A Future-Back Approach to Creating Your Growth Strategy

How enterprises can anticipate a disrupted world of the future and execute a long-term growth strategy starting today.

By Mark W. Johnson and Roy N. Davis

In 2010, one of the world’s leading defense companies engaged in a strategic planning initiative in which senior leaders projected current industry trends and business prospects out to the year 2020, a relatively short time horizon for military scenario planning. The exercise turned up a comforting result: the company’s pipeline of contracts for its aircraft and surveillance systems would sustain revenue growth at the enterprise for the foreseeable future.

But when the company (called DefenseCo for confidentiality) revisited its strategic planning process just two years later, senior leaders took a different approach toward mapping out its strategy. Scrapping the “present-forward” perspective, they no longer started with an assessment of its current products and contracts. Instead, they began the planning process by envisioning the company in the further-off year of 2030. Starting with a clean sheet of paper, they imagined how customer needs would be different due to geopolitical forces, defense budget crunches, and technological disruptions. The exercise was conducted with brutal honesty as to how its product pipeline would unfold and play in the newly envisioned “future state” of the world.

This time, the result was troubling: DefenseCo faced a large “growth gap,” a looming revenue shortfall that would challenge the organization to transform itself for a new world. “What got us here will not get us to the future,” concluded the company’s CEO. Leaders agreed on the need to embark on a new journey to think differently about growth.

When Traditional Planning Falls Short

DefenseCo.’s experience in preparing for the future exposes two traps in the traditional process of strategic planning. The first trap is what we call the “present-forward mindset,” the unchecked assumption that the company’s existing business can simply be extended into the future. The typical annual planning process is often just a mechanistic budgeting exercise. The current state of the business dominates the discussion. The time horizon is restricted to two or three years ahead. Inevitably, the plans that emerge focus largely on incrementally improving the core business. Resources are allocated within the existing structures of the business and the organization is caught in the straightjacket of the present.

If the first trap is about getting stuck in the present, the second trap is about getting stranded in the future. In scenario planning exercises, long-term trends are analyzed and prioritized, versions of possible futures are developed, but the company often stays open to a wide range of alternative futures, many of them unrealistic. What typically emerges is a highly abstract vision statement or a light-on-details promise of the company’s glorious prospects in a brave new world. But no real stake is set in the ground about how the company will get there.

Either of the above traps in strategic planning can lead to a failure to set long term strategic direction and that leads to a bigger problem—a fundamental disconnect between strategy and innovation. While strategy without innovation leads to incrementalism, innovation without strategy leads to a real shortage of executive commitment. New growth initiatives can get killed by top management before given the chance to live.
To add to all these challenges, there is a growing unease about the viability of long-term planning. Frustrated executives complain that the rapid pace of change renders even three-year plans obsolete before they have time to gain traction. Columbia University professor Rita McGrath has recently advocated the concept of “transient advantage,” where companies forego a single monolithic strategy and constantly launch new strategic initiatives to claim temporary advantages. Indeed, companies do need to be agile and responsive to rapid competitive and market shifts. Yet the vision of the future only serves as the starting point—for the process then moves backwards in time to develop a set of strategic innovation initiatives for the present. Fueled by a series of “strategic dialogues” in which senior leaders undergo an intense debate (see page 3), the future-back strategy formulation process involves three iterative, overlapping steps.

**A Future-Back Approach**

Innosight has developed a strategic planning process that we call “future back” due to its distinct method of defining a future state and working backwards, in reverse time-lapse fashion, to setting near term priorities and milestones. This enables you to open the way forward—to imagine new businesses and business models for the future that can be prototyped and tested today. Future back is like using a GPS to plan a road trip from Boston to Los Angeles. You start with destination in mind and then work backwards to determine the right highways, roads, and signposts. Although you know roughly where you want to end up, you don’t have to know all the details of the route when you start.

Organizations that have already deployed the future-back system of strategy formulation—diverse enterprises across defense, consumer products, healthcare, and financial services—have managed to overcome the strategic planning traps and tie their growth strategy directly to breakthrough innovation efforts. Instead of starting from the present and looking forward, they have envisioned a future environment and a future enterprise business portfolio based around changing customer needs.

But to give up on long-term strategy would be a grave mistake. Without a vision of where markets and customers are heading, and without a map for anticipating disruptions that lie ahead, senior leaders are essentially flying blind in the most turbulent conditions imaginable. What’s needed is a more rigorous approach—one that enables senior leaders to align on a plan for the future that can be executed starting today.

