

3. Clusters and partnerships- drawing strength from others

Who developed this idea?

Professor Michael Porter is widely recognised as a world expert on business strategy and competition. During the last decade he has written extensively on the paradox within the increasing globalisation of business - that is that the competitive advantages provided within the global economy lie increasingly in "local things - knowledge, relationships and motivation" (Porter, 1998).

He sees this 'local' source of competitive advantage as being based on the growth of 'clusters' of local businesses which operate strongly despite the increasing globalisation of our economy.

What is a business cluster?

Porter defines business clusters as follows:

"Clusters are geographic concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries, and associated institutions (e.g., universities, standards agencies, trade associations) in a particular field that compete but also cooperate". Clusters create or sustain competitive advantage.

Clusters occur in small, large and local industries. What draws a cluster together is that the particular group of independent and informally linked entities creates advantages in efficiency, effectiveness and flexibility that mimic the advantages of a robust organisation, without restricting innovation.

Examples of local clusters include the Hunter Valley wine industry, the King Island food industry, and the bridal businesses in Hunter Street Newcastle. Another common example would be art galleries that promote multiple artists' work simultaneously.

For some decades, much of the conversation about business strategy and success has been about how to increase a company's productivity from within the organisation. However, the growth and effectiveness of business clusters suggest that business strategy now needs to include looking at what is happening in the immediate environment surrounding the organisation.

Business clusters can provide effective ways to increase the productivity of an organisation of any size. That is good news for small to medium size businesses, entrepreneurs and the creative industries where people rely on their ability to maintain innovation.

Looking within your business, or your business strategy, with the same perspective on what you need in order to grow is equally important.

At both points, clusters and partnerships also change the strategy decision as they point to the value of collaboration over competition. This is also good news as it allows greater access to information, helps you harness skills and passion, and can drive innovation.

How do they work?

A business cluster enables the concentration of highly specialised skills and knowledge, institutions, rivals, related businesses and sophisticated customers to take advantage of productivity growth in ways that are difficult to tap into from a distance.

Clusters can increase productivity in a number of ways including:

- Providing access to specialised manufacturing components, business services or personnel.
- Access to information. Market, technical and other specialised information accumulates within the entities of the cluster and can be accessed at lower cost. For example information about current buyer needs.
- Improving productivity by facilitating complementary activities between each business in the cluster. For example joint marketing events such as trade fairs and art shows.
- Encouraging competition and innovation through a natural sense of pride and the desire to look good within the local community.

As well as increased productivity, clusters also lead to greater innovation for a number of reasons. These include:

- an ability to rapidly perceive new buyer needs due to the concentration of firms with buyer knowledge and relationships
- greater exposure to evolving technologies
- the ability to experiment at lower cost, and
- the ability to create close local supplier /partner relationships

Clusters are also a likely vehicle for the development of a new business where people spin off from existing groups to establish a new venture together. Again there are many reasons for this. Some of these include better information about opportunities and that the simple existence of a cluster signals an opportunity to a potential entrepreneur.

What are the benefits of a business cluster?

Developing a business cluster allows each member to benefit as if it had greater scale and to sustain dynamic and flexible capabilities. Clusters create increased productivity for each entity, they can increase and direct innovation, and stimulate business growth which in turn enhances the strength of the cluster.

The take home message

So, that's the cluster story. But before we move on, here is some excellent advice from Ernesto Sirolli. His organisation (The Sirolli Institute) works with small enterprises and clusters of small businesses. His message? Work with other people to ensure you have the right mix of passion, skills and energy.

In an ABC interview (Webb, 2005) Helena Webb asked him "What is the Sirolli advice to would be entrepreneurs"?

"Any business has to be able to do three things beautifully", he said. "The product or service that they produce has to be beautiful; marketing and sales have to be done beautifully and financial management and control have to be beautifully done".

Doing it beautifully doesn't mean necessarily doing it yourself, however. Ernesto's advice may come as a surprise to those who feel that they have to know it all. "Guess what?" he says. "We have never met a single human being who is equally passionate about doing it, selling it and doing books."

"Only do what you love to be in your business and surround yourself with people who love to be what you hate," he says directly. "And don't you ever try to learn it."

According to the Sirolli credo, if you're no good at sales you're far better off finding your wife's second cousin who just loves to talk, has a great personality and is a terrific communicator and asking her to sell your product on commission.

If you don't know how to do the books, instructs Ernesto, don't buy the how-to-do-it-yourself software.

"Go to a 70 year old retired banker in town; somebody who has been playing golf for the last 10 years, whose score has not improved. He's bored to tears." Go to that person on your knees and beg them to help. Form a team, he says. "Beg, barter and cajole". Form a team of people with different personalities and different attitudes so that the three things can be done beautifully; making, marketing and financial control.

