



# STRATEGIC CLUSTERS:

## A VEHICLE FOR GLOBAL GROWTH

Looking for a competitive advantage that can launch your business into the global world? More importantly, want a strategy that not only minimizes risk but is effective at the same time? Perhaps it's time to consider strategic clusters. Clusters offer every company the opportunity to take a developed product or idea into unfamiliar markets with the advantage of existing infrastructure and established relationships. Ultimately, the advantages of strategic clusters reduce risk while increasing the prospect for international growth and market longevity. Whether the goal is to expand, relocate, or collaborate, an understanding of clusters offers innovators, manufacturers and service providers a new way to scan the world for opportunities.

### CLUSTERS DEFINED

Generally speaking, a cluster is any geographic concentration of interconnected businesses, suppliers, and associated institutions in a particular industry. In some countries, business clusters are a long-established tradition. In Japan, for example, the term "keiretsu" refers to a grouping of affiliated companies that form a tight-knit alliance working toward each other's mutual success, often with government support. It's an intricate

web of relationships linking banks, manufacturers, suppliers, and distributors with the Japanese government. This Japanese tradition includes recognizable names like Toyota, Toshiba, and Sony.

In Korea, the term "chaebol" refers to a more exclusive system of interlocking ownership. Chaebols are primarily controlled by founding families, have centralized ownership and dominate Korea's business sector. Among the top 10 players in Korea's IT sector, only one (a subsidiary of state utility Korea Electric Power) isn't affiliated with a chaebol. Throughout many industries in Korea, chaebol affiliates dominate the scene. "The chaebols have become so dangerously powerful that you must put a bridle on them," says Lee Dong Gull, a former financial regulatory official who teaches economics at South Korea's Hallym University and fears chaebol's affect on future innovation. (*Businessweek*, Do the Chaebol Choke Off Innovation, Moon Ihlwan, Dec. 3, 2009)

Less formal versions of industry-based clusters are found in the United States in areas such as Detroit (automobiles), Pennsylvania (chemicals) and North Carolina (furniture). California's Silicon Valley is a classic example of a cluster. This concentration of high-tech businesses began in the mid to late 1990s and generated some of the world's most successful technology spinoffs. The region developed a reputation as the premier global innovation hub and attracted venture capital firms, more entrepreneurs, and a plethora of talent. In hindsight, it's easy to see how many small businesses were catapulted into success with location as their competitive advantage. Today, despite technological advances in the virtual world, physical location remains central to competition.

### ADVANTAGES OF A CLUSTER

Winemakers know that the best wine starts with grapevines that were planted just close enough together to be forced to compete for nutrients in the soil. Stress causes the plants to put more energy into their reproductive processes, increasing the quantity and quality of the grapes. It turns out that similar businesses located together in clusters also demonstrate better results. (*Businessweek*, How To Take Advantage of Business Clusters, Richard Mammone, December 8, 2009) Clusters have been shown to increase productivity, drive innovation and foster an entrepreneurial spirit which ultimately leads to new business creation. They also provide greater access to human capital and informational resources, closer cross-industry relationships and financial incentives which can easily translate into a significant competitive advantage.

Other benefits of clusters include:

- > Greater collaboration and sharing of infrastructure and transportation hubs
- > A more economical supply chain
- > Increased access to information about the competition
- > Consistency with green initiatives to reduce corporate footprints on the environment
- > Multiple opportunities to reduce operating costs

Clusters are particularly well-suited for companies that require a workforce with specialized knowledge in areas such as biotechnology, medical devices, food technology or pharmaceuticals. Most importantly, clusters provide a strategic weapon for companies that are venturing into global markets for the first time.

When PFW, a small German aerospace parts manufacturing firm, ventured outside its homeland for the first time, it

chose the Aegean Free Zone in Izmir, Turkey. Joining a government sponsored endeavor can provide immediate access to the “right” contacts including government officials and inspectors, permits, tax advantages, and an established talent pool. PFW chose this location because the industrial park was designed specifically for the purpose of creating an aerospace industry cluster.

