



Birds of a Feather

This wool buy at the Hard Rock Chapter on the Navajo Nation is an example of how craftspeople can better market their products by gathering together to meet customers.

Market clustering and Arizona's economic future

By Joanne Littlefield

You see it everywhere without knowing it has a name. Businesses gear up in strategic locations along new transportation corridors. Scientists convene online to share the latest research data. Media outlets congregate close to government centers for easy access to information. Whether they know it or not, each of these groups is participating in the economic dynamic of “market clustering.”

The idea of market clustering has its roots in British economist Alfred Marshall's early twentieth century work. It became part of the common language in economics and regional planning. There has been a resurgence of interest in this concept after years of neglect.

Over the past two decades economists and business scholars have taken notice of market cluster theory. They have examined how disciplines such as marketing and management might contribute to solving development problems in the least developed parts of the world, according to Eric Arnould, the research director for the Terry Lundgren Retail Center of the Norton School of Family and Consumer Sciences at the University of Arizona.

Prior to coming to the UA College of Agriculture and Life Sciences, Arnould was director of agribusiness programs at the University of Nebraska. While there he helped farmers and

commodity groups discover the value of market clusters could have on their pocketbooks. Arnould has been following consumer and consumption trends worldwide for more than 20 years. As the PetSmart Distinguished Professor at the UA he brings a fresh perspective in analyzing the dynamics of the Arizona retail scene.

During his early ethnographic research in the Niger Republic of West Africa Arnould took note of the way African crafts people and manufacturers were assembled. These potters, mill workers, weavers, smiths, dyers and tanners, he noticed, were all working close to one another.

“In African marketplaces you'll often find people selling the same types of crafts, clustered together,” he says. “These kinds of industries and crafts can be found all over the place in the least developed parts of the world.”

For years, economists generally dismissed the idea of cluster effects in developing countries as merely a result of the social relationships among artisans, such as membership in the same clan, tribe or caste. They weren't looking at how clustering applied to economic situations. Arnould, however, is especially intrigued with how cluster theory—as noted in places like Silicon Valley, Hollywood and other contemporary settings where similar businesses are situated near each other—makes sense in less developed parts of the world as well.

In developed parts of the world, modern market clustering shows up in the way new home construction in an area is followed by regional shopping malls, restaurants and other retail developments. Mall developers sometimes cluster like-businesses in “neighborhoods.”

What drives market clustering is a phenomenon economists call “positive externalities,” explains Arnould. “This includes examining the benefits companies can reap from being near each other. In retailing we know that there is a reason why firms cluster together in shopping malls. There is a synergy that draws customers to them.”

Arnould went back to his field notes from the Niger Republic ethnography with a fresh eye when he began working with co-author Jakki Mohr, professor of marketing at the University of Montana, on the study “Dynamic Transformation for Base-of-the-Pyramid Market Clusters.” The team looked at how people with relatively low purchasing power in less-developed countries (the “base of the pyramid”) might group together for training, buying power, and expanding to new markets. Arnould and Mohr were able to suggest improvements to increase the economic vitality of these grassroots efforts.

The existence of people, firms, technology and experience in a domain like water management, Arnould notes, is a perfect example of something that’s ripe for catalyzing into a major cluster phenomenon.

“There is a lot of knowledge in Arizona about irrigation and water management,” he says. A great deal of work has already been done in the industry and there are many agriculturists, farmers, researchers, and companies who have substantial knowledge about irrigation, Arnould believes, though, that more could be accomplished through university-business partnerships. The creation of the virtual Arizona Water Institute in early 2006 is an example of the type of organizational grouping of people and targeting of natural leaders in such a cluster.

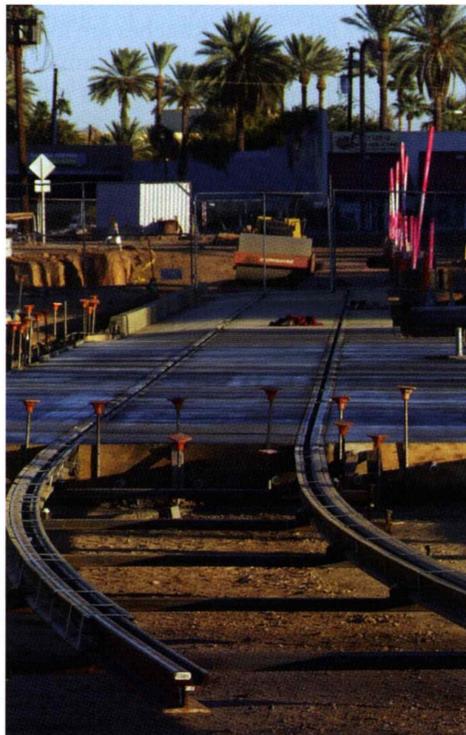
Successful market clusters are grounded in the institutional, social and cultural makeup of an area. It’s not enough for regional planners to



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Established businesses try to stay afloat as light rail construction disrupts traffic in central Phoenix. An increased customer base is anticipated as commuters jump on and off the new train.

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New transportation corridors such as freeways and the Phoenix-to-Tempe light rail train give city planners, developers and business owners opportunities to create new businesses along the route.

think something is a good idea for a community; community members themselves have to believe it will work. With that support secured, market clusters can provide a variety of benefits to a community. They can be organizational; they can come in the form of new or restructured leadership and new information, and can help create or remodel existing infrastructure. The intervention often provides a missing link essential to the success of a project, such as sharing of advertising expenses or negotiating power for goods.

The clustering of craftspeople in native communities of the Southwest who wanted to find better ways to market their products provided perfect opportunities for organizational intervention. In one case, the Navajo tribal government became involved in creating the Navajo Cooperative. Similarly, on the Hopi reservation, tribal members initiated a community-building process to create the Hopi Pu’Tavi silversmithing project. This effort was facilitated by local Cooperative Extension agents.

“To the extent that the Navajo Cooperative runs along the lines of traditional decision making and authority in Navajo society, it’s more likely to be successful than one that is an imposed structure by outsiders,” Arnould says.

The retail and residential development that will follow the light rail system under construction in central Phoenix is another example of how targeted infrastructural intervention can affect cluster development. The means of transportation is created and the coffee shops, restaurants, bookstores and other retail outlets follow. The light rail is external to all of the businesses that are around it, but it provides something they may not have had before, Arnould notes.

“There is more ready access to a larger pool of skilled labor and a more ready flow of goods, services and information along that corridor.” ❧

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