Distance still matters essay

Distance Still Matters: The Hard Reality of Global ExpansionTool KitDistance Still Matters: The Hard Reality of Global ExpansionCompanies routinely exaggerate the attractiveness of foreign markets, and that can lead to expensive mistakes.

Here's a more rational approach to evaluating global opportunities. by Pankaj Ghemawat When it was launched in 1991, Star TV looked like a surefire winner. The plan was straightforward: The company would deliver television programming to a media-starved Asian audience. It would target the top 5% of Asia's socioeconomic pyramid, a newly rich elite who could not only afford the services but who also represented an attractive advertising market. Since English was the second language for most of the target consumers, Star would be able to use readily available and fairly cheap English-language programming rather than having to invest heavily in creating new local programs.

And by using satellites to beam programs into people's homes, it would sidestep the constraints of geographic distance that had hitherto kept traditional broadcasters out of Asia. Media mogul Rupert Murdoch was so taken with this plan—especially with the appeal of leveraging his Twentieth Century Fox film library across the Asian market—that his company, News Corporation, bought out Star's founders for $825 million between 1993 and 1995. The results have not been quite what Murdoch expected. In its fiscal year ending June 30, 1999, Star reportedly lost $141 million, pretax, on revenues of $111 million. Losses in fiscal years 1996 through 1999 came to about $500 million all told, not including losses on joint ventures such as

Phoenix TV in China. Star is not expected to turn in a positive operating profit until 2002.

Star has been a high-profile disaster, but similar stories are played out all the time as companies pursue global expansion. Why? Because, like Star, they routinely overestimate the attractiveness of foreign markets. They become so dazzled by…