“The free zone was very attractive because we were inexperienced at outsourcing and it was easier for us to start our expansion in the Aegean Free Zone,” says Mr. Viehrig, Managing Director of PFW, Turkey. The zone works to improve relationships between the university and local businesses to strengthen education and skills. And it’s working: PFW receives 200 qualified applicants for every advertised position. In part, this is attributable to superior amenities provided in the free zone such as childcare, improved working conditions and a pleasant work environment which make the company an attractive employer compared to those outside the zone. (*fdi Magazine*, Busting the Cluster Myths, Lara Williams, Oct. 15, 2009)

**TO CLUSTER OR NOT TO CLUSTER?**

Still, clusters represent just one global expansion strategy or growth model, and not necessarily the right strategy for every business. Before joining a cluster, or embarking on any global expansion effort, it’s critical to perform an internal assessment of the current organizational infrastructure and its ability to support swift international growth. Next, conduct an external investigation. Perform the research and analysis necessary to identify potential markets while being realistic given the region’s culture, infrastructure, legal environment, standard of living, economic/political stability and attitude towards foreign direct investment. Then, filter all viable locations through a comprehensive risk analysis whereby potential risks are identified and mitigated through proper planning. In every stage of this analysis, the focus should be on creating a competitive

advantage with sustainable growth.

The advantages of a cluster can tip the scale in favor of one region over another. When examining the feasibility of joining, or creating, a cluster, it’s important to understand both regional and global trends. While one market may be prosperous today, what do established trends reveal about future prospects? Remember, today’s actions are a result of yesterday’s decisions. Just like the stock market, the biggest rewards are reserved for those who are in-tune with the future and willing to act first. As such, be prepared to answer the following questions in terms of today and the future:

- > Who and where are my suppliers?
- > Who and where are the businesses/customers I supply?
- > Who and where are my customers?
- > Where is the best labor pool?
- > Where can I save on operating costs and still be efficient: transportation, wages?

Don’t dismiss the idea of establishing a new cluster in a more desirable location. While it is easier for large multinational organizations to lay the foundation for a new cluster, smaller businesses can generate the required critical mass with the right amount of planning, collaboration and financing.

**AVAILABLE RESOURCES ON CLUSTERS**

To encourage and support U.S. businesses in global initiatives, a number of resources are available. The real challenge is navigating and interpreting the available information rather than becoming overwhelmed by its abundance. As a general rule, first establish what information is required. Information needs should be guided by an in-depth understanding of the organization’s strategic goals, internal resources and overall appetite for risk. The Institute for Strategy and Competitiveness at Harvard Business School has several projects underway to help businesses identify specific clusters both at home and abroad. The Cluster Mapping Project has assembled a detailed picture of the location and performance of industries across the United States.

For a global resource, the institute has created Cluster Profiles. These profiles provide standardized descriptions of more than 800 industry clusters in 52 countries. Cluster examples include everything from watches in Hong Kong and tufted carpets in Southwest Flanders to wine in Napa Valley.

Utilizing these resources effectively may require the input of an experienced international business expert who can align potential opportunities with your company’s unique strengths and strategic goals. Seek out an expert with hands-on global experience who knows how to anticipate issues and eliminate the surprises that are almost certain to rise when conducting business across borders.

**BEYOND BORDERS**

From Wall Street to Madison Avenue to Silicon Valley, the biggest success stories in the history of American business have been less about one individual or one company’s triumphs. Rather, the top successes have often been the result of interdependent, regional communities working together within an industry: supporting each other, helping each other and pushing each other forward. There’s no question about it. U.S. businesses have a long-established history of leveraging the concept of clusters. Now, it’s time to adapt those same concepts, couple them with a new international mindset and deploy them in the global marketplace. **mt**

**Mona Pearl’s** experience in international strategic development and global entrepreneurship has been vital in helping companies design and execute their global strategies. Ms. Pearl is known for her out of the box thinking and developing creative solutions to tough challenges which produce bottom line results. Ms. Pearl founded and operated three successful businesses. From operations to organization to top line growth strategies, she initiated and executed cost effective and creative opportunities for companies to make money, while increasing global market share, enhance leadership and engage the stakeholders along the value chain. These activities led to companies growing their business across-borders, leveraging their global competitiveness and addressing cross-cultural issues in international markets. Ms. Pearl lived in three continents, and is proficient in six languages. She was quoted by Microsoft, *Crain’s Chicago*, *Entrepreneur.com*, and interviewed by other media on global issues and strategies. She is a frequent speaker at global related conferences, has co-authored two published books, and is an adjunct Professor at DePaul University teaching International Business. For more information, please call 31-642-4647 or visit the company website at [www.BeyondAStrategy.com](http://www.BeyondAStrategy.com).