

Porter Diamond Model

Idea In Short

Porter's Diamond Model is used to understand the competitive advantages and disadvantages of a country or organization in any field. It can be used to understand the suitable measures that can be taken by the country or organization to improve its performance.

The Porter Diamond model is a strategic economic model that tries to explain why one nation-state is more successful in a given industry than another. Four determinant elements must be present, according to the model, for an industry to have a national competitive advantage. The following are the four elements:

1. Factor conditions
2. Demand conditions
3. Related and supporting industries, and
4. Firm strategy, structure, and rivalry

Furthermore, government policies, as well as chance, can influence whether or not an industry develops a competitive edge.



Porter's Diamond Model

Origin

Michael Porter's Diamond Model, often known as the Porter Diamond Theory of National Advantage, was first published in his book, *The Competitive Advantage of Nations*, released in 1990. It's a model for determining a country's or group's competitive edge in a specific industry. Businesses frequently employ the model to assess the external competitive environment. This data can then be used to demonstrate how one firm compares to another. It also explains why some industries in each region are more favorable than others and how governments can act as catalysts to help a country enhance its position in a globally competitive economic climate. Porter uses the model to try to address the following questions:

1. What causes one country to become the most competitive in a certain industry? Porter refers to this as "becoming the home base" in his model. Consider the following scenario:
2. China is a major producer of electric vehicles.
3. Consumer gadgets are made in South Korea.

4. What allows enterprises from a single country or region to maintain a competitive advantage in a certain industry?

The answers to these questions are the determinants of competitive advantage in the Diamond Model.

The model

Porter claims that a company's ability to compete on a global scale is largely determined by an interconnected set of location advantages that certain industries in different countries have, namely:

- Firm Strategy
- Structure and Rivalry
- Factor Conditions
- Demand Conditions, and
- Related and Supporting Industries

When these conditions are favorable, domestic enterprises are compelled to innovate and update on a regular basis. When going international and competing against the world's largest competitors, the competitiveness that results from this is beneficial and even vital. The model also reveals that two additional factors, chance and government, can influence any or all of the four basic factors. They work together to create a national ecosystem in which businesses can grow and learn how to compete.

Understanding the Diamond Model

It is a model of economic theory that quantifies a country's or region's beneficial advantages over other nations and offers it a competitive advantage over others in terms of growth. According to the Porter Diamond, countries can develop new factor advantages for themselves, such as superior manufacturing technologies, skilled labor, and efficient human resources, technologically advanced industries, and favorable government policies that support and elevate the country's economy several notches higher. Natural resources, population, land, and location are among the primary factor on which the country can rely for economic growth.

The 4 factors of PDM Strategy

Factors

The various types of resources that may or may not be present inside a country are referred to as factor conditions. Human resources, capital resources, natural resources, infrastructure, and knowledge resources are all examples of resources. We must distinguish between basic and advanced factor conditions in order to comprehend the role of factor conditions. Natural resources and unskilled labor are two important variables. Some countries, for example, have abundant natural resources such as oil (Saudi Arabia). This helps to explain why Saudi Arabia is one of the world's greatest oil exporters. Advanced variables include, among others, trained personnel, expert knowledge, and capital. Basic factors, according to Porter, do not provide competitive advantage because they can be acquired by any organization. Advanced factor conditions are the only way to gain a competitive advantage. It's critical that the advanced factor conditions that have been produced are constantly upgraded through the development of new abilities and the creation of new information. The presence of world-class institutions that first build specialized factors and then endeavor to upgrade them results in a competitive advantage. As a result, nations succeed in industries where they excel at factor generation. As an example of an advanced factor, IITs & NITs in India produce graduates with very good IT skills. This, in turn, feeds an IT competitive advantage for India which can be seen by the dominance of Indian IT industries

Demand Conditions

The level of beneficial industries inside a country is mostly determined by domestic demand. A wider market means more obstacles, but it also offers more chances for the organization to develop and improve. In fact, the more demanding home market customers are, the greater the pressure on corporations to innovate and improve. Companies that strive to serve a demanding domestic market are propelled to new heights and may acquire early insights into future client wants across borders. Nations have a competitive advantage in businesses where local customers provide a clearer or earlier image of future buyer demands, and where demanding customers force enterprises to innovate faster and attain longer-term competitive advantages than their international competitors.

