

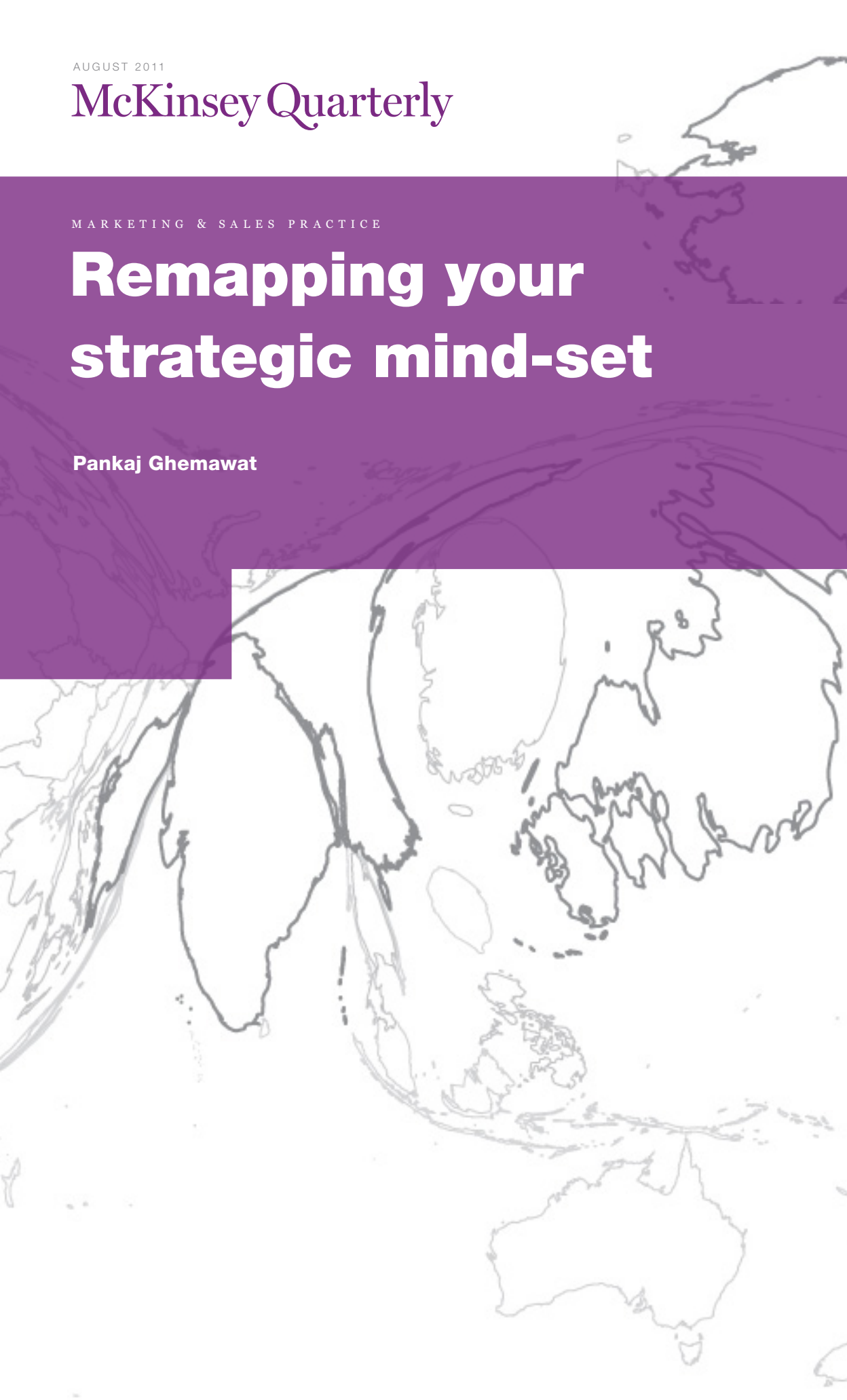
AUGUST 2011


McKinsey Quarterly

MARKETING & SALES PRACTICE

# Remapping your strategic mind-set

Pankaj Ghemawat





Shake up your thinking by looking at the world from the perspective of a particular country, industry, or company. “Rooted” maps can help you unearth hidden opportunities and threats.

