How to Think About the Future

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Yogi Berra said, “Prediction is very hard, especially about the future.”

There’s certainly a place in the world for prediction. Nate Silver’s *The Signal and the Noise* describes that place well – its extent and its limits. Generally, prediction is a more relevant way of thinking in operations than in strategy.

So how should leaders that are concerned with strategy think about the future? Four modes of thinking stand out – which I’ve illustrated using examples from the asset management industry, for sake of concreteness.

1. **Knowable Futures**. While much of the future is difficult to predict, the lens of knowable futures focuses on what can be predicted with high reliability. For instance, we could have high confidence that: there will be significantly more people in the 80+ age bracket in the US in a decade; mobile computing will continue to become significantly more powerful and interfaces increasingly versatile and natural; access to online education and entertainment in currently emerging markets will become broader and deeper. Many of these forces are continuous in their underlying dynamics, but give rise — individually or collectively — to discontinuous results. For example, falling costs of telecommunications is a relatively continuous trend, that yielded a discontinuous evolution in the call center industry with the rise of India as an outsourcing center.

   Example: *In one future scenario, software agents that help people translate their personal context, needs and aspirations into financial plans and decisions become prevalent and powerful. Where financial institutions today have certain economies of scope – e.g., wealth managers primarily owned by large banks – in this scenario those economies largely disappear and a set of new entrants become the gateways to the consumer. Consumer distribution for asset managers transforms, and the forces driving pricing change dramatically. Managers who become famous have large consumer followings, but the value of asset manager brands falls significantly as consumers come to trust the due diligence their software agents provide more* *than they trust the brands of companies who manufacture financial products.*

2. **Cycles**. The knowable futures perspective focuses on trends where the broad direction is steady and predictable, leading to cumulative impact over time. Distinctly, the perspective of cycles focuses on phenomena in which we know there will be significant fluctuation over time and in which any upswing will likely be followed by a significant downturn. Different examples include seasonal cycles, business cycles and the balance of political power in a multi-party democracy.

   Example: *A possible scenario is a picture of a different mode of thinking that looks across a range of futures, as with a Monte Carlo simulation. For instance, one could begin from the observation of wide fluctuations in the value of asset managers with booms and busts in the financial cycle, and simulate (mentally or with a model) the expected value associated with different strategic approaches that large financial companies could take to the cyclical properties of their businesses and the implications for when and how they make acquisitions. A strategy that focuses on being the best-equipped to make acquisitions during the worst financial environments could yield distinctively high returns across a range of possible futures. This suggests that thinking about how to be ready to make decisive moves in the next lean time, while requiring a great deal of patience, could be a powerfully accretive strategy over the long term.*
3. **Watershed Events**. Where the perspectives of knowable futures and cycles focus on continuous forces of different kinds, the perspective of watershed events contemplates big turning points. Events like the fall of the Communist Bloc, 9/11 or the 2008 financial crisis fit this model. Some watershed events create pervasive changes across many dimensions of human affairs; some events are watersheds in particular contexts.

   Example: *One dark scenario begins with a classic financial panic in China. Liquidity freezes up, and fault lines appear that were previously understood by few but stand out as glaring issues in hindsight. The central government steps in decisively, but cannot arrest the fall into China's first recession in modern history. Widespread demonstrations follow, and the Party turns to militarism in an attempt to motivate national unity. Confrontation with Taiwan gets hotter; saber-rattling with Japan takes on a new seriousness. The shocks echo across global markets – most immediately and disastrously Asian equities and commodities. While a scenario like this might be viewed primarily as cautionary, it could also provide a way of thinking about opportunity. Just as the 2008-9 financial crisis created tremendous opportunities for those with the liquidity, insight and capability to act, for a multinational asset manager, a scenario like this could create a unique opening to shape its long-term trajectory in Asia. What knowledge and what capabilities would create this kind of option value?*
4. **Perspective Switch**. Perspective switch is the act of putting oneself in the position of another actor. One can look out at the world from the perspective of a different kind of company (e.g., "how would the world look to me if I were an executive at Google?"), or of a demographic group (e.g., "if I take the perspective of an eighteen year old, and imagining how my needs and attitudes will evolve as I reach adulthood, join the workforce and begin to make financial decisions, what can I see unfolding over time?"), or of another kind of entity (e.g., "I'm an advisor to the Chinese government thinking about how technology and financial innovation are forces to harness and to guard against over the next decade… what do I see and what do I

recommend?").

Example: *Just as the diversified corporations of an earlier age built financing capabilities to support their industrial and consumer businesses, several of which become significant financial institutions in their own right (e.g., GE Capital), the new information conglomerates such as Google, Facebook and Amazon enter financial services in significant ways. Where industrial age mega-corporations built financial businesses centered on credit and lending, information age mega-corporations will build financial businesses that focus on value-added intermediation, low-cost distribution and aggregation of demand. Imagining a world in which a disruptive financial innovator founded in 2014 grows explosively and gets acquired by Google in 2017, and imagining how Google would strive to make its $5B acquisition worth $50B could give us a picture of this scenario. An asset manager thinking in this way might step back and realize that it does not have the right capabilities and vehicles to make venture-stage investments, and to participate as an attacker in scenarios like this. These capabilities might not be hard to build with the right humility about the expertise the institution lacks, the right partners, and the right patience for what will undoubtedly be an uneven set of results from early bets.*

Each of these four ways of thinking represents an exercise in applied imagination. The products of applied imagination don't come with interpretations ready made. When they have narrative magnetism, they can lead us astray. It is a property of the human mind to mistake vividness for probability. And yet what applied imagination offers us, indispensably, is the mesh from which insight develops.