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Porter's Diamond Model analysis: Louis Vuitton and BMW

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BRAND MINDS

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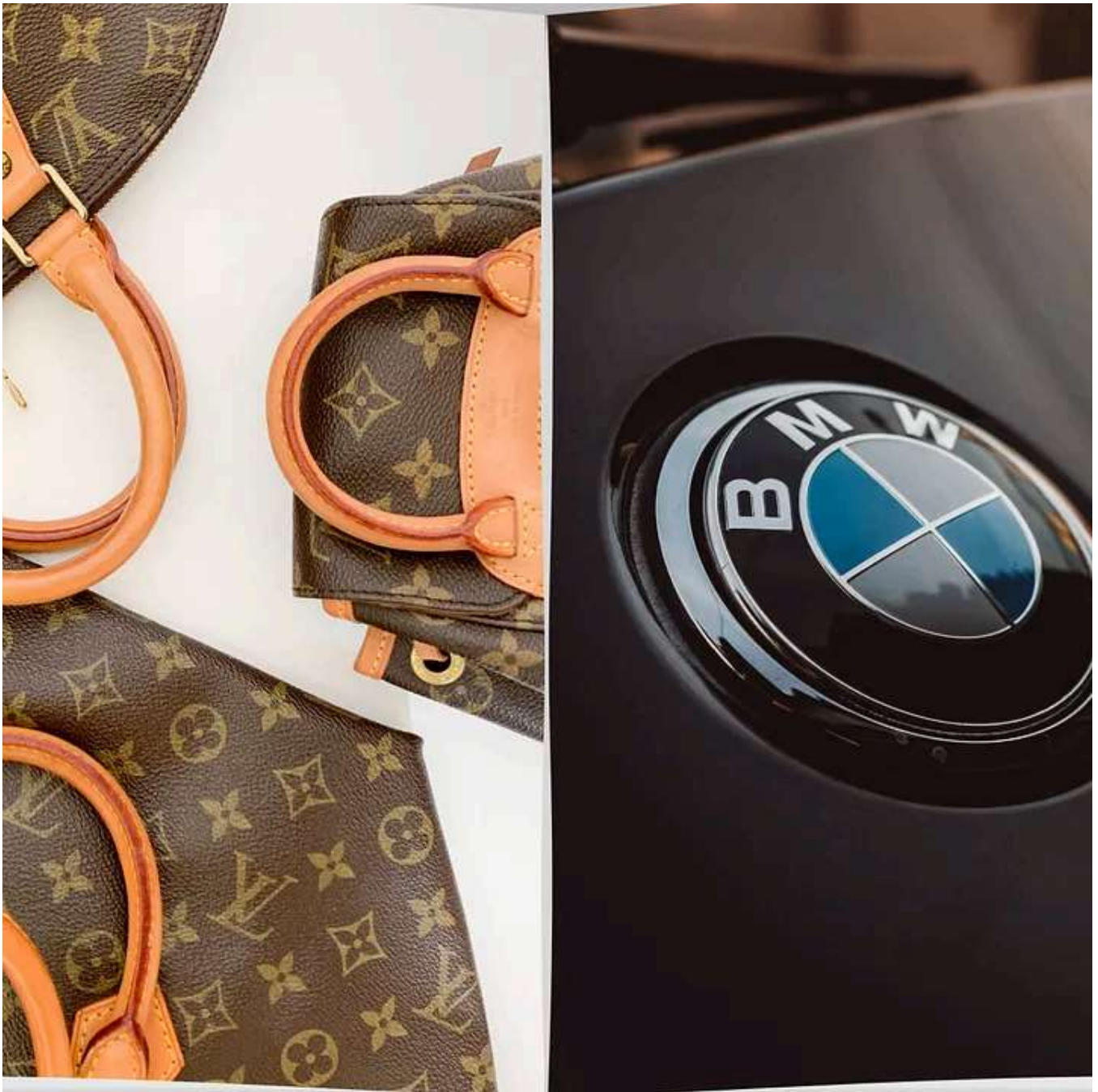
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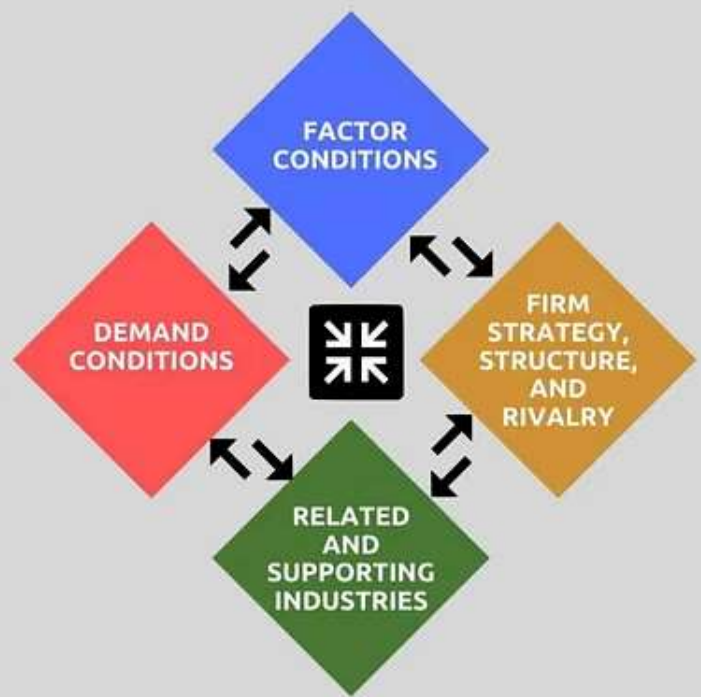


