compensate as much for lower profit margins as they have so far.

The big Western incumbents that have done so well over the past three decades must now constantly look over their shoulders. The share of the profit pool captured by firms from advanced economies could decline from 68% today to roughly 62% in 2025. That's still larger than the projected 50% share of advanced economies in world GDP, but we may be understating the magnitude of the coming drop. If Chinese, Indian, and other emerging-market companies make inroads in idea-intensive industries—through acquisitions, organic growth, or aggressive moves by tech companies—they will quickly capture a larger share of overall profits.

PUSHING BACK

The challenge for the big North American and European companies is to maintain and even extend their lead in the face of much tougher and more varied competition and a less favorable environment. We anticipate several possible responses to the trends we have set out above.

Be paranoid. Let's face it—over the past 30 years many executives in large Western corporations have been focusing internally. Even among those who could list their potential emerging-market, tech, or smaller competitors, most would struggle to quantify the cost or agility gap between their organizations and those rivals and to describe how such companies have successfully attacked other large Western corporations. The emerging-market attackers play by rules honed at home, so part of the challenge is to better understand their home environment—just as they have worked to understand the strengths, weaknesses, and operating environment of Western companies. Half of world GDP growth over the next decade, and many of the new competitors, will come from smaller cities in the emerging world—places such as Kochi and Kumasi—that most Western executives would be hard-pressed to locate on a map. Even the most global firms retain a strong local bias in their operations, making close to half their revenue at home. The local market also influences how firms choose to innovate, the products they create, their supply chains, and their investment strategies. For Western executives, an "emerging-market" view or even a view of the "Chinese" or "Indian" market is not enough.

Seek out patient capital. As we've seen, emerging-market firms and some technology companies often take a long view, building their market share over years at the expense of short-term profit growth. Some Western multinationals yearn to be able to do the same: In a McKinsey survey of more than 1,000 board members and C-suite executives, 63% of respondents said the pressure to demonstrate short-term financial performance has actually increased since the 2008 crisis, and 86% believe that using a longer time horizon to make business decisions would improve returns, innovation, and other aspects of corporate performance. Big public companies will continue to be subject to market moods, but CEOs and boards have an opportunity to adopt longer-term strategies and target communications to investors who are more focused on the long run.

Radically self-disrupt. In this era of tech disruption, companies need to be willing to disrupt themselves before others do it to them. That requires overcoming the fear that a new product or channel will cannibalize an existing business. Many companies struggle with legacy assets and productivity gaps in their own operations (some firms have a 40% gap between their most and least productive sites), and companies will need to get much better at overcoming strategic inertia. A McKinsey study of capital expenditure allocations from 1990 to 2005 across business units in more than 1,600 firms found that each year's capital allocation correlated

A LEANER OUTLOOK FOR PROFITS

Although global corporate revenue could increase by more than 40% over the next decade, to $185 trillion, profit margins will tighten overall. As a percentage of global GDP, corporate profits are likely to drop almost to where they were in 1980, when the profit boom began.

GLOBAL CORPORATE AFTER-TAX OPERATING PROFITS (2013 US$ TRILLIONS)

SOURCE MCKINSEY GLOBAL INSTITUTE