

BORN-DIGITAL

BORN-DIGITAL BUSINESSES' UNIQUE ANCESTRY HELPS THEM GROW FAST—BUT CAN ALSO IMPERIL THEIR HEALTH

The successful ingredients of born-digital companies are defined by their ancestry: lineage, DNA, and kinship. The story that emerges from mapping your so-called business family tree is fascinating and will likely surprise you.

WHAT'S THE DIFFERENCE?



BORN-DIGITAL

Born-digital businesses were typically founded after 1995. Their operating models and capabilities center on using Internet-era information and digital technologies to achieve competitive advantage and drive fast growth.

✓ STRENGTHS

- Agility
- Speed
- Direct and continuous customer accessibility
- Automation
- Extended workforce and openness to external partners

? CHALLENGES

- Difficulty scaling up
- Need for leaders to learn on the job
- Non-existent or immature governance processes
- Limited experience in scaling operations while managing risk
- Diversity



BORN-TRADITIONAL

Born-traditional companies arose from the working principles of the Industrial Age, pre-Internet economy. Their operating models and capabilities center on using physical assets and focusing on product development to gain a competitive edge.

✓ STRENGTHS

- Governance
- Business processes
- Regulatory knowledge
- Risk management
- Operational expertise

? CHALLENGES

- Vulnerability to the pace of change driven by digital technologies
- Separation of IT from the business
- Slow product development
- Cultural inertia at odds with agile innovation
- Legacy systems

ABOUT ALIXPARTNERS' BORN-DIGITAL STUDY

Given born-digital companies' unique blend of strengths and challenges, AlixPartners set out to research these enterprises' most pressing needs and areas they should focus on to sustain their success. Our study comprised several key components:

- **INTERVIEWS.** We conducted 12 indepth interviews with C-suite executives and board members from born-digital companies, in the second and third quarters of 2018. The companies represented were based primarily in the United States.
- **ONLINE SURVEY.** We executed an online survey of C-suite executives from both born-digital and born-traditional companies. Conducted in the fourth quarter of 2018 and the first quarter of 2019, the survey generated 73 responses, primarily from companies based in the United States, and split almost evenly between the two types of companies.
- **CLIENT PROJECTS.** We drew on insights gained from decades of experience and projects we've done with both types of companies.
- **SECONDARY RESEARCH.** We conducted extensive secondary research to include publicly available data (such as SEC filings), industry reports, and media content.

The interviews and the online survey explored a rich array of topics—including what respondents saw as their company's top strengths and challenges; where their enterprise focused its resources and efforts; how they approached partnerships with other companies; and how they managed crucial activities such as talent development, operations, and alignment of top executives with the company's strategy.

