



Book Review: Logistics Clusters-Delivering Value and Driving Growth

A couple of months ago, I asked one question on Quora about [how 3pl companies select warehouse or facility location](#). The question got 4-5 followers but there is still no reply. Recently, I've found the new book called "**Logistics Clusters: Delivering Value and Driving Growth**". Then, this post will explain how this book help to solve my question.

Author of the Book

Professor Yossi Sheffi is the director and founder of Master of Engineering in Logistics Program at MIT. If you have engineering background, I'm certain that you know well about [his work](#) in various areas of logistics and scm. Dr. Sheffi also has another award winning book called "[The Resilient Enterprise](#)".

While industrial clusters are extensively covered in many economic literature, logistics clusters which focus on various activities in transportation and distribution is the uncharted territory. His latest book is the multi-year primary research to examine certain characteristics of successful Logistics Clusters around the world.

Facility Location Problem

Facility location decision is a critical issue in strategic supply chain network design. Based on my literature search, solution methods can be classified as below,

- Analysis of demand/supply data: company needs to gather data then determine if they want to have facility location near source of supply, near demand points or something in between. One of the most extensive data source is [Commodity Flow Survey](#) data which provides transportation volume by origin/destination/mode of transportation/type of commodities and so on. The problem is, data is so huge (500,000 rows in excel file) then it's not easy to analyse.

- Criteria based decision making: company develops the list of selection criteria, assign weight to each criteria and select final location based on total score. This seems to be a very straight forward method but selection criteria can be very complicated. According to [this paper](#), there are more than 60 selection criteria, more than overwhelming.

- Facility Location Algorithm: this method uses certain math calculation to determine the best facility location. This is the least practical solutions because there are too [many algorithms](#) to choose from.

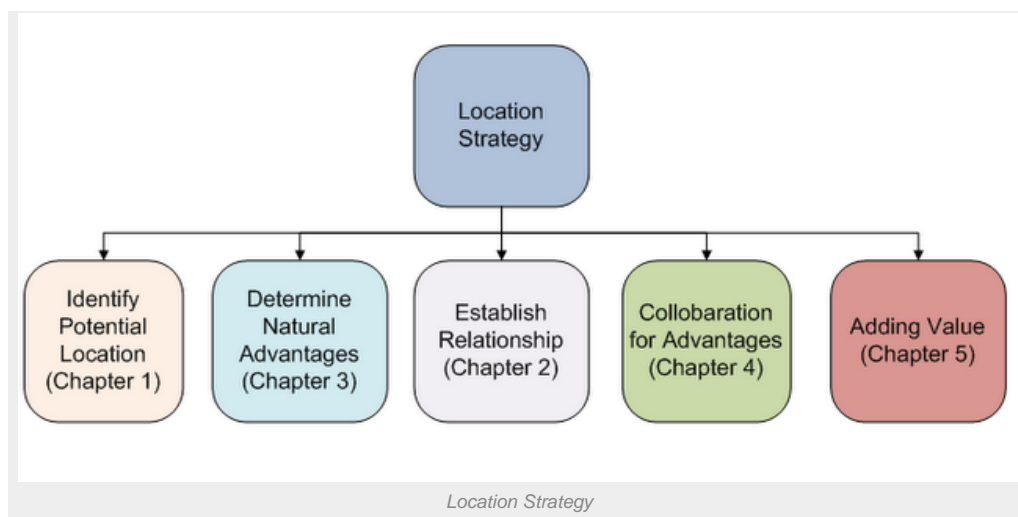
According to Dr. Sheffi, "*Such models are typically incapable of finding real business optimal solutions because of both their mathematical shortcomings and the inherent forecasting challenges*".

The Story of Logistics Clusters

"*Why certain locations are more attractive than others*", Dr. Sheffi explains in this book why Logistics Clusters can thrive and grow. Lesson learned from Logistics Clusters he visited along with extensive data collection from experts around the world is summarized as below,

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Chapter 1: case study of Zara who is the world leading fashion retailer is presented. Zara chose Zaragoza, Spain for its new distribution center because the location is in the center of population. Another reason is because of good transportation network. Moreover, Dr. Sheffi reveals how Zara uses location strategy to balance demand and supply of short life cycle products and to support overall operations.

Chapter 3: Dr. Sheffi describes the characteristics of successful Logistics Clusters, namely Port of Rotterdam, Singapore, Panama Canal and Memphis. At the end of this chapter, he also analyzes how various natural factors play the important role in the success and failure of certain location.

Chapter 2: Florence which is one type of clusters are examined. Dr. Sheffi suggests that there are 2 types of relationship and there are ways to improve the relationship between companies who share the same location.

Chapter 4: after establishing relationship with co-located companies, collaboration can result in more efficient operations and competitive advantage. Collaboration between SC Johnson & Son Inc and The Energizer Batter Company is a very good example.

Chapter 5: Dr. Sheffi demonstrates how companies can add values to products and services. Some business ideas for nonlogistics businesses are also presented here.

The different between traditional facility location problem and lesson learned from the story of Logistics Clusters is that real business value is more important than location with the lowest cost.

Conclusion

This book is quite different from books about industrial clusters. Chapter 1-5 of this book is very practical and the concept can be applied to actual business situation. I found that Chapter 6-10 will be very useful if you are policy makers. If you are undergraduate student, Chapter 4 will be interesting for you because some logistics theories are covered in easy to understand manner. In short, there is something for everyone and I strongly believe that readers will enjoy this book the same as I do. More information about this about is available from [MIT press](#).

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