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## ARE LOGISTIC CLUSTERS COMPETITIVE?

Posted by: [Tony Lapointe](#) | on December 4, 2012

Can business benefit from co-location with other businesses in their same industry? This is the question that Dr. Sheffi poses in his book "Logistics Clusters: Delivering Value and Driving Growth" which he also presented in a webinar sponsored by UPS and Harvard Business Review.



He uses many examples to support his argument, particularly Silicon Valley. The clustering of the technology industry in this area attracts top talent to the area, supported by top universities, and because the top talent is in the area the natural consequence is to promote innovation which drives growth and profits.

In Canada, as I listened to Dr. Sheffi, the obvious example that came to me is the trucking industry located in Winnipeg. There are many national and international trucking companies located in Winnipeg mostly because it is central to Canada and the USA and has access to the rail system so it can keep costs competitive for customers. Based on what Dr. Sheffi's thesis, let's say these same trucking companies decide to co-locate in Winnipeg. The advantages of this arrangement include:

1. The amount of real estate needed can be reduced when shared.
2. Some logistic costs can be shared as well (warehousing, loading trucks, etc).
3. Public roads can be developed for main routes, minimizing the congestion of trucks on several city roads.
4. Utilizing fewer public roads will also minimize the cost of upkeep of roads not being used by the shipping companies.
5. Co-location encourages customers of this service to also locate in Winnipeg driving growth and development in the local economy, not just the trucking industry.

Disadvantages to the cluster model include:

1. Competition to retain talent within the organization will intensify when co-located.
2. Increased competitive environment can erode mark ups.
3. May not fit for every industry.

While the mark up percentage may decrease due to increased competition, profit margins will increase due to lower overhead costs and increased growth that the cluster generates.

Is the logistics cluster transferable to other industries? Non-profit for example, health, or technology? I think we already see this system in the technology industry. Vancouver for example is home to many video game design companies and in that mirrors the Silicon Valley example. If they were to co-locate, could they benefit from economies of scale in some fashion to reduce their overhead and improve profit? Probably. In the non-profit sector, clusters are possible as well although not given the same name. Unfortunately in the non-profit industry, the agencies tend to be risk adverse the likelihood of clustering is minimal.

Logistics clusters certainly are not new although they possess some strength in moving forward in an

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increasingly competitive environment. No matter what the industry and no matter what the language is used, "logistics clusters add value" according to Dr. Sheffi. I agree.



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