The Porter Diamond Model, also known as the **Porter Diamond Theory of National Advantage** is a business framework that describes a nation's competitive advantage in the international market.

The model also highlights four factors that companies looking to expand their business internationally can take advantage of to achieve competitiveness in the market.

Porter's Diamond Model

THE THEORY OF NATIONAL ADVANTAGE



source: tradebrains.in

The Porter Diamond Model includes 4 attributes

The Porter Diamond Model analyzes a nation's advantage against **four broad attributes** that each nation establishes and operates for its industries:

1. Factor Conditions

This attribute defines the nation's position in factors of production, such as **labour, land, natural resources, capital or infrastructure**, necessary to compete in a given industry.

2. Demand Conditions

The second attribute of the Porter Diamond Model refers to the nature of **home-market demand** for the industry's product or service.

3. Related and Supporting Industries

This attribute reveals the presence or absence in the nation of **supplier industries** and other related industries that are internationally competitive.

4. Firm Strategy, Structure, and Rivalry

The Firm strategy, structure and rivalry attribute highlights the conditions in the

nation governing how companies are created, organized, and managed, as well as the nature of the **domestic competition**.

For in-depth information on Porter's Diamond Model, check out [this article](#)!

Theoretical knowledge is good but it's only the starting point. Analyzing real-life examples are the best way to learn about a new business framework or model. It helps you put things in perspective.

For the purpose of this article, let's look at two global brands and how the **Porter Diamond Model** is applied to them: **Louis Vuitton** and **BMW**.

Louis Vuitton — a Porter Diamond Model case study



With a brand value of over **\$51 million in 2020**, Louis Vuitton is **the most valuable luxury brand in the world**.

France is the company's home base but since its inception more than 150 years ago, Louis Vuitton has expanded in 50 countries and has a retail network of over 4,910 stores worldwide.

What is the secret of Louis Vuitton's success? Read [Louis Vuitton: The story behind the brand](#).

Louis Vuitton Factor and demand conditions

When you think of luxury, you think of France.

France is **the world's capital for luxury goods**, haute-couture fashion, cosmetics, perfumes and accessories and the home for famous international houses such as Chanel, Dior, Givenchy, L'Oreal, Clarins, Lancome, Hermes, Celine, Louis Vuitton etc.

It's not by chance that France has such a strong cluster of luxury brands.

The country's luxury goods industry has a **long history** that began more than 500 years ago.

Eight hundred years ago, France was **Europe's silk centre** with a booming silk industry.

King Louis XIV, the country's most fashionable royalty recognized the importance of luxury goods to the national economy. Under his leadership, the country developed a **powerful textile industry** which in turn boosted trading and the country's infrastructure.

Fast forward to the 21st century, France is synonymous with high fashion and luxury goods.