**Senior executives need better mental maps** to navigate our unevenly globalized world. Although a wide variety of metrics show that just 10 to 25 percent of economic activity is truly global, executives disproportionately embrace visions of unbounded opportunities in a borderless world, where distances and differences no longer matter.

In several articles and books, I’ve tried to describe the true nature of globalization and suggest ways for executives to structure their thinking about distance and difference effects (see sidebar, “Understanding the world and measuring distance”). Here, I want to focus on the potential for a special kind of map—one I call a “rooted map”—to help leaders enhance their intuition about the opportunities and threats inherent in our semiglobalized world.

Rooted maps correct a misperception reinforced by conventional ones: that the world looks the same regardless of the viewer’s vantage point or purpose. In the real world, though, geographic distance and differences in culture and policy matter. To better reflect this

reality, rooted maps depict the world from a specific perspective and with a particular purpose in mind.

They do so by adjusting the sizes or positions of countries in relation to a specific home country, while otherwise maintaining familiar shapes and spatial relationships, which help us fit these maps into our existing mental models. Saul Steinberg’s famous depiction of the world as seen from New York City<sup>1</sup> is a humorous example, but more data-driven versions—particularly those drawn at the industry or company levels—have serious business applications. Fortunately, the technology for creating such maps has improved substantially in recent years, so executives can now have custom ones generated with minimal time and expense.

<sup>1</sup> See [www.saulsteinbergfoundation.org/gallery\\_24\\_viewofworld.html](http://www.saulsteinbergfoundation.org/gallery_24_viewofworld.html).

## Understanding the world and measuring distance

Rooted maps are a tool for understanding the economic environment I describe in my new book, *World 3.0: Global Prosperity and How to Achieve It* (Harvard Business Publishing, May 2011). That book, and a May 2011 *Harvard Business Review* article, “The cosmopolitan corporation,”<sup>1</sup> contrast “World 1.0” (where commitments to national borders are strong) with “World 2.0” (an ideal globalized world with unregulated markets) and “World 3.0” (a world in which both the barriers and the bridges between countries must be taken into account).

Underlying World 3.0 are the enduring effects of distance, whose characteristics I have previously tried to clarify through the “CAGE” framework, which

categorizes salient differences into cultural, administrative, geographic, and economic factors. For more on distance and difference, see my September 2001 *Harvard Business Review* article, “Distance still matters: The hard reality of global expansion”<sup>2</sup> and my 2007 book, *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter* (Harvard Business Publishing, September 2007). In addition, readers can find nearly 200 examples of rooted maps at [maps.ghemawat.com](http://maps.ghemawat.com).

<sup>1</sup> Pankaj Ghemawat, “The cosmopolitan corporation,” *Harvard Business Review*, May 2011, Volume 89, Number 5, pp. 92–99.

<sup>2</sup> Pankaj Ghemawat, “Distance still matters: The hard reality of global expansion,” *Harvard Business Review*, September 2001, Volume 79, Number 8, pp. 137–47.

