Street, Napa and Sonoma, Fleet Street, Bio-Cambridge (cluster of biotech).

Why does it happen? Should it happen? Governments all over the world are investing in logistics clusters. When companies are in a cluster there are several types of relationships involved. You have customer, company, and supplier – and company with complements (other similar industrial competitors, or similar relationship). But the literature in logistics clusters is not well developed.

The first mention of logistics clusters was Alfred Marshall who wrote "Principles of Economics" in 1920, and wrote about the positive effect of companies co-locating to one another. He was talking about knowledge-sharing, common supply bases (e.g. Detroit was a primary example), and also about a labor pool of expertise. This was updated in the last 15 years with Michael Porter – about the economics of competition. He wrote about increased productivity, increased pace of innovation, and a high pace of business formation. In the last 20 years, most work was on knowledge-intensive clusters. But it is an interesting questions – Tom Freedman asked – why cluster at all? After all, we have EDI, videoconferencing, visibility software, etc. And why don't companies in a cluster just acquire one another instead (Coase's view).

Sheffi pointed out that a lot of studies and surveys show a significant amount of trust and collaboration occurs with people in a cluster. People play baseball together, and soccer together. They meet outside the environment, and there is better cooperation between companies. This is particularly true for tacit knowledge exchange – such as in Cambridge. When you walk around MIT, Biotech engineers from different firms talk to one another and are sharing knowledge. Research and education grows – Stanford and Berkely became the breeding ground for IT startups, MIT for Biotech, and Alfred Marshall talked about suppliers and customers moving in to clusters.

But why have clusters at all? In an age of communication, clusters may provide an optimal point. Small companies can act as if they are large by working with others, but don't suffer from the same problems as large companies! Clusters are an optimal point between slow behemoths with scale and small companies with no reach.

Examples of logistics clusters include Singapore, which has logistics center for Asia and the rest of the world. Holland is a cluster for shipping. Zaragoza in Spain is a place that started research in clusters, and there was a dream of building a cluster there and an MIT center there – but this is a picture of it. Memphis in the US was the main base of Fedex, and Panama in the Pacific is investing not just in the extension, but strategically investing in Panama City and in the airforce base in lots of logistics infrastructure, wishing to be the logistics hyb of S. America. Joliet is also a center for activity in the US.

Why are clusters successful. First, is geography. Singapore sits right on the cusp of China and India, and for a variety of reasons, geography is one of the main reasons – being in the center of places. Holland is the gateway to Europe with seaboard cargo coming into Rotterdam, and the corridor into warehouses and DC's. Zaragoza, Spain is in the middle of Valencia, Madrid, and even southwest of France. Memphis is not just in the middle of the United States, it is in the middle in terms of time – a flight in the middle of the night has a 2 hour flight to Washington, but lose an hour, and arrive at 6 AM. But one on the west Coast is a 5 hour flight, but also arrives at 6 in the morning as it gains time. It is also not part of the hurricanes, and a good place to have it. Panama is logistically ideal! Chicago is the middle of the railroad – for historical reasons, it started as a trading point and then became a part where East and West railroads came together.

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