



Strategic planning: Why you should zoom out *and* zoom in

Despite the challenges of strategic planning in a rapidly changing world, most companies have remained loyal to the five-year plan as a basic framework. Some have moved to a three-year horizon to address the growing uncertainty, with a few taking the dramatic step of abandoning a long-term strategic plan altogether.

Regardless of the time frame, executives have increasingly adopted a reactive approach to strategy. The goal: to sense and respond as quickly as possible to events as they happen.

The result, however, has been that many companies are spreading themselves too thin dealing with an ever-expanding array of initiatives. Even the very largest companies are wrestling with the realization that the number of new programs exceeds the available resources. They are also recognizing that these initiatives tend to be incremental in nature, due not only to limited resources, but also because they are responses to short-term events.

The outcomes speak volumes. At the Deloitte Center for the Edge, we have been tracking the performance of all US public companies over the last half century.

Measured in terms of return on assets, performance on average for all public companies has declined by more than 75% since 1965.¹ If the goal of strategy is to at least maintain current financial performance over time, this is evidence that the current approaches are not working.

Fortunately, there is an alternative. It's based on an approach that some of the most successful digital technology companies have pursued over the past several decades. We call it zoom out/zoom in. And in this issue of *CFO Insights*, we'll discuss its components and why CFOs and other executives should embrace it to boost immediate strategic impact and prepare for the long term.

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Why an alternative approach

The zoom out/zoom in approach focuses on two very different time horizons in parallel and iterates between them. One is 10 to 20 years: the zoom-out horizon. The other is six to 12 months: the zoom-in horizon.

Notice a key difference from the conventional five-year approach. Companies pursuing a zoom out/zoom in approach spend almost no time looking at the one-to-five-year horizon. Their belief is that if they get the 10-to-20-year horizon and the six-to-12-month horizon right, everything else will take care of itself.

Notice, too, that this approach is distinct from scenario planning or scenario development. Many large companies' top teams have engaged in exercises asking them to imagine a range of alternative futures and focusing on those that seem most likely to materialize. But then the offsite meeting ends, everyone goes back to her day job, and often nothing really changes.

In the zoom out/zoom in approach, the meeting is not over until leadership has aligned around the two or three highest-impact initiatives that can be pursued in the next six to 12 months—and has ensured that these have appropriate resource commitments. What was a theoretical exercise becomes very real, with clear implications for what the company will be doing differently in the short term to build the critical capabilities for the long term.

Overall, the zoom out/zoom in method assumes that if long- and short-term plans are closely aligned, the midrange will fall into place. Taking this approach, executives can free themselves from thinking that is driven by quarterly earnings and resist the tendency to spread resources too thinly across initiatives that may not pay off. It also can reduce the risk that executives will be blindsided by a development that appears trivial today, but could fundamentally redefine the market.

Zoom out for a long view

To adopt this approach, the first step is to expand the leadership team's horizons. In part, this involves building greater awareness of the accelerating pace of change, largely shaped by exponential advances in the performance of digital technology. While every executive is at least somewhat aware of these advances, taking people out of their comfort zones and embarking on a "learning journey" to a center of technology innovation—such as Silicon Valley, Tel Aviv, or Shenzhen—often helps them to more viscerally experience what is already occurring.

The next step is to start building alignment around a shared view of the 10-to-20-year future. It is helpful to begin by imagining alternative futures shaped by the major uncertainties ahead. A key to success on this front is to bring in outside provocateurs who can help challenge executives' assumptions as to what business they will need to be in 10-to-20 years from now.

Here, it's also important to resist the tendency to look at the future from the inside out. Start with projecting the likely evolution of customers and stakeholders. Understand their evolving unmet needs, and then work backward to identify the opportunities to create significant value by addressing those needs in a distinctive way. In addition, focus on leverage: Strive to identify the potential ecosystems that can leverage the company's capabilities and deliver value to the market.

Once the shared view of the future takes shape, the focus should shift to the implications. What kind of business can create the most value and occupy a privileged position in that evolving future? Here tools such as the "strategic choice cascade" can play an important role, but questions like "where to play" and "how to play" are framed in the context of the anticipated zoom-out future. The goal is to gain alignment within the leadership team on what the company will need to look like 10-to-20 years from now to capture the most value and reduce vulnerability to competitors.

Critical questions across two time horizons

Zoom out

- What will our relevant market or industry look like 10 to 20 years from now?
- What kind of company will we need to be 10 to 20 years from now to be successful in that market or industry?

Zoom in

- What are the two or three initiatives that we could pursue in the next six to 12 months that would have the greatest impact in accelerating our movement toward that longer-term destination?
- Do these two or three initiatives have a critical mass of resources to ensure high impact?
- What are the metrics that we could use at the end of six to 12 months to best determine whether we achieved the impact we intended?