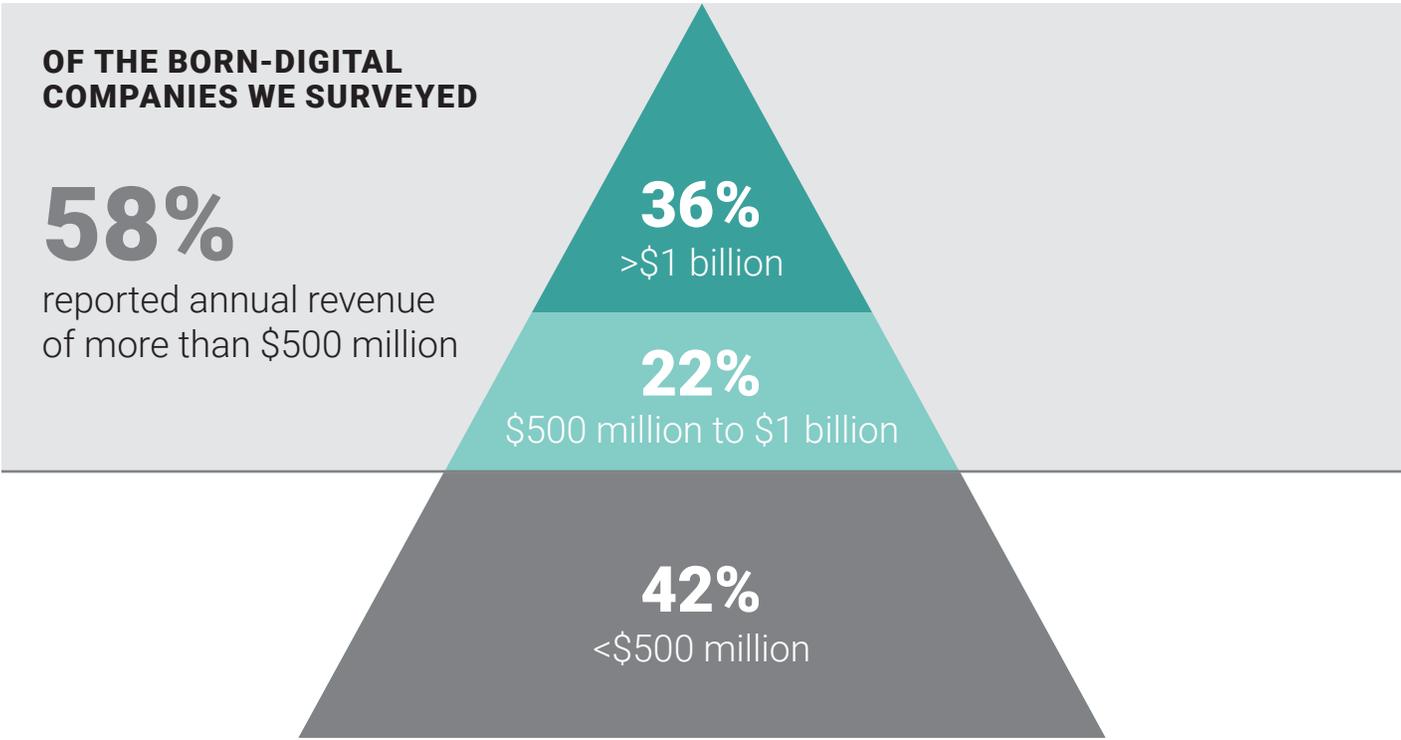
“You’re starting it from scratch with a business that’s growing and doubling every year.”

— Managing partner, private-equity firm

For those who've ever uncovered the mysteries of their family trees, it's no wonder that public interest in ancestry and health research is more popular than ever. In fact, more people purchased consumer DNA ancestry tests from 23andMe and Ancestry.com in 2018 than all previous years combined—with 26 million individuals having taken at-home ancestry tests by 2019.¹ In human ancestry, lineage refers to the generations that branch from a family tree, and kinships refers to the relationships and connections that make people who they are. The notion of ancestry can help us understand not only ourselves but also businesses—especially born-digital ones.

It's been nearly 25 years since the dawn of the born-digital era, which birthed a superbreed of companies that grow at blistering paces. Before the mid 1990s, it generally took more than 20 years for a company to see its annual revenue top \$1 billion. Today companies can reach that number in just a fraction of that time. Take Groupon, launched in 2008. It took only two years for the company to reach \$1 billion in annual revenue, which seemed fast at the time.

Equally impressive, companies called unicorns—which are start-ups boasting valuations of over \$1 billion—are sprouting up every day and are no longer seen as the rarities the name implies. Bird, a micromobility company, is an apt example. Now operating in 120 cities, the personal-mobility start-up achieved a \$1 billion valuation in a mere 14 months after its inception.



1. MIT Technology Review

IT'S WRONG TO THINK THAT TECH START-UPS CAN'T TURN A PROFIT

46%

of the group described themselves as 'highly profitable on a sustained basis'



82%

of the born-digital companies we surveyed said they're profitable

How do companies like Groupon and Bird grow so fast? And what challenges present themselves with such rapid scaling? We can piece together answers to those questions by looking at:

- 1 The ancestries of born-digital companies—including the lineages of their leadership teams.
- 2 The components of the companies' DNA—particularly the very speed at which they grow and assemble leadership teams.
- 3 The kinships in the business ecosystems those enterprises take part in.