Related & Supporting Industries

One industry's success may be influenced by the success of linked industries or suppliers. The presence of internationally competitive suppliers within a country can be beneficial to the businesses that use them. This is due to the fact that it allows for the most cost-effective access to inputs. In addition, it provides early access to new items and stimulates information exchange. When a country's suppliers are also global rivals, the country's companies profit the most. Creating strong related and supporting sectors that help domestic companies become globally competitive can require years (or even decades) of hard effort and investment. However, once these variables are in place, their existence can often benefit the entire region or nation. This can be seen in India's Silicon Valley, Bangalore, where a variety of IT giants and start-ups have gathered to share ideas and promote innovation. Having a large number of connected industries in a country typically leads to the creation of new industries. This occurs when allied industries can pool their resources. For example, automobile manufacturers in Germany may share access to a wind tunnel. Because it raises the barrier to entrance, the usage of shared resources inside a country can provide a competitive advantage.

Firm Strategy, Structure & Rivalry

The competitiveness of a country's businesses is determined by how such businesses formulate their strategy and organize themselves. The amount of competition between enterprises in an industry also influences competitiveness. Firms are structured differently in different countries, as are their purposes. A variety of social, political, and legal variables will influence it. Domestic competition is also important for international competitiveness because it drives organizations to create distinctive and long-term strengths and capabilities. Companies are compelled to innovate and improve to keep their competitive advantage as domestic competition becomes more intense. In the end, this will only benefit businesses when they reach the global market. The Japanese automobile industry is a notable illustration of this, with fierce competition between Nissan, Honda, Toyota, Suzuki, Mitsubishi, and Subaru. They have been better able to compete in global markets as a result of their own tough home competition.

Government

In Porter's Diamond Model, the government serves as a catalyst as well as a challenger. Porter opposes a free market in which the government leaves everything to the invisible hand in the economy. Porter, on the other hand, does not consider the government to be a crucial industry backer also. Companies, not governments, can build competitive industries.

Governments, on the other hand, should promote and push businesses to elevate their goals and achieve even greater levels of competitiveness. This can be accomplished by increasing early demand for sophisticated items (demand factors), focusing on specialized factor developments such as infrastructure, education, and health care (factor conditions), boosting domestic competition by enforcing antitrust laws, and fostering change. Thus, the government can aid in the growth of the four aforementioned variables in a way that benefits a country's industry.

Chance

Despite the fact that Porter did not mention anything about chance or luck in his writings, the Diamond Model frequently includes the role of chance as the potential that external events such as war and natural catastrophes might negatively or positively affect a country or business. Random events, such as where and when key scientific breakthroughs occur, are also included. These incidents are beyond the government's or private firms' control.

Significance of Porter's Diamond

Recognizing the market's competitive rivalry

The Diamond Model aids businesses in analyzing direct and indirect market rivalry in a very effective and efficient manner. From who they are, how many of them there are, the quality of their products and services offered, their level of customer service and overall experience, their pricing strategy, sales strategy, and market strategy, as well as their future plans in the pipeline, and the nature and features of their products offered. If the competition is fierce, the company must be aggressive in its approach by developing products that are novel in concept and innovative in nature, lowering prices by offering discounts to customers, planning, designing, and implementing ground-breaking marketing and promotional strategies, and providing the best level of customer service. All of this contributes to the company's overall growth and development by retaining existing clients and transforming them into loyal ones, as well as attracting new customers.

Suppliers' Power: What You Should Know

Suppliers who provide the essential raw materials for industrial purposes play a significant role in the company's growth and development ecosystem. The Porter's Diamond model can help you figure out how many suppliers you have, how many of them are potential suppliers,

how unique is their product, how good is their customer service to your company, do they cater to your competitors as well, what their prices are, and how effective switching from one supplier to another will be. If you have the choice to choose from a large number of suppliers in the market, you will be able to purchase a cheaper raw material; but, if there are fewer suppliers in the market, their position is strong, and they have the power and capacity to charge you more. All of this has an impact on your profit margins and pricing plans.

Buyers' Power: What You Should Know

The Porter's Diamond model can help you figure out how many buyers you have, how big their orders are, whether they are loyal to your brand, whether they are powerful enough to dictate their terms to you, and what influence switching from you to a competitor brand will have on them. When there are few buyers for your product options, they have more power. And as the number of buyers on your list grows, so does your ability to command a higher price.

Recognizing the threat of replacement

Substitution is always a threat to your organization, and it can have a negative impact on your earnings and revenue growth. For example, if you've been selling home appliances at your physical store for a long time and now, thanks to the internet and social media, your consumers are ordering the appliances through online portals that guarantee doorstep delivery at lower prices while saving them time and money. Understanding this, you must rethink your complete business strategy to remain relevant in the market as market dynamics change.

Recognizing the threat of new entrants in the market

Existing players as well as new entrants to the market pose a constant danger of competition. This Diamond Model focuses on the threat of new market entrants, including their industry presence, types of products offered, price strategies, the factor of innovation, and other important details.