## Using rooted maps to understand opportunities

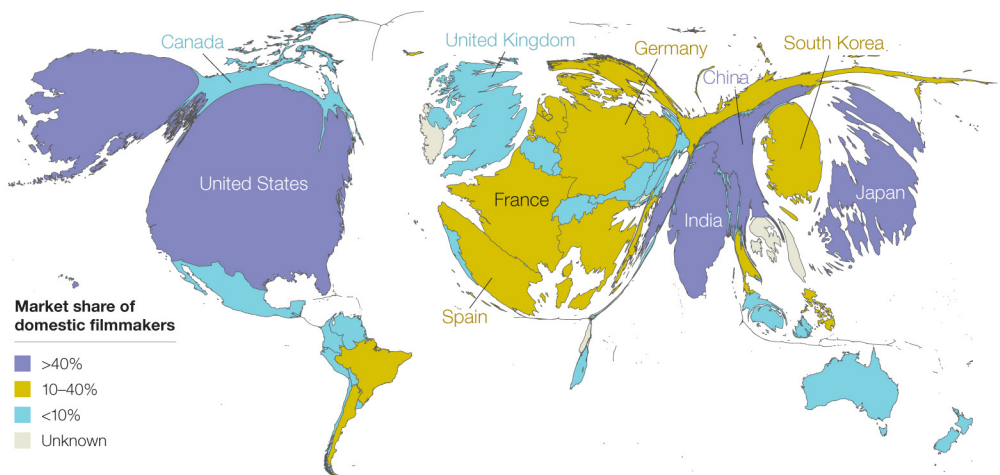
The distances depicted in rooted maps represent vast untapped opportunities to create value across borders in ways that recognize differences rather than trying to obliterate them. The starting point is creating a reference map that depicts your industry environment but doesn't yet reflect your own company's or country's unique place in it. An executive at a film studio, for example, might begin with a reference map that sizes countries according to their total box office revenues and colors them based on the market share of their domestic films (Map 1). Thus, it indicates both the potential theatrical market for movies, as well as how the strength of local competitors varies around the world.

By comparing the reference map with rooted maps, executives can identify the impact of borders, distances, and differences. Rooted maps in the accompanying exhibits depict the worldwide revenues for US ("Hollywood") versus Indian ("Bollywood") films. Like all rooted maps, they reflect what I call the "law of distance": the pattern of decreasing international interactions with increasing distance or differences between countries. Not surprisingly, people prefer to watch movies made in their own languages. The largest markets where US films dominate are all English-speaking countries (Map 2). More

Map 1

### Larger cinema markets support stronger domestic film industries.

Countries sized by relative share of worldwide box office revenue, 2009



interesting is the fact that linguistic similarity at the level of language families (English is considered a Germanic language within the broader category of Indo-European languages) increases box office revenues even when audiences need subtitles or dubbing to understand a film. This finding helps explain why Europe is so big in the Hollywood map, and the pattern also holds for other industries, making language a useful proxy for cultural distance.<sup>2</sup>

A common language—English—might seem at first also to help explain the export patterns of the Bollywood map, but the language spoken in these films is actually Hindi. The best predictor of Indian film exports is an even deeper cultural link: the size of the Indian diaspora in a given country. (The correlation between these two figures is 0.67. Map 3 depicts this cultural link visually.)

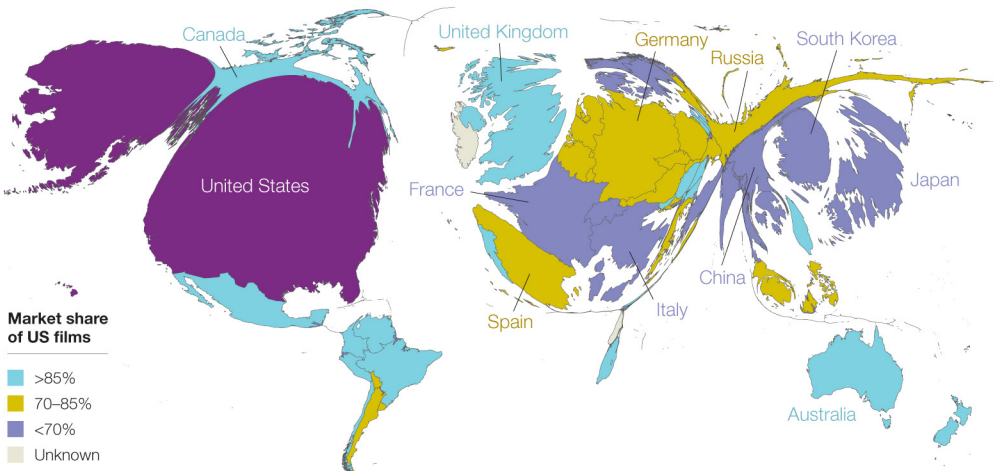
The maps also reflect administrative distances spurred on by the extensive interventions of many governments in the film industry: limits

