



## Networks boost Business Opportunities

11/04/2017 Professor Johannes Glückler explains how companies can benefit from clusters.

Who is number one? The success of a business is often measured by whether it has higher sales or profits than its competitors. It's therefore all the more surprising at first glance to see that competitors – in many sectors – are working ever more frequently together. Professor Johannes Glückler, who teaches economic and social geography at the University of Heidelberg, studies these forms of cooperation and has reached the conclusion that "competitors can benefit from each other." In fact, they need not even work together directly. Geographical proximity alone suffices to generate competitive advantages.

### Cooperation over competition

The best example of this is Silicon Valley. The world's leaders in the IT sector are concentrated there at close quarters, producing an atmosphere that seems to accelerate the growth and innovative power of

companies in the area. When you ask Professor Glückler why this is the case, he mentions the work of Michael E. Porter, a Harvard business professor who coined the term “competitive learning.” As Glückler explains, “People in a geographic cluster exchange ideas – on a cooperative basis via interaction as well as on a competitive basis by means of observation and copying. These ideas circulate, and are combined in new ways. This produces a constant, competitive dynamic of progress that breeds innovation.”

Clusters existed long before the shining example of Silicon Valley, and not only in industry. To take another example, around three-quarters of the Italian ice-cream makers in Germany come from a small valley in the Dolomites, Val di Zoldo in the province of Belluno. Every winter most of them return to that area, where the world’s largest ice-cream trade fair, the Mostra Internazionale di Gelato Artigianale (MIG), is held annually in Longarone, a small town at one end of Val di Zoldo.

## Pure chance or deliberate design?

These two cases – Silicon Valley and Val di Zoldo – raise the question of how such clusters are formed. According to Professor Glückler, this phenomenon is far from unusual. “It’s normal for similar companies to settle in the same place. After all, it’s much less likely that the same industry would arise and flourish in a parallel setting somewhere else.”

A major role in Val di Zoldo might have been played by a “pioneer” with a good business idea and an enterprising spirit in a relatively poor region, whose success was then emulated by family members and friends. Employees often leave a company to start their own businesses in the same field – and the cluster process is already underway. Specialized knowledge is passed down from generation to generation. Training institutes and colleges are established, which ensures that young talent is available in the same location. The companies in Silicon Valley, for example, cross-pollinate with Stanford University.

Natural resources, good transportation, and market proximity all contribute to the formation of clusters. Another example of a cluster is found in the Ostwestfalen-Lippe region in the German state of North Rhine-Westphalia. All three of these factors were present to spark the production of furniture precisely there. Two out of three fitted kitchens sold in Germany today come from this region. Glückler distinguishes between regional clusters that grow naturally and alliances that are entered into deliberately. Both models are represented in the Ostwestfalen-Lippe region. Its kitchen makers compete with each other, but they also cooperate in clearly delineated areas. They recognize the synergy that is produced from an infrastructure that has developed over time, and have founded a marketing partnership called the “A30 Küchenmeile” (A30 kitchen mile).

## Trust minimizes loss to friction

The 29 companies that belong to this partnership account for two thirds of total sales in the kitchen

furniture sector in Germany. Each year they invite their partners in industry and retail to the A30 Küchenmeile, a coordinated set of in-house trade shows and events held over the space of a few days. Customers and business partners can drive along the A30 motorway and visit companies like Häcker Küchen, Miele, Nobilia, Poggenpohl, and Rational.

Why do these competitors work hand in hand, year after year? According to Karsten Bäumer, the head of marketing for Häcker Küchen GmbH & Co. KG, "Joining forces enables us to reach a wider circle of interested parties – which ultimately benefits everyone. Moreover, by displaying the concentrated expertise of the German kitchen furniture industry, we combine our marketing efforts for the sector, and especially for fitted kitchens 'made in Germany.'"

For Glückler, this type of collaboration simply makes sense. "The advantages of a regional cluster also include sharing the infrastructure," he notes. In addition to higher levels of innovation and efficiency, another benefit of regional clusters consists of greater dependability. "If you know your partners, you can trust them. This minimizes the loss to friction, so to speak, and facilitates cooperation."

## **"Networks are pools of opportunity"**

One example of this can be found in Velbert and Heiligenhaus, two towns located between Düsseldorf and Essen in the midst of the Rhine-Ruhr "metal region." Many manufacturers of lock systems are based there, including global automotive suppliers such as Huf, Kiekert, and Witte, leading door lock makers like BKS, and many smaller specialists and their suppliers. They employ around 15,000 people in the region alone. Some 170 related companies and associations have joined together in an organization called the Schlüsselregion, or "key region." This alliance organizes conferences and lectures, operates a training portal, and has attracted two colleges to the region, which work together with member companies. Thomas Kalmbach is the managing partner of a diecasting company in Velbert and an active member of the alliance. "Of course each company is responsible for its own profits," he says. "But we benefit from talking with each other, exchanging information, and learning from one another."

Professor Glückler has been studying these types of alliances for years. As he observes, "Networks are pools of opportunity, and their success depends on openness and cooperation." True, the benefits often initially serve the larger partners in a network. He notes, however, "Those who could really benefit here – much more so than is currently the case – are medium-sized companies in Germany. They often do not have the management capacities to operate and collaborate professionally beyond the bounds of their individual firms." The benefits have been confirmed by researchers. "Empirical studies show that small and medium-sized companies that enter partnerships have a lower risk of bankruptcy and enjoy better financing opportunities than those that keep to themselves."

## The dark side of cluters

Economic ministries the world over are familiar with these arguments, which is why clusters are often the recipients of government support. China's economic agenda promotes the establishment of enormous clusters, such as in the shoe industry. However, this carries the risk of encouraging one-sided development in a region, especially if the main aim is to reduce costs. As Glückler notes, "Clusters derive their competitive advantages from the ongoing innovative power they generate, not from the costs they save." And without this innovative input, clusters are at risk of falling apart once the subsidies run out. The textile industry would be a negative example here. "Once the relocation costs are secured, the caravan simply keeps moving, as it did from Portugal to China a while back and as it's doing from Bangladesh to Burma (Myanmar) right now."

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