Case Study - Indian sports industry

The purpose of this study is to utilize the Diamond model to examine the position of the sports goods cluster in Jalandhar in terms of the availability of competitive advantage

drivers. The origins of India's sports equipment industry may be traced back to Pakistan's Sialkot. Following partition in 1947, an entrepreneur from one group wanted to relocate from Sialkot. Along with the businesses, the laborers from that community also relocated. According to the Indian government's resettlement plan, these migrants first settled in Batala, but eventually relocated to Jalandhar. The essential raw material was readily accessible in Jalandhar. Some of the refugees relocated to Meerut, where the essential raw materials were also accessible. Punjab and Meerut have emerged as the key hubs for sports goods manufacturing, and the sports goods sector in Punjab looks to be the sole industry with any potential. Meerut is yet to rise to prominence. Jalandhar has developed into a key center for the Indian sporting goods sector. The second biggest cluster of sports goods production is in Meerut, Uttar Pradesh, while the third largest cluster is in Gurgaon, Haryana.

Human Resources

Jalandhar's sports goods cluster employs labor-intensive processes. It employs 5000 highly skilled and competent individuals for manufacturing and allied activities. This figure represents the number of permanent employees employed by the registered businesses. Aside from that, numerous unskilled and semi-skilled employees are employed in unregistered units, as well as domestic workers who work at home. According to SGS data, the cluster has a total of 10000 employees. After deeper investigations it is discovered that the cluster's businesses employ fewer than ten people. The major motivation is to circumvent the requirements of the Factories Act of 1947. Furthermore, because of the seasonal need for sports items, the companies do not hire permanent employees, instead appointing staff as needed. When demand grows, job workers are assigned to meet the need. Furthermore, the cluster's presence of subcontractors ensures that items are available as soon as need arises.

Physical Resources:

Jalandhar was determined to be an ideal site for producing sports products due to its proximity to the Himalayan foothills, which ensured a steady supply of wood, and the presence of a leather cluster, which ensured a steady supply of leather. Both of the needed raw materials are readily available in Jalandhar.

Knowledge Resources

Within the cluster, there is a scarcity of knowledge resources. Human resource

development activities are observed to be absent from the cluster. Most businesses do not provide training to their employees because they believe that the workers have inherited abilities from their forebears and that training is unnecessary. In the cluster, there isn't a single training institute. It was discovered that a few industrial groups in the cluster have arranged occasional training programs in which only active members of the cluster participate, but non-members do not wish to send their staff for training.

Capital Resources

It was discovered that the cluster operates entirely on its own financial resources (Cash Reserves), and those enterprises have no financial difficulties. It might be because of the high rate of interest on loans, but the primary element contributing to the smaller difficulty of finance is the majority of enterprises' low fixed capital base. Because most of a firm's activities are skill-based, the need for fixed capital is limited, and most enterprises rely on their own resources.

Infrastructure

In terms of infrastructure, all states and the country have adequate road and rail connectivity with Jalandhar, allowing for simple movement of raw materials and completed goods. Furthermore, the vicinity of the Amritsar airport (60 km) ensures import and export from other countries.

Demand Conditions

A Porter's categorization of demand circumstances will be utilized to assess the sports goods cluster in Jalandhar in terms of determining competitive advantage. The local and foreign markets for sporting products may be classified into two categories. Government departments, local clients, and educational institutions are the primary buyers in the domestic market. Foreign clients, government departments, corporations and organizations from various nations such as the United Kingdom, Australia, the United States, South Africa, France, and Germany are the key customers for the international market.

Related Supporting Industries

Within the cluster, raw material and machinery providers are accessible. The cluster's raw material sources supply both natural and man-made materials. There are a number of

facilities in the cluster that supply raw materials to the producers. These raw material providers are located in the Basti Nau and Basti Sheikh core cluster locations. It has been discovered that raw material suppliers do not give any technical assistance to enterprises in the area of innovation, and are just concerned in the sale of their product.

Firm Strategy, Structure and Rivalry

Jalandhar's sports goods cluster is made up of micro and small businesses. There are no medium or large-scale businesses in the cluster. The cluster's businesses have all existed since India's independence. The firm is run by the founder's descendants for the next two or three generations. Apart from migrants' units, numerous new enterprises are identified to be members of the cluster in this analysis. New entrepreneurs generate new ideas, and their vision, style, and operation differ from those of older businesses. The majority of the businesses in the cluster are family-owned and operated as sole proprietorships or partnerships. Family members or friends make up the partnership companies' partners. It allows businesses to make more autonomous decisions and take greater risks. Rivalry is reported to be quite high in the Jalandhar cluster due to the presence of a large number of enterprises in one location. The existence of a high number of rivals in the cluster encourages all enterprises to pay attention to what each other is doing and to strive to adopt the best approach for dealing with the competition.