The fashion and luxury goods industry has a direct turnover of **€150 billion**. The **share of French GDP** generated by fashion is **2.7%**. There are **1 million jobs** in the fashion industry ([source](#)). The workforce in the industry is highly skilled. Experienced craftsmen or seamstresses sometimes receive an 18-month to 2-year training.

France was the perfect country for Louis Vuitton to be born in. The country provided the luxury brand with **perfect factor conditions**.

The French are known for their good taste and high fashion style so the brand had to work hard and innovate to meet the needs of such demanding customers (**demand conditions**).

This, in turn, helped them expand internationally and retain their competitive advantages.

With 37% of global sales, the Asian market is Louis Vuitton's biggest revenue source.

Surveys show that 92% of Japanese women own a Louis Vuitton handbag and sales in China rose by more than 50% and in August last year when the brand reported record sales at its largest store in Shanghai.

Louis Vuitton Related and Supporting industries

The country also ranks high in the Related and Supporting Industries attribute for the luxury goods industry.

The industry's development has been in close relationship with many subsectors such as **textile and apparel, garments and embellishments, sewing machinery**. It's an **ecosystem** whose members pressured each other to improve and innovate for mutual benefit.

Louis Vuitton Firm Strategy, Structure, and Rivalry

In France, the luxury goods industry is **highly competitive**.

With pressure from competitors, online sales increase and technology disruption, Louis Vuitton's business strategy is to **grow through acquisitions**.

The brand is part of the **LVMH**, the world's largest conglomerate which came to be in 1987 when Louis Vuitton merged with champagne and cognac producer Moët Hennessy.

Over a period of 34 years, LVMH acquired more than **70 famous luxury brands**. The latest acquisition is **Tiffany & Co**.

BMW — a Porter Diamond Model case study



BMW Factor and demand conditions

Germany played a **major role** in the history of the automotive industry.

It was **Karl Benz**, a German mechanical engineer who designed and, in 1885, built the world's first practical automobile to be powered by an internal-combustion engine. Today, Germany is renowned for its powerful and innovative cars.

The **largest industry sector** in Germany is the automotive industry. Vehicles make up almost **17% of total exports**.

The automobile industry generated roughly 426 billion euros in total sales in 2018.

With **882,000 manufacturing jobs** in the automotive industry, Germany ranks first among European countries.

The country is a primary location for **innovative car manufacturers and suppliers** and home to powerful brands such as BMW, Audi, Volkswagen, Mercedes etc.

One of the factors underlying the German success is that **the workforce is created**. German students benefit from the country's dual system of education where they combine vocational education with apprenticeships. This type of education supplies the country with a steady flow of highly skilled workers.

The German automotive industry benefits from a strong industrial core, first-class infrastructure, a highly-skilled workforce and cutting edge research and development.

BMW has become a **prestige global brand**, operating 31 plants in 14 countries, including the largest car manufacturing plant in the world.

BMW has taken advantage of the factor conditions provided by the country. Ranked 2019's 3rd most valuable car brand in the world, the company didn't start as a car manufacturer, but as an aircraft engine manufacturer.

The brand's success relies on its **outstanding car design, technological innovation and workforce**.

As the Porter Diamond Model recommends, **the brand grows its own workforce**. The BMW Manufacturer-Specific Advanced Training (MSAT) program provides students with extensive training on BMW vehicles thus preparing them to work for the company.

BMW Related and Supporting industries

BMW cars are high-quality automobiles.

The brand **carefully selects suppliers in subsectors of the automotive industry** such as parts and components, heating, ventilation, air conditioning, electronics etc. BMW depends upon a network of **over 100 auto parts suppliers** from all over the globe, though approximately 50% of its suppliers are either located in Germany or are subsidiaries of German-based companies ([source](#)).

BMW Firm Strategy, Structure, and Rivalry

BMW faces **tough competition** both domestically and internationally.

The company's competitors are legacy brands much like themselves.

On the local market, car automakers differentiate themselves through brand positioning.

In recent years, German car manufacturers have been struggling to adapt to **new technological challenges** (car connectivity, e-mobility), **environmental challenges** (green technology) and **new entrants** such as Tesla.

To stay ahead of the competition, BMW is using a competitive strategy that builds on

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