LOGISTICS AS A FACTOR OF CLUSTERING

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ABSTRACT

Logistics intensive clusters are agglomerations of several types of firms and operations: firms providing logistics services, such as 3PLs, transportation, warehousing and forwarders, the logistics operations of industrial firms, such as the distribution operations of retailers, manufacturers (in many cases after-market parts) and distributors and the operations of companies for whom logistics is a large part of their business.

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Logistics clusters exhibit many of the same advantages that general industrial clusters do: increase in productivity due to shared resources and availability of suppliers; improved human networks, including knowledge sharing; tacit communications and understanding; high trust level among companies in the cluster; availability of specialized labor pool as well as educational and training facilities; and knowledge creation centers, such as universities, consulting firms, and think tanks. Such logistics clusters also include firms that service logistics companies, such as truck maintenance operations, software providers, specialized law firms, international financial services providers, etc.

Logistics clusters, however, exhibit other characteristics which make them unique in terms of cluster formation and their contribution to economic growth. Logistics operations may locate in a logistics cluster due to the cluster's role in supporting economies of scope (mainly for direct operations transport modes) and economies of density (mainly for consolidated transportation modes); their provision of spill-over capacity for warehousing and transportation; and the ability to cooperate between providers when dealing with demand fluctuations.

Such clusters provide a range of employment opportunities - from moving boxes to executive, IT and other professional jobs, and they diversify the economic basis since they support many other industries, such as manufacturing as well as a range of "mini-clusters." This paper describes such clusters, based on primary research in several large logistics clusters around the world, interviews with dozens of executives in retail, manufacturing and distribution organizations; with transportation and logistics service providers; with infrastructure operators; with public and private development agencies; and with real estate developers.

Many of the economic reasons for clustering used in the literature to explain the advantage and role of clusters do not apply to such "sub clusters," agglomerated along a single street or around a few blocks area. Neither the work force, nor the suppliers' base, nor the customers are located in the vicinity of such clusters. So why aren't they spread all over the urban area in locations where inexpensive real estate and parking would be more available? In reality, some do - there are hundreds of Italian restaurants in Manhattan and many are the only ones on their block; and there are many beauty salons in Boston located in suburbs and shopping malls with few competitors within walking distance. Yet the phenomenon of sub-clusters is evident.

The two major types of inter-firm relationships which contribute to the success of clusters can be defined as "vertical" and "horizontal."

Vertical relationships are links between trading partners. To understand the importance of trade partner relationships, note that the lion's share of value sold by most enterprises to their customers is obtained through procurement of parts and services from suppliers. And, naturally, the product or service generated by any commercial enterprise, after adding their own value to that purchased from suppliers, has to be sold to

customers. Thus, on the procurement side commercial enterprises interact with a network of material and part suppliers and an array of service providers. On the sales side they interact with distributors, customers, and other service providers. The management of these relationships is of prime importance, especially as firms move away from vertical integration and increasingly outsource many functions and stages of production. The ultimate examples of vertical clusters are those created by a single "channel master," such as "Toyota City" or the cluster of aviation suppliers servicing Boeing in Everett, Washington. As an example of the wider economic effect of such a channel master, consider Shain's description of the impact of the BMW plant in Greer, South Carolina. It employs 5,000 workers, yet it supports over 23,000 jobs in the state, as many suppliers decided to colocate around Greer.

Horizontal relationships are between firms at the same stage of production, such as automobile manufacturing plants in Detroit, Michigan, or film studios in Hollywood, California. Such firms both compete with each other and cooperate along dimensions that benefit them. Horizontal relationships also exit between functions in firms of the same or different industries. Thus, HR, legal, procurement, finance, and supply chain management functions may collaborate across companies and industries. Clusters grow due to "positive feedback" or "reciprocal reinforcement" forces. As more companies of a certain type (or certain corporate functions) move in, more suppliers and customers move in, making the cluster even more attractive. Furthermore, as the cluster grows, its influence with government grows, affecting more infrastructure investments as well as advantageous regulations, attracting – again - even more companies.

The focus of this paper is on a particular type of cluster – a cluster of firms with logisticsintensive operations. This includes mainly three types of companies: logistics services providers, such as transportation carriers, warehousemen, forwarders, third party logistics companies (3PLs)2 , customs brokers, and specialized consulting and IT providers, companies with logistics-intensive operations, where value added operations may be small relative to the logistics-related activities, such as distributors, light manufacturing and kitting companies, and the logistics operations of industrial firms, such as the distribution operations of retailers, and after-market parts suppliers.

There are, literally, thousands of logistics clusters around the world. They are known as "Logistics Villages" in Germany, "Distribution Parks" in Japan, "Logistics Platforms" in Spain and various other names around the world. This section describes some of the largest and most visible logistics clusters, including Memphis, Tennessee; Zaragoza, Spain; Rotterdam Port in Holland; the Singapore Port area; the Panama Canal Zone; and Alliance in Fort Worth, Texas. Note that one can define and analyze logistics clusters in several scales. For example, one can view the entire area in the triangle Rotterdam (Holland)-Antwerp (Belgium)-Duisberg (Germany) as a single logistics cluster, covering the two large port complexes and the German rail hub. 3 Or, one can look at the "Dutch Logistics Corridor" stretching from Rotterdam to the German border. This corridor includes, naturally, the port of Rotterdam with its terminals and concentration of logistics service providers; Brabant with its focus on sustainable logistics; Breda, along the main highways connecting the hinterlands of Amsterdam, Rotterdam and Antwerp; and Fresh Park Venlo on the German border, which sports over 70 companies providing trading, transport, warehousing and value added services dealing with fresh products. Each of these provinces is, at the same time, a local logistics cluster, comprising many logistics parks. Such parks can be classified into two types: managed logistics parks - which are developed and managed by real estate developers, local governments or public authorities, providing a range of value added services – in fact, port authorities are logistics parks according to this definition, and unmanaged agglomeration of logistics

facilities. In many cases such facilities operate in the vicinity of managed parks due to the availability of logistics infrastructure.

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