Logistics Clusters: Delivering Value & Driving Growth

Yossi Sheffi, Author, "Logistics Clusters"

Industrial Distribution [1] got a chance to speak with Yossi Sheffi about his new book, *Logistics Clusters*, which recently came out. Yossi is an international expert in supply chain management, Professor of Engineering Systems at MIT and Director of the MIT Center for Transportation and Logistics. He has worked with leading manufacturers around the world on logistics issues and is an active entrepreneur, having founded or cofounded five companies since 1987. Here, Yossi discusses what the purpose of the book is and the indended audience for the book.

Q: What research or findings prompted you to write *Logistics Clusters*?

A: In 2002 I was invited to give a talk in a logistics conference in Zaragoza, Spain. While there, they discussed with me plans to build a large logistics park. I was peripherally involved in the park creation and created an academic center, in conjunction with IT in the park. The park was a huge economic development success and got me to think why such developments are successful.

I started researching the subject and found out that while there was a lot of literature regarding industrial clusters in general, there was almost nothing about logistics. I then embarked on a primary research mission, visiting logistics clusters al around the world – in China, Singapore, Germany, Dubai, Holland, Brazil, Colombia, Panama and the US, among others – interviewing executives and collecting data.

The result was a framework for understanding how logistics clusters develop. More importantly I realized the extent to which they represent a significant job creating and economic development engine. All this is summarized, with numerous

examples in my new book: Logistics Clusters: Delivering value and Driving Growth (MIT Press, October 2012).

Q: You describe "logistics clusters" as "geographically concentrated sets of logistics-related business activities." This almost makes logistics sound geographically isolated in a way, which is counter-intuitive to the overall "global economy" that everyone is always discussing. In simpler terms, what are these clusters and why (briefly) do we see them in our present-day economy?

A: Yes. Logistics clusters are geographical agglomeration of logistics activities. They are characterized, among other factors, by low transportation costs and high transportation service level when moving items in and out of the cluster. As such, far from being isolated, logistics clusters are the building blocks of globalization. Freight moves along international and national trade lanes, from cluster to clusters, and such movements enable the efficient flow of goods worldwide.

For example, cargo from China to the US market will go through the Shanghai, possibly change vessels in Singapore, offload in Los Angeles, and move by train to Chicago. From there it may be distributed throughout the US. Each one of these locations is a logistics cluster enjoying high frequency of service, and very competitive transportation costs. In each of these locations the items may be warehoused or just transshipped, go through value-added activities, and finally be distributed to retail stores.

The efficiency of these logistics clusters is one of the factors that enable globalization. As the global flow increase and the flow through these clusters increase, they become, in turn, even more efficient, attracting even more economic activities and freight flows.

Q: You mention that there is a "proper role of government support" to be had for the logistics industry. Briefly, what does that basic support look like or entail?

A: Logistics clusters are examples of public-private partnership and the strength of this partnership typically determines the success of the cluster. Logistics clusters require significant physical infrastructure: airports, ports, highways and large tracts of land. Governments control the zoning and permitting processes and have the power to provide tax relief and other inducements for businesses to move in. Finally, national governments control trade relationships.

Typically the private sector (or a public-private agency) leads the development of the area and its management and, of course, the residents of the cluster are all private companies involved in logistics, distribution and supply chain management. And then there is the issue of government efficiency in general.

A World Bank survey of global logistics indicators found that the government burden on logistics services varies markedly throughout the world and impacts trade. Exporting a twenty foot container of cotton apparel takes ninety-three days in

Kazakhstan, sixty-seven days in Mali, and only six days in Sweden. A typical export transaction requires forty-two approval signatures in the Democratic Republic of Congo, forty in Azerbaijan, thirty nine in Nigeria, and thirty-three in Mali—but only two in Australia, Austria, and Canada - and one in Germany.

Customs-clearance times range from about one day for Hong Kong (China) and the Netherlands to twenty-one days for the Syrian Arab Republic and twenty-five days for Uzbekistan. Countries with high government "overhead" have significantly less trade. And less trade means less activity in logistics clusters.

Q: The press release for the book also mentions how logistics clusters can help create sustainable, entry-level jobs. In an economy like today, this is big news. Can you please share one quick success story to which release alludes?

A: The Zaragoza logistics cluster in Spain, PLAZA (Plataforma Logística de Zaragoza) was started as a green field development in 2002 and by 2008 had over 10,000 new jobs. In fact, that year Aragon, the Spanish state (community) where PLAZA is located had less than half the unemployment of the rest of Spain. In an article about Aragon, the *Economist* referred to the situation as "near full employment."

Another example is AllianceTexas near Ft. Worth, Texas. This private development (which include a private cargo-only airport, attracted well over 260 companies and generated over 30,000 permanent jobs (in addition to over 60,00 indirect jobs). Interestingly, the Memphis airport employs over 220,000 people, 95% of them in cargo-related jobs. In fact, one out of three jobs in the Memphis metropolitan area is connected with the airport. The Louisville airport employs 55,000 people with tens of thousands more employed in the various logistics jobs in warehousing and distribution facilities around the airport

Q: Lastly, who should read this book?

A: The book is aimed at five main groups: (i) private sector managers in retail, manufacturing, and distribution companies who are considering the location of distribution facilities, as well as managers of logistics service companies who are setting up facilities to serve such operations, and finally site location consultants who advise such companies, (ii) executives in local and regional governments who are underestimating the potential of logistics clusters to create jobs which are stable and not "offshoreable," (iii) real estate developers who are in the business of developing industrial land, (iv) academics who are interested in the theory of clusters, and (v) anybody who wants a good read.

For more information, or to purchase a copy of the book, please visit http://logisticsclusters.mit.edu/ *[2].*

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