<sup>2</sup>The rooted Hollywood map is comparable to the reference map, with the dimensions of the US map proportional to Hollywood's domestic box office revenues. This isn't the case for the Bollywood map. Since approximately 90 percent of Bollywood's revenues come from India (according to estimates from Mumbai-based media company Reliance Entertainment), showing the remaining 10 percent share divided among numerous national markets would render the map unreadable.

## Map 2

### Hollywood dominates the Americas and the English-speaking world . . .

Countries sized by contribution to US film industry box office revenue, 2009



on the proportion of foreign films that can be screened in cinemas, censorship, regulations about dubbing foreign films, subsidies for local movie production, and so on. Administrative barriers help explain why China is so much smaller in Map 2 (the view from Hollywood) than in the reference map. China allows only about 20 foreign films to be released in its cinemas each year, a trade restriction that prompted the World Trade Organization to rule against it recently. Piracy also constrains film exports to China, where sales of pirated DVDs are estimated to be four times larger than cinema box office receipts.<sup>3</sup>

Finally, the maps underscore how much geography still matters. Film exports decline as distance from the United States increases. This power of proximity is evident in Hollywood’s success in the markets of its hemispheric neighbor Latin America—despite linguistic and other cultural differences. Many have the impression that geography is irrelevant for products that don’t have to be shipped physically across borders. That couldn’t be further from the truth. Even for digital products and services, geography almost always matters.

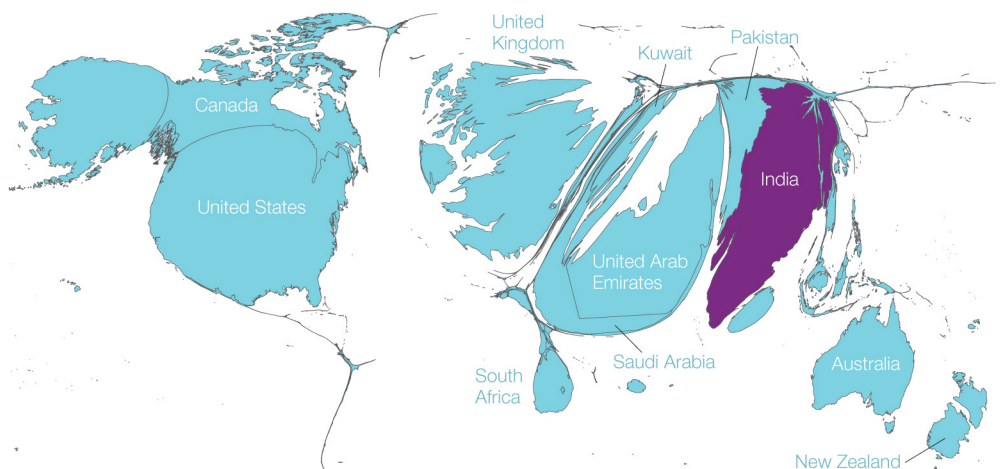
<sup>3</sup>David Pierson, “China still restricting foreign media, U.S. complains,” *Los Angeles Times*, March 22, 2011.