**STEP ONE: Align on the Future Environment**

To create a vision of the future of your industry and company, start with a truly long-term horizon, one that is typically 5 to 10 years out. The key to painting a picture that far off is to focus on understanding the customers of that future and their anticipated range of needs, or jobs-to-be-done. So, before the executive teams meets, you’ll need a solid base of research that points to the social, emotional and functional needs that your customers are moving towards. The customer analysis is done in the context of key global and industry trends and scenarios that point to how value will be created in the new world. The result is a new set of growth options around the major “customer value pools” that are forming.

At a division of a major healthcare company, leaders looked out to 2020 to envision new ways to grow within and beyond its core business of selling diabetes monitors. In a series of strategic dialogues, senior executives raised big questions that went beyond the scope of its current lineup of blood glucose monitoring products, which faced pricing pressure from disruptive new entrants:
What are the major trends affecting the world of healthcare?

How will trends drive change in diabetes care?

Which stakeholder “jobs” will be most relevant in 2020?

What are the “customer value pools” of the future?

These questions led to a debate around the issue whether the company should shift what it does, from simply monitoring diabetes to preventing diabetes from happening or minimizing its onset. This work pointed to a “customer value pool” around integrated care solutions that embrace wellness and other methods of behavioral change.

Once leaders began asking this new set of questions, they realized that their target customer also needed to shift: instead of serving doctors who prescribe its products, the company also needed to cater to risk-based payers, such as Medicare and private insurance companies that are looking to achieve better results at a lower cost across a broad population. By the end of the first step of future-back, the leadership team became aligned around a new mission around developing and launching broader solutions to tackle one of the world’s biggest health challenges.

STEP TWO: Blueprint the Future State

To determine which customer value pools you should move towards, you first need to estimate your growth gap, your projected financial shortfall for a given year in the future. This is done by estimating how much revenue your current business could yield in a disrupted world and comparing that figure to your financial aspirations.

You can start by asking questions such as: 
*Given the customer-focused viewpoint, what would the portfolio of businesses and products look like in the future without fundamental changes?*

If this step is taken honestly and openly among the senior team, the growth gap can galvanize the need for change. In effect, the growth gap serves as the “burning platform” that ensures ongoing attention to the long term.

One you know how much revenue you need to generate, you can begin defining a portfolio of new growth initiatives to fill that gap. This is where you translate the underlying “jobs” into a set of business models, products, and technologies of the future. Your portfolio will comprise a set of initiatives for your repositioned core as well as growth ventures in new “white spaces.”

Strategic Dialogues:
A Way of Gaining Executive Alignment

The heart of the future-back process is a series of “strategic dialogues,” working group sessions in which the big questions about the future of the enterprise are posed to the leadership team.

These dialogue sessions are staged throughout all three steps of the process. The main idea is to encourage debate and learning, then consensus. So leaders first diverge on many far-out visions but then converge on a single strategy around a view of the company’s desired future state.

This isn’t scenario planning, where you end up with a range of possibilities. This a discipline for getting the entire leadership teams to specify what you want your core business to look like and what adjacent and “white space” areas you want to edge into. Instead of hasty Hail Mary’s, it involves carefully planned “moonshots” that are part of the long-range plan. The result is that leaders learn as they go and gain clarity about how to invest in both the short term and the long term—driving a core strategy at the same time as cultivating a strategy of “new and different”.

This diverge/converge approach is designed to accommodate the high level of ambiguity involved in strategy discussions, encourage creativity, learning, and problem solving. In the case of DefenseCo, those dialogue questions included: Who are the key customers outside the U.S. in 2030? How are they changing? How much are we willing to change to meet the new long-range opportunities? How can we best protect new ventures from budget cuts and the traditional management structure?

At DefenseCo, there was a key business philosophy at issue centering around the performance versus cost debate. Among U.S. defense contractors, the historic mindset is that performance trumps everything. Spare no expense adding every bell and whistle to a fighter jet, for instance. The U.S. military is the best-equipped fighting force on Earth, and it demands nothing less. But in an era of severe budget cuts, that mindset is undergoing a historic shift.

The defining feature of these strategic dialogues is that they enable discussion that includes all points of view yet reaches a single consensus by the end. The diverge/converge approach is what enables broad buy-in on the eventual long-term strategy that the company embraces.
The narrowed down set becomes what we call your strategic opportunity areas (SOAs). Out of ten value pools, you might select just three or four SOAs. Along with your redefined core, the portfolio of SOAs forms the “future state” of the enterprise of the future. This blueprint is much more tangible than a vision statement or a set of scenarios.