Government

Various policies for the sports goods business have been developed by the federal government and the Punjab government. The majority of policies are geared on promoting product exports, while there is none geared toward promoting the sports goods cluster. In terms of the local market, it has been discovered that the Government of Punjab has just one policy in place to provide incentives to domestic businesses. It has been noticed that although exporters are pleased with the government's incentives, local players are unsatisfied with the government's participation. The United Nations Industrial Development Organization (UNIDO) did research on the sports goods cluster in Jalandhar in 2001 and discovered that the government had offered help to exporters for the development of exports, but no support was provided to the domestic market. It demonstrates that, despite the passage of ten years, the government has made no steps to assist domestic businesses. Several businesses have stated that the government announces policies but never implements them. For example, the Punjab government proclaimed a 1% freight subsidy, but it has never been distributed to businesses. Some businesses appear to be completely

oblivious of the government's initiatives. To foster the cluster's growth and development, the government will need to take a number of steps.

Chance

It has been discovered that Jalandhar's sports goods cluster has benefited from random incidents. The cluster's position in the Himalayan foothills assures a steady supply of wood, which is an important raw resource for the cluster. Furthermore, efficient rail and road connections ensures that raw materials are readily available and completed items are delivered to the target market. The application of the Diamond model to the Jalandhar sports goods cluster may be seen as follows:

Human Resource Development

A It has been discovered that the cluster is experiencing a skilled labor shortage. Furthermore, the majority of businesses do not provide training to their employees. Workers must be trained to operate machines since the industry requires them to adapt to new technologies. Because of their averseness to face the cost of training, the majority of the enterprises in the cluster refuse to provide training to their employees. To meet the demands of the cluster, the public and private sectors should collaborate to build specialized training institutes.

Promotion of domestic products

It has been revealed that there is a skilled labor shortage in the cluster. Furthermore, the majority of firms do not give staff training. Because the sector expects workers to adapt to changing technology, they must be taught to operate equipment. The bulk of the businesses in the cluster refuse to give training to their staff because they are afraid of the costs. The public and commercial sectors should combine to develop specialized training institutes to satisfy the cluster's needs.

Initiatives by the Government

Many of the companies in the cluster appear to be unaware of the different rules governing the sports business. Interactions with industry groups and Business Development Service providers can assist the government in disseminating information to all of the cluster's enterprises. The government should host a series of seminars and workshops to offer

information about the policies and their advantages so that as many businesses as possible may profit from them. Government's task does not end with the formulation of a policy; it must also guarantee that it is implemented. The duty of ensuring timely policy execution should be delegated to a distinct government department. This agency should also solicit input on the policy from businesses to ensure that it achieves the goal for which it was created. Furthermore, this input should be utilized as a guideline for developing new regulations or updating current ones. The government should also guarantee that all departments engaged in policy implementation are kept up to date in order to ensure that policies are properly implemented. The government should build an information center as part of the Cluster Development Program, where all the newest information on technology, innovation, and raw materials may be found. Each business in the cluster should be given this information so that they are informed of the most recent advancements. A variety of trade shows and exhibits are held in various locations across the world. Various exporters are receiving assistance from the Sports Goods Export Promotion Council in order to participate in sports fairs. However, this assistance is only available to its registered members. But a number of microbusinesses do not engage in such events, hence the government should offer financial assistance to these small businesses so that they may attend trade fairs. It has been observed that all sporting equipment certified by international federations is used in international events. However, the cost of such accreditation is prohibitively expensive for most businesses. The government should subsidize the expense of obtaining certifications for the company.

Setting up Special Economic Zones

The cluster of Jalandhar should be designated as a Special Economic Zone. The designation of the cluster as a Special Economic Zone will aid in export promotion. A considerable amount of investment from both the local and international markets will be attracted. Infrastructure facilities may be quickly constructed, allowing for the advancement of existing technologies as well as the rapid acceptance of new ideas. Better infrastructure will attract new businesses, resulting in the development of new jobs.

Establishment of Business Development Cell and Research Institutes

In the cluster, a Business Development Cell should be developed, with at least some full-time specialists recruited. These specialists should focus on gathering the most up-to-date knowledge about the global market. The government of India may support the cell through the Sports Goods Export Promotion Council or the Cluster Development Scheme. Several

research institutes or universities should be formed to assist the cluster in improving its research operations. Apart from that, the Punjab Government's Department of Industries should aid the cluster in obtaining assistance on inventions from other research institutes outside the cluster.

Summary

After evaluating the many factors of competitive advantage using Porter's model, we can infer that the Jalandhar sports goods cluster is mostly dependent on factor circumstances, such as raw material availability and skilled labor. Aside from that, the cluster's expansion is aided by the presence of sophisticated customers, machinery suppliers, and rivals. To upgrade competitive advantage from fundamental factors of production, the cluster must focus on generating specialized and advanced factors. Furthermore, the cluster can benefit from the timely and successful execution of government policies and objectives.