---

Map 3

**. . . while Bollywood’s film revenue follows the Indian diaspora.**

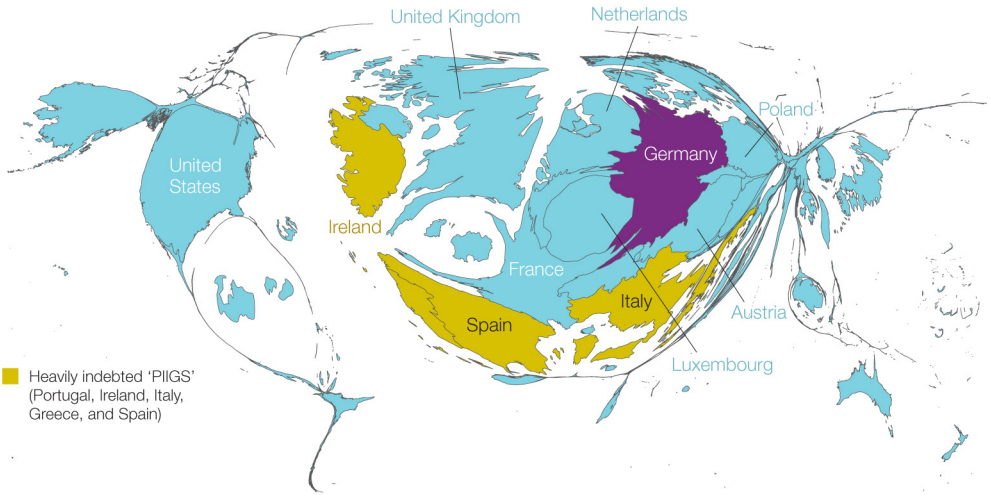
All countries but India sized by contribution to Indian film industry box office revenue, 2009



## Map 4

**German banks are heavily exposed to 'PIIGS' borrowers.**

Countries sized by share of German bank loans



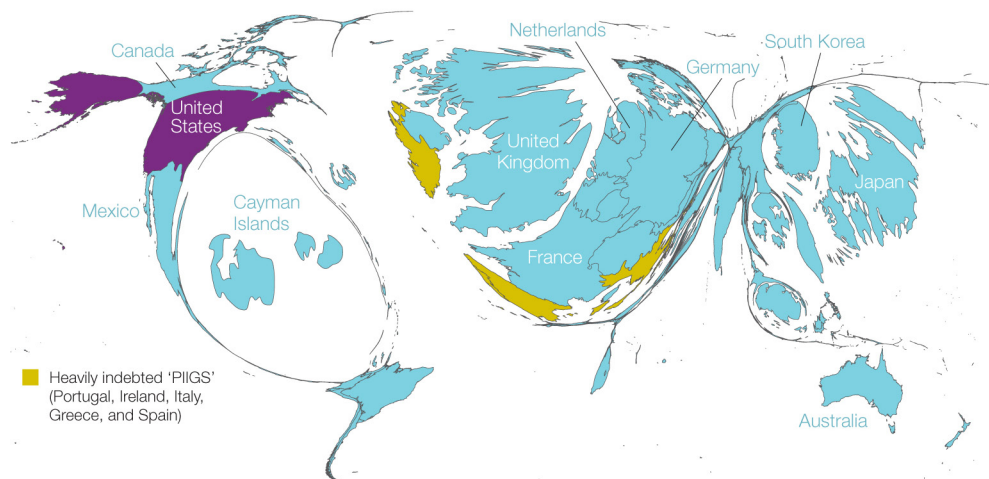
The comparison between reference maps of theoretical opportunities and rooted maps reflecting real differences can highlight important misalignments between the goals of companies and their capacity to achieve them. Executives can go a step further in understanding their own companies' sensitivity to distances by creating internal rooted maps that show how assets or management are deployed and by overlaying those maps with rooted external ones. How, for example, does your leadership team or your mix of R&D sites map against where you intend to generate the bulk of your sales growth? For many companies, such exercises underscore how the growth of large emerging markets is creating a need for targeted efforts to reduce sensitivity to distance.