Zoom in to identify opportunities

The next step is often the toughest part: identifying and agreeing on the few near-term initiatives that can most help to accelerate the organization toward reaching its future position. While the specific initiatives will clearly differ based on the company's context, large, traditional companies, should consider focusing on these three fronts:

- Identify and begin to scale the "edge" of the company that could drive the transformation required to become the zoom-out business;²
- Determine the one near-term initiative that would have the greatest ability to strengthen the company's existing core—after all, the core is generating the near-term profits required to accelerate the journey;
- Determine what marginally performing activities the company could stop doing in the next six to 12 months that would free up the most resources to fund initiatives on the other two fronts.

As they develop these initiatives, business leaders may encounter some pitfalls. There can be a tendency, for instance, to cluster many small efforts into one umbrella project. Instead, consider focusing on one near-term action with the highest potential. For projects that require more than a year to complete, consider identifying one meaningful, achievable milestone.

Because it includes short-term initiatives, the zoom out/zoom in approach often requires company leaders to commit to regularly pausing and reflecting on what has been learned, accounting for both external developments and internal initiatives. Regular sessions to adjust short-term strategies may be required every six to 12 months. Making sure to include discussions of both horizons throughout the year can keep planning on track.

Heading off potential objections

There's a natural skepticism to such a nontraditional approach as zoom out/zoom in. Some of the most common objections include:

"The future's too uncertain." Anticipating the future can be challenging, but looking ahead is increasingly essential. Organizations that lack a clear sense of direction risk being consumed by the accelerating pace of change. It's key to focus on reasonably predictable factors such as certain technological and demographic trends.

"Our investors just want short-term results." While investors may focus on quarterly earnings, the anticipation of future earnings can also play a role in determining stock price. The more a company can be persuasive about significant future opportunities and demonstrate tangible

short-term progress toward addressing those opportunities, the better the stock price is likely to perform.

"The payback will take too long." A clearer view of the future can enable executives to reduce vulnerability to near-term disruptions and can help guide decisions about shedding underperforming business areas. Done right, this approach to strategy has the potential to significantly improve near-term economic performance.

Zoom out/zoom in is a way to combine and amplify two competing goals: preparing for the future and achieving greater near-term impact. In an environment of accelerating change, an effective strategy may be less about current position and more about mapping a trajectory that includes a clear destination and a commitment to making progress through specific short-term steps.

Using zoom out/zoom in to craft corporate narratives

The zoom out/zoom in approach can provide a very useful context for crafting a corporate narrative. And crafting a narrative that is a call to action to others outside the company can help overcome some of the common pitfalls in developing a powerful zoom out view of the business.

A good place to start is by zooming out to anticipate how customers are likely to evolve and what their most significant emerging unmet needs may be. Seen through this lens, management is likely to see emerging opportunities from a customer perspective. Of course, there will always be a need to bring any hypothesis back to the company to confirm that it does represent a significant opportunity.

But, done right, management can emerge with the makings of a long-term opportunity that could serve as a powerful call to action to many outside the company, ranging from customers to third parties that have the ability to offer complementary products and services to augment whatever the company can offer to customers.

The key is to make it clear that the future opportunity is not inevitable, that there are challenges and obstacles that stand in the way, and that achieving the opportunity will require action from many parties. But the motivation to move forward will come from a clear view of why those parties can benefit from pursuing the opportunity. Ideally, the opportunity is one that will in fact expand as the number of participants grows, unleashing network effects that will draw more and more participants in over time.

The zoom in part of the approach also can play a critical role in crafting a credible narrative. The most powerful narratives are often ones where relatively modest actions in the near-term can yield tangible impact in advancing participants toward the longer-term opportunity. These are much more motivating than narratives that require millions of dollars of investment and years of development before achieving any impact.

By pursuing zoom in initiatives, the company crafting the narrative can start to build credibility for the broader narrative by showing near-term impact in accelerating movement toward the longer-term opportunity. That can inspire those being called to action to focus on the near-term impact as well.

Endnotes

1. John Hagel, John Seely Brown, Maggie Wooll, and Andrew de Maar, *The paradox of flows: Can hope flow from fear?*, Deloitte University Press, December 13, 2016.
<https://www2.deloitte.com/insights/us/en/topics/strategy/shift-index.html>
2. John Hagel, John Seely Brown, and Duleesha Kulasooriya, *Scaling edges: A pragmatic pathway to broad internal change*, Deloitte, 2012.
<https://www2.deloitte.com/us/en/pages/center-for-the-edge/articles/scaling-edges-methodology-to-create-growth.html>

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