As we'll see, those three elements of a born-digital company's ancestry confer vital advantages if a business manages them right—but dangerous weaknesses if mismanaged.

“The good news is that you can put up a Web page today, and tomorrow you can have a billion customers; the bad news is that you can put up a Web page tomorrow and have a billion customers.”

— Managing partner, private-equity firm

LINEAGE OF THE LEADERSHIP TEAM: DIVERSITY OF EXPERIENCE IS QUEEN

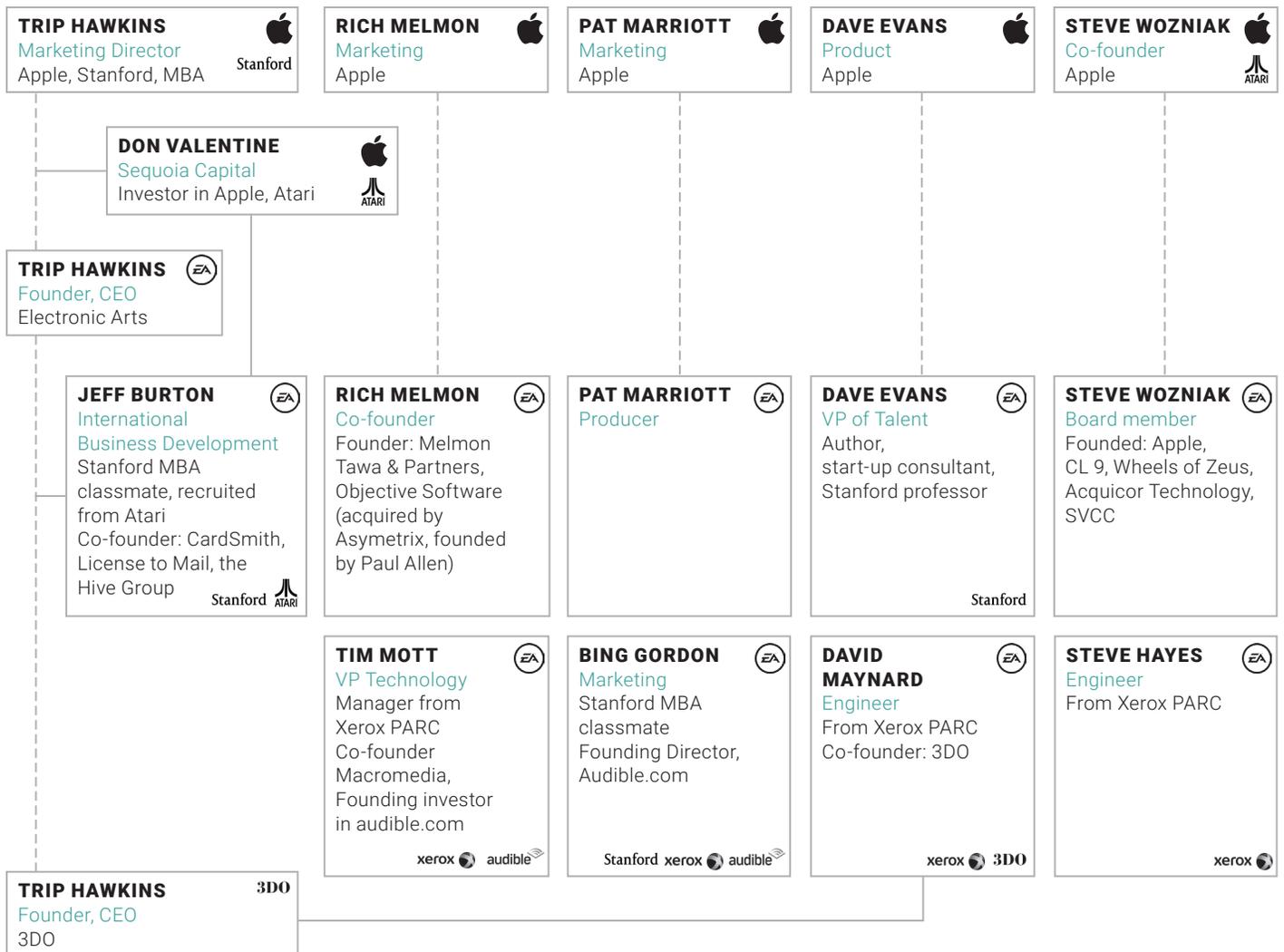
In a born-digital enterprise, the company itself or its product or service offering might be new, but most of the members of the leadership team have acquired considerable experience throughout their lives. We call that their business lineage, and it arises from the industrial, functional, educational, professional, personal, and start-up expertise they've gained from their various previous endeavors. In an evaluation of improvement opportunities for an existing born-digital company leadership team or in consideration of the lineup for a new start-up, it's a huge advantage to cover all branches of the business family tree.