Hollywood studios, for example, have reduced their sensitivity to distance in various ways in recent years: they have cast foreign stars and produced more action films, instead of romantic comedies, for which cultural distance matters more. They have studied how certain themes would probably get a film censored in key international markets, while building up relationships with foreign governments. To bridge geographic and economic differences, they have filmed in overseas locations, varied price and distribution models across countries, and forged international joint ventures.

## Map 5

**US banks have much less exposure to Europe's problem loans.**

Countries sized by share of US bank loans



Of course, the impact and nature of sensitivity to distance varies dramatically across industries. Movies are more sensitive to linguistic differences but less sensitive to geographic ones than are large home appliances like refrigerators, whose bulk-to-value ratio usually precludes shipping them between continents. That's why executives seeking to build their intuition about what it will take to seize opportunities in unfamiliar global markets can often benefit from looking at a range of rooted maps drawn at the level of their industries and companies.

### Clarifying threats

Rooted maps also can help strategists detect looming threats—competitive ones, as well as broader external risks. For starters, consider the ability of rooted maps to portray the world from the perspective of key competitors. As a leader, you should examine what your rivals are doing to reduce their sensitivity to distance and be realistic about where you can gain an advantage versus where you need to take steps to match their moves.



Executives can go a step further in understanding their own companies' sensitivity to distances by creating internal rooted maps that show how assets or management are deployed and by overlaying those maps with rooted external ones.

As the maps indicate, Hollywood is generally less sensitive to distance than Bollywood, implying both greater competitive challenges for Bollywood in the near term and a much larger export growth opportunity if it can reduce this sensitivity. And while we can't see it in the maps selected here, another good rule of thumb for thinking about competition and distance effects is that often competitors from small home countries are more adept at responding to cross-country differences. Companies from large countries are typically better at leveraging cross-country scale economies.

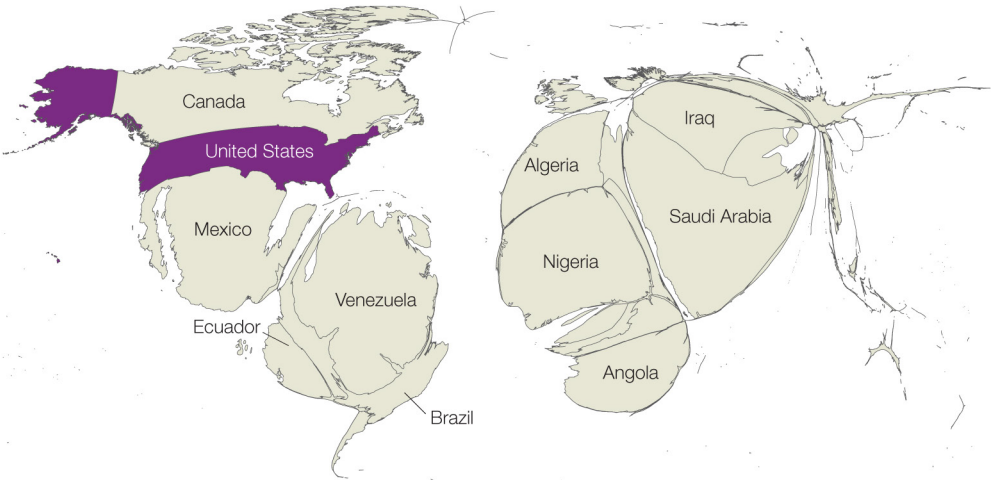
Mapping can also provide insights into how the competitive environment may change over time. The economic distance factors embodied in the cinema maps, for instance, are more complex than one might initially assume. Of course, film ticket sales grow in step with economic development, as consumers can devote more of their income to discretionary spending on entertainment. But as economies grow, more of them reach the minimum efficient scale to support a quality national film industry that can thwart outside competitors by catering to local interests and sensibilities. (Notice how the reference map shows a strong relationship between market size and domestic market share.) Growth, however, may also lead to a rise in movie screens per capita (distribution infrastructure) and to greater sophistication among viewers, ultimately enlarging the total pie. So economic development—as in many industries—creates opportunities for film exporters but also strengthens local competitors.