Make it, market it and control it but do it beautifully.

Do you have a growth-ready business concept?

If you do, it's worth staying with Sirolli a little longer. In a paper entitled *Passion, entrepreneurship, and the rebirth of local economies* (Sirolli, 2010) he says this.

"There is a secret to success in business. Until you understand what I'm telling you now, you will never make it in your enterprise. To run a business successfully, to be able to feed your family, to be able to have money at the end of the year, whatever business it is, no matter how big or small, you have to be able to be in charge and in control of three things: you have to produce the product that you want to sell – product. The second thing you have to be able to take responsibility for is marketing. And the third one that is absolutely important is financial management.

I have never met a single human being in the world who is equally passionate about producing the product, marketing the product, and keeping the books. I challenge you to review the literature on entrepreneurship, and you will never find a single successful entrepreneur who did these three things. As an individual trying to run a business, you will never make it, never.

The success of enterprise is to understand that because you only tend to do well what you love, and because you only love one or two of the three things which are absolutely paramount to the success of your enterprise – until you find the person who is passionate about what you hate, and unless you find a way of getting that person in your team, you'll never make it. No business school teaches this, there is not one academic program that teaches this, there is not one established training program that says that you should never do a business plan alone.

When people come to me and they bring me the business plan, I ask them who prepared it. "I did." I take the business plan and I throw it away in front of them. If you have written the business plan, it's no good. It's wrong. Because you only do beautifully what you love. Even if you have studied four or five months on how to prepare a business plan, let me tell you what's going to happen to you as soon as you hit the field to start your business. You will revert to type, and you will only do what you love doing in the business. You will always ignore and postpone what you hate doing. Always. That is why 80 percent of all new small businesses go bankrupt. Because what small business people do not understand is that management is a technology. Management has been adopted by very large companies, by medium-sized companies. You will never find the CEO of a company making \$2-3 million dollars doing everything: product, marketing, and financial management. But it has not been adopted by small business. You have been passed over by management understanding. Management technology is available to you.

So we say to them, these are the three boxes: product, marketing, and financial management. Who are you? Show it to me. If you could do only what you absolutely love, which of these three things will you be doing? And they always tell me: "if I could, I would only do this."

Okay, you are the product person. Now tell me, how are we going to find and compensate your marketing director and your financial manager? Haven't got a cent? Fine, let's beg

for it. And we go around and we beg for somebody. Remember, I am assisted by a board. How do we compensate a marketing person? On a commission basis. Twenty farmers together: product. One person to do marketing on a commission basis, and the old bank manager to join the company for 5 percent of the company to do financial management.

So, creative person...what's your business concept?

Is it 'product-based'?

If so, who is going to develop the product? Probably you, because that's what creating is about.

So, if you are the product person, who will drive the marketing?

And, who will manage the money?

How will you pay for the others?

Do you need to be part of a broader cluster?

What are your thoughts at this point?



That's what you do".

At this point we would really like you to think about product and service.

Just because you think of yourself as a painter doesn't mean that all you do is paint great landscapes and sell them one by one. Sure, some people do that, but we know someone who paints great pictures, has them copied in China and sells them to gift shops. She makes a great income and has time to spend making great art because she can pay the rent. What is her product?

We know an industrial designer who works for films, does local government work for street furniture, designs logos for multi-nationals and has a business doing phone apps. What is his service?

We know an architect who runs business workshops to help small businesses design streetscape, façade and signage improvements to attract foot traffic. That's called place-making.

We know a small band that runs relaxation sessions for large corporate training days and conferences. There is a visual artist who now runs market-based events for other artists because she couldn't afford to take up a rental commitment and we know of a dancer who runs fitness programs using dance as a fun exercise. What service are all these people providing?

So the question is this. How could you join up with another group of talented people to develop a new product or service?

Do you think this really needs a coloured box?

Is clustering for you?

Location is a source of competitive advantage although these days with the emerging power of the internet, location exists in a new dimension so let's regard the net as just another place in the space/time continuum.

There are four factors to consider.

- **Inputs.** These are tangible assets - anything from infrastructure to information. *Does your location provide you any advantages in terms of cost or quantity of natural resources, human resources, capital resources or infrastructure?*
- **Local context.** Rivalry is good - higher competition generally means high productivity. Rivalry that works is based on differentiation, not cost. Effective competition is based on innovation. *How does your local context rate?*
- **Related and supporting industries.** The presence of locally based capable suppliers and competitive related industries amplifies the pressure to innovate and supports business success. *How extensive is the local support network for a cluster?*
- **Demand conditions.** A demanding local market will create conditions that support success of business clusters. Sophisticated local markets create the opportunity for differentiation and form the basis of high quality competitions. *How sophisticated is your local market?*