1,287 Apple employees have founded
599 new companies¹

FAMILY TREE EXAMPLE 1



This chart illustrates an example of an Apple employee that started a new company by bringing in classmates from business school and colleagues from Apple, and most went on to found new companies of their own. When these employees go to their new company, they bring the mindset of their previous company.



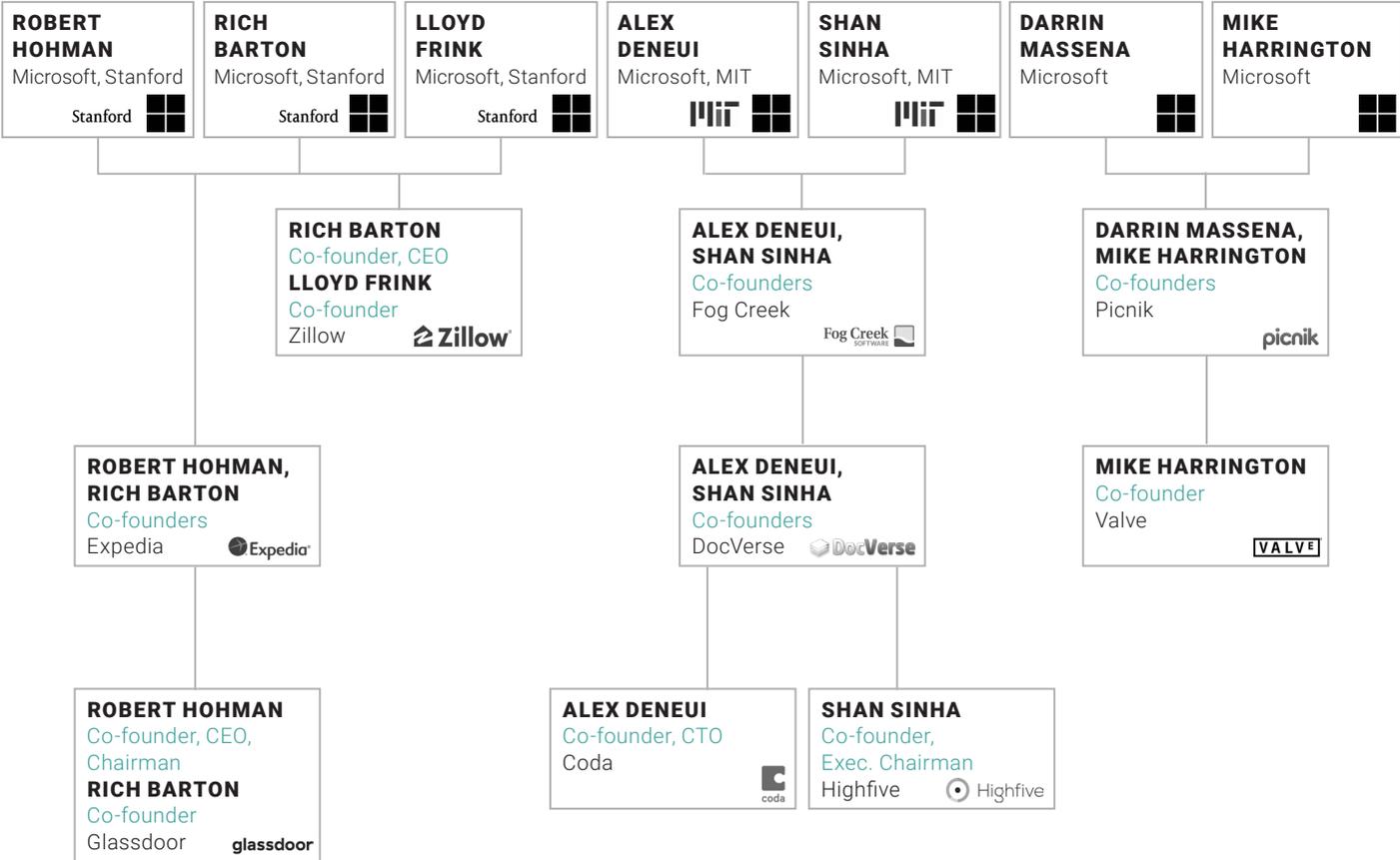
1. <https://www.crunchbase.com/hub/apple-alumni-founded-companies#section-investors-that-invested-in-companies-in-this-hub>

