



# Porter's Diamond

Porter has proposed a four-pointed 'diamond' to explain why some locations tend to produce firms with sustained competitive advantages in some industries more than others.

In particular, Porter's Diamond suggests that locational advantages may stem from local factor conditions; local demand conditions; local related and supporting industries; and from local firm strategy structure and rivalry.





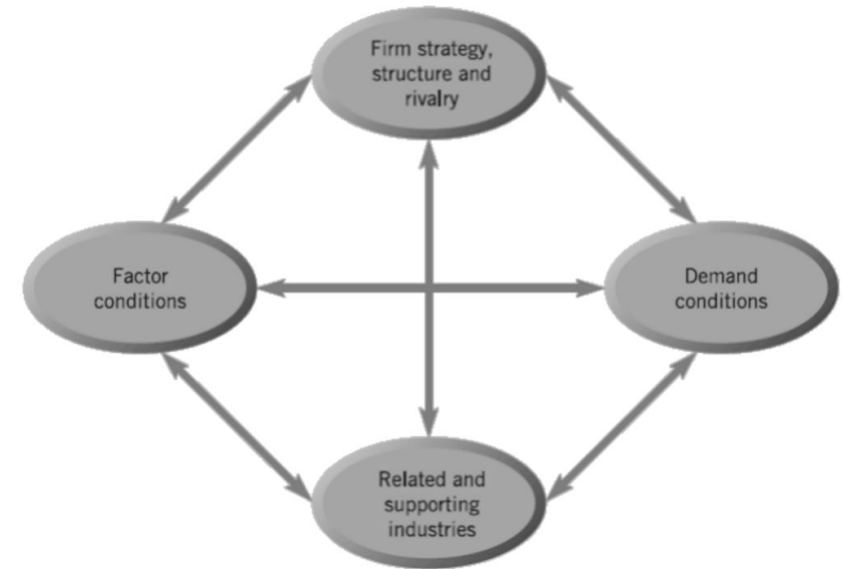
# Porter's Diamond: explaining locational advantages



Porter's diamond is rooted in the "inside-out" approach of international strategy, which answers the question "to what extent does the local market provide a locational advantage over competitors operating in other geographic markets" ?

Porter's diamond identifies 4 interacting conditions of locational advantage:

- **Factor conditions:** These refer to the 'factors of production' that go into making a product or service (i.e. raw materials, land and labour). For example, cheap energy has traditionally provided an advantage for the North American aluminium industry.
- **Home demand conditions:** Dealing with sophisticated and demanding customers at home helps train a company to be effective overseas. For example, Sophisticated local customers in France and Italy have helped keep their local fashion industries at the leading edge for many decades.
- **Related and supporting industries:** Local 'clusters' of related and mutually supporting industries can be an important source of competitive advantage. These are often regionally based, making personal interaction easier. For example, the Californian Silicon Valley provides a dynamic ecosystem for startups.
- **Firm strategy, industry structure and rivalry:** The characteristic strategies, industry structures and rivalries in different countries can also be bases of advantage. For example, German companies' strategy of investing in technical excellence gives them a characteristic advantage in engineering industries and creates large pools of expertise.



Source: Exploring Strategy, Text and cases, 10<sup>th</sup> Edition. Pearson



# Porter's Diamond: illustration with Lenovo's home market



China's vibrant ecosystem in the computer industry provides Lenovo with a location advantage over international competitors. One way to apply Porter's diamond in this case is to combine a qualitative appraisal with a quantified scoring of each condition.

## Porter's Diamond: the case of Lenovo's home-based market

Domestic factors providing advantage	Qualitative analysis	Score /3
<b>Factor conditions</b>	<b>very strong input factors conditions</b>	<b>9</b>
Labour	China offers PC manufacturers cheap and highly qualified workers	3
Capital	China offers PC manufacturers easy access to capital and high-tech factories	3
Raw material	China dominates supply chains for rare earth minerals used in many high-tech products, as well as the lithium, cobalt and graphite used in batteries.	3
<b>Demand conditions</b>	<b>very strong demand conditions</b>	<b>9</b>
Domestic market demand	China's domestic market for PCs is growing fast with very high volumes	3
Customers' preferences (B2C)	Well-educated working class calls for sophisticated products	3
Customers' dynamics (B2B)	Domestic champions and global leaders pull the Chinese demand for PCs	3
<b>Related and supporting industries</b>	<b>very strong supporting industries</b>	<b>9</b>
Finance (banking & insurance)	Chinese finance industry provides strong support to investment and insurance	3
Semiconductors and PCs components	China enjoys direct access to the world leading Taiwanese chips industry	3
Logistics	China's strong export capabilities and multi-modal routes (air, sea...) facilitates international logistics	3
<b>Firm strategy, industry structure and rivalry</b>	<b>favourable industry structure and rivalry</b>	<b>5</b>
Local competition	Strong Chinese (Tongfang...) and Taiwanese competitors (Acer, Asus...)	2
Industry structure (five forces)	Very favourable industry structure (high entry barriers, few substitutes, low bargaining power of suppliers and retailers...	3

- Porter's diamond applied to Lenovo reveals strong locational advantage from the Chinese local market,
- [Download the template here](#)



Porter's Diamond: Explaining locational advantage

Domestic factors providing advantage	Qualitative analysis	Score
<b>Factor conditions</b>	...	<b>6</b>
Factor #1	...	1
Factor #2	...	3
Factor #...	...	2
<b>Demand conditions</b>	...	<b>6</b>
Factor #1	...	1
Factor #2	...	3
Factor #...	...	2
<b>Related and supporting industries</b>	...	<b>7</b>
Factor #1	...	1
Factor #2	...	3
Factor #...	...	3
<b>Firm strategy, industry structure and rivalry</b>	...	<b>6</b>
Factor #1	...	1
Factor #2	...	3
Factor #...	...	2
<b>TOTAL</b>		<b>25</b>



[contact@mana.fr](mailto:contact@mana.fr)