Rooted maps can also allow you to better visualize risks that may be clouded by received wisdom. The idea that capital knows no

Map 6

**The Western Hemisphere provides a substantial share of US oil . . .**

Countries sized by contribution to US oil imports, 2007–09



Map 7

**. . . while China imports more from the Middle East and Africa.**

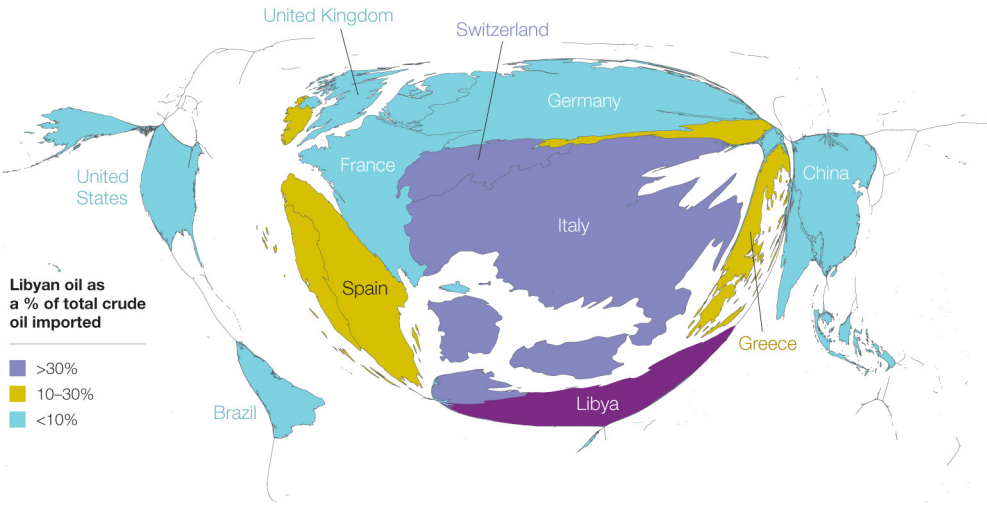
Countries sized by contribution to Chinese oil imports, 2007–09



## Map 8

**Libya exports most of its oil to Europe.**

Countries sized by share of Libyan oil exports, 2007–09



boundaries, for example, becomes questionable when a mapping perspective is applied. The exposure of foreign banks to the “PIIGS” countries (Portugal, Ireland, Italy, Greece, and Spain) has been a major concern recently. Together, these five are only a minor part of the global banking system. But when this issue is viewed through two rooted maps, drawn from the perspectives of Germany and the United States, respectively, we can see how much more exposed Germany is to these countries (Maps 4 and 5). Capital is more comfortable with nearby markets.

Finally, rooted maps can illuminate global energy and supply chain risks. Maps 6 and 7, for example, portray starkly different profiles of import dependency for the world’s two largest oil consumers, the United States and China. Meanwhile, Map 8 reveals how the direct effects of instability in Libya, rather than being global, are concentrated on that country’s neighbors in Europe.



By using rooted maps, senior executives can make their perceptions of the business environment more accurate. As they remap their mind-sets, they should boost the odds of making good decisions that lead to strong business results. ○

**Pankaj Ghemawat**, an alumnus of McKinsey's London office, is the Anselmo Rubiralta Professor of Global Strategy at the IESE Business School, in Barcelona.

### Sources

---

*For film industry maps:* Box Office Mojo; Reliance Entertainment; Screen Digest; Screenline, EntGroup; press reports; analysis by Pankaj Ghemawat

*For banking maps:* *Quarterly Review*, Bank for International Settlements (BIS), March 2011, table 9D: "Consolidated foreign claims of reporting banks—ultimate risk basis"

*For oil industry maps:* United Nations Commodity Trade Statistics Database (Comtrade)