Using these tools, DefenseCo saw that its revenue mix would need to change dramatically in order to overcome its year 2030 growth gap. The leadership team began by examining the new realities of its biggest customer—the U.S. Department of Defense—but also the key jobs-to-be-done of key U.S. allies and developing countries. To do so, the team asked questions such as: What will this country need to do to stay secure, beyond defending itself? What does a country need to do to protect its interests, both abroad and at home? In some cases, those jobs included classic security needs such as border patrol. But in other cases, rapidly growing countries such as India showed a great need for transporting fresh vegetables that could be accomplished by aircraft, something that traditionally would not have been in the company’s purview. By analyzing these kinds of needs, DefenseCo was able to identify major customer value pools of the future, including disruptive solutions that fill key jobs at dramatically lower cost than in the past.

Once it narrowed down those value pools and selected the key SOAs of the future, the company was able to start creating new products with new business models to enter those markets. Instead of designing new products around the Pentagon procurement cycle, the idea would be to proactively change the competitive landscape before customers even knew to request those products. That could involve adapting military technologies to civil and commercial markets that the company had never before entered. Along with its repositioned core, these new opportunity areas formed the blueprint for a dramatically different “future state” of the company.

STEP THREE: Walk the Future Back to Move Forward

The final step in the future-back process involves “walking the future state back to the present,” a process aimed at ensuring that the decisions you make today help you get going in a general direction toward the desired future state. This step can be taken only after the portfolio of SOAs are in place. Only then does it become time to walk the vision back to nearer-term sets of milestones.

This is where the vision is converted into action, by literally translating the future state into a “to do” list. To break down the journey into manageable pieces, the “to do’s” become a set of priorities, milestones and sign posts. Working backwards in time, you can set key milestones, typically in two to three-year increments. This continues until you merge the future with the present state. Once in the present, you can convert those to-do’s into an innovation portfolio – a prioritized set of short-term, core business improvements as well as longer term business and capability building initiatives for development that gets you started over the next year or two.

In a different case from a different industry, ConsumerCo needed a new strategy aimed at harnessing disruptive product concepts that could close its growth gap for 2020. When the future-back process started, the leadership team was misaligned, with widely divergent views on how to fill that gap. Through a series of discussions, senior executives decided to envision their future state as a portfolio of business models. One key problem was that relationships with consumers tend to be transactional. A consumer who buys an appliance, for instance, will own it for 7 to 15 years and yield no added revenue for ConsumerCo over that time. By transforming how it interacts with consumers and delivering new value, the company saw ways to develop new products that solve everyday “jobs” not being met.

Armed with this new perspective, the enterprise selected three strategic opportunity areas (SOAs) for future growth. The jobs language is now used at all levels, said the company’s CEO. Being consumer centric is a major cultural change for us, he added.
To translate its new future state into actionable plans for the here and now, leaders took the 2020 vision and walked it back to the years 2018, 2016, and 2014. That enabled the company to act quickly in the present to capitalize on these major strategic directions. The process yielded actionable new product concepts almost immediately, that are currently being tested and rolled out across the U.S. and global markets.

Conclusions and Key Takeaways

Taken together, these overlapping three steps are, in essence, your strategy for moving along the path to serve the envisioned future customers. This new roadmap for growth enables you to work toward actionable, near-term milestones that guide the right allocation of resources, mitigate risk, and improve your ability to confidently execute your strategy. It also ensures the alignment of the management team by giving them the vision and patience to see longer term initiatives developed and incubated in the right way. Many will say you can’t predict a future 7 to 20 years out. But given this is a portfolio—not a single bet—the future can become more controllable than you might think.

Philosopher Søren Kierkegaard said that “Life can only be understood backwards; but it must be lived forwards.” Future-back is a process aimed at overcoming this basic problem, and it’s been shown to work because it’s about:

- Anticipating the need for change and thoughtfully managing it. That creates far more value than just reacting to events as they unfold.
- Starting by discovering the unmet needs of customers. The jobs-to-be-done lens of finding strategic opportunities from the “outside-in,” from the customer point of view, is a truer form of innovation than “inside-out,” from a product point of view.
- Planning from the destination—or at least the vicinity of the destination—makes the journey more likely to get the desired outcome.

By contrast, the future-back process yields a way to create a strategy that looks beyond what leaders can see now. That’s essential for guiding innovation beyond just incremental improvements—instead treating it as an ongoing discipline to make growth happen by serving customers and making an impact in their lives. In the end, your new growth strategy can be implemented today even as it guides your innovation roadmap for years to come.

Mark W. Johnson is co-founder and senior partner at innovation strategy consulting firm Innosight. Roy N. Davis joined Innosight as a Board Advisor after a three decade career at Johnson & Johnson.

About Innosight

Innosight is a strategy and innovation consulting firm that helps organizations navigate disruptive change and transform for the future. We work with enterprise leaders to identify new growth opportunities, accelerate innovation initiatives, and build capabilities. Innosight is based in Lexington, MA, with offices in Singapore and Lausanne, Switzerland.

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