In tracing a business family tree, it's not just the lineage of the founder or CEO that matters. It's the combined lineages of all of the members of the top leadership team. Why? When senior executives bring diverse, complementary lineages to the table, a born-digital enterprise stands a better chance of succeeding. That's because members have the knowledge and skills required to better relate to customers and to anticipate—and surmount—the wide range of new challenges the company will face as it grows. That same diversity fosters more-creative problem solving by the team. Conversely, closely similar lineages within the top team can spawn weaknesses in the form of dangerous gaps in knowledge and expertise, thereby leaving the company vulnerable when new threats arise.



FAMILY TREE EXAMPLE 2

This chart illustrates an example of Microsoft employees starting multiple new companies with classmates from business school who were also colleagues from Microsoft. Many founded multiple new companies together.



DNA OF THE COMPANY

Leadership and culture are closely related, and a born-digital company's leadership team's collective past lineage is a major factor in forming the cultural DNA that passes on to a new endeavor. Just as an examination of our own human DNA can reveal clues about our distinctive characteristics and predispositions, examination of a born-digital company's DNA can give meaningful insights into the organization's strengths and weaknesses with regard to culture and health. Fast growth is a fundamental component of those enterprises' DNAs. But that manifestation of speed presents both opportunity and challenge. For instance, many born-digital businesses need large infusions of capital to fuel their growth. And company leaders have to determine how best to generate that required capital—all while the company's revenue is expanding ahead of profits and the business is scaling at breakneck speed.

