Harnessing the Potential of Logistics Clusters

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Logistics clusters – communities of firms that share logistics knowhow and expertise – have become a familiar feature of global supply chains. Yet our understanding of these entities is relatively poor.

As I explain in my new book, Logistics Clusters: Delivering Value and Driving Growth (MIT Press, October 2012), logistics clusters deliver benefits that extend beyond the supply chain management sphere, and merit more investment from both the public and private sectors.
Typical tenants of these hubs include corporate logistics departments, third-party logistics services providers, distribution companies, and freight carriers. Communities are typically established near consumer markets or in close proximity to ports and airports, and in many cases include intermodal rail yards.

A number of factors have enabled logistics clusters to become ubiquitous. The self-reinforcing nature of the model is a notable example. As hubs for large volumes of freight traffic, these communities achieve economies of scale and scope. For example, carriers and shippers can deploy large-size conveyances and improve vehicle utilization, and offer frequent departures and more direct services. In addition, the dense traffic flows make it easier to identify follow-on loads and reduce the number of empty backhauls. The net result is low transportation costs and high service levels.

Similar gains are achieved when cluster-based companies share equipment and expertise. Pooling resources in this way buffers the incumbents against variations in demand and fluctuations in traffic volumes.

Competitive advantages like these attract more companies to the hub, and the expanding base of tenants brings further efficiencies, creating a positive feedback loop. More companies make the cluster more efficient, attracting even more companies. Additionally, this virtuous cycle promotes global growth, which also increases the demand for logistics clusters.

A little-known attribute of logistics clusters is their capacity for job creation. The port of Rotterdam employs 55,000
people directly and 90,000 indirectly, for example. The Memphis International Airport in the U.S. supports 220,000 jobs in the local economy, 95% of which are tied to cargo operations. In fact, more than one in three jobs in the Memphis area linked to the airport.

As I explain in my book, the employment opportunities include blue collar jobs in areas such as warehousing, white collar positions in IT, customer service, and management, and work associated with value-add activities including light manufacturing and repairs.

Moreover, it is not easy to outsource these jobs to contractors overseas, and the employment opportunities are not dependent on a single industry. Many companies that locate in clusters offer late-stage product customization services that need to be completed in close proximity to end customers.

Interestingly, many logistics clusters are becoming centers of excellence for environmentally sustainable supply chain management methods. As freight hubs they are in a unique position to develop low-carbon supply chain practices.

These capabilities, coupled with the onward march of globalization, will, I believe, continue to fuel the expansion of logistics clusters, and enhance the benefits they bring. As I explain in my book, many countries including China, Germany, Brazil, the Netherlands, and many others are investing in these entities.

Companies and governments need to be more aware of the role of logistics clusters as growth catalysts, and devote resources to developing national and international networks of these vital hubs.

Om författaren **Yossi Sheffi (se övriga inlägg)**

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