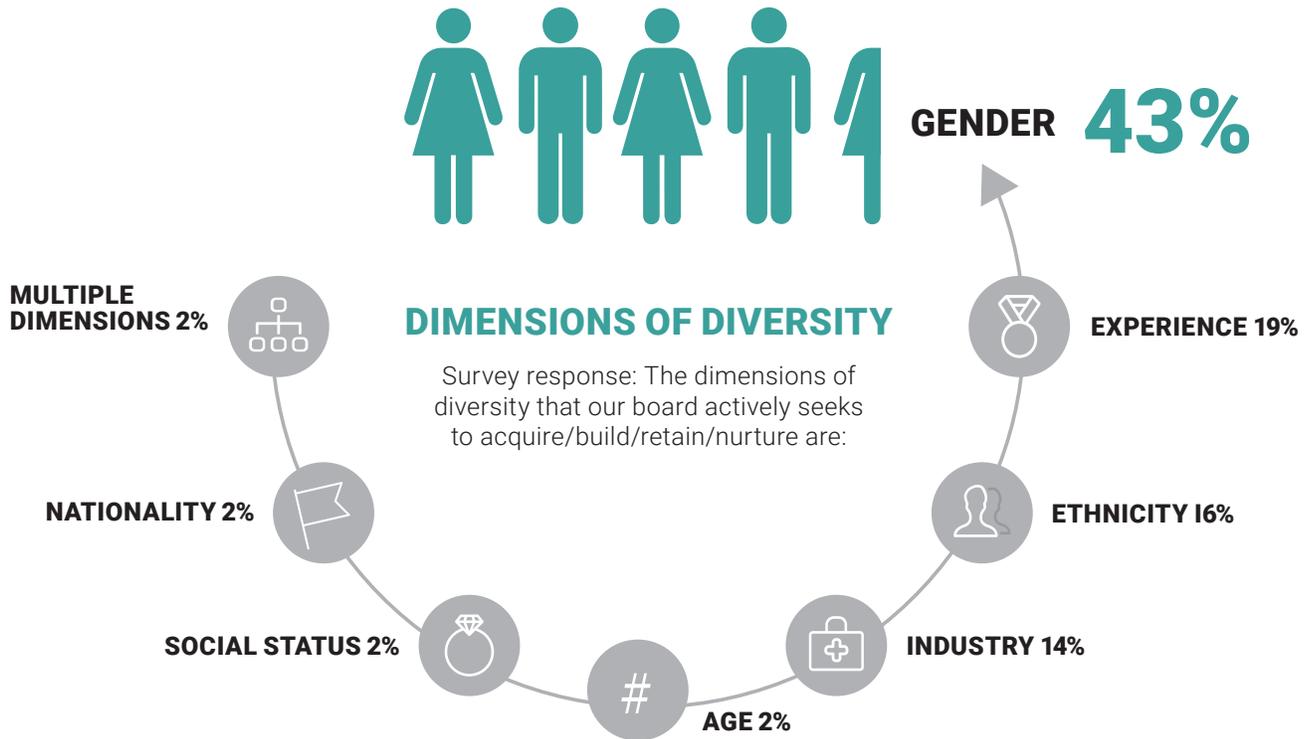
To tackle those tough decisions, born-digital companies rely on another manifestation of speed: the rate at which they bring people on board and acclimate the people to the new enterprise. As analyses of born-digital family trees show, members of a leadership team have worked together on start-up efforts before, but they also come from a similar business culture DNA. When the time comes to assemble a top team for a new born-digital enterprise, founders typically hire people they know and have worked with in the past. It's faster; everyone involved is already familiar with one another's working style; and they all speak the same languages of growth, innovation, and risk taking. That type of cultural DNA often takes shape while individuals are working at previous start-ups, and it gets solidified with each successful exit. By contrast, if founders bring unfamiliar people on board, then getting them up to speed in the new business takes more time and more effort. Plus, the people come with uncertainties, including whether they'll strengthen or detract from the culture.



“While some stuff—such as relationships, networking, speed, and trust—are all goodness, that stuff also creates patterns of mistakes, missing links, and lack of robustness. The very thing that makes you good can make you weak or preclude greatness if you aren't aware of it.”

— Start-up investor

HOW DO BORN-DIGITAL COMPANIES DEFINE DIVERSITY?



So, it's no surprise that many born-digital leaders want to quickly set up a top tribe that already speaks an experience-built lingua franca. Such a tribe can bring an already-built-in culture and therefore operate and make decisions efficiently, which is a vital advantage in a business in which time is foremost. But as noted, our research findings indicate that taking that approach can itself also be a liability by creating gaps in knowledge, expertise, and capabilities that can leave a company vulnerable when unfamiliar challenges arise.

KINSHIPS IN THE BUSINESS ECOSYSTEM: CONNECTIONS CAN SUPERCHARGE GROWTH

We've seen that born-digital companies rely more heavily on the kinships in their business ecosystems than born-traditional organizations do. Those kinships are in the forms of key relationships with individuals and entities outside the company's formal workforce—such as investors, advisors, and many types of business partners.

The right kinships can help supercharge growth for a born-digital business. For instance, advisors such as tech-world luminaries or celebrities can bring instant credibility and marketing attention to a young company

by their serving on the company's board or endorsing its product or service. Jennifer Lopez and Alex Rodriguez recently threw their support behind a savings app called Acorns that invests the spare change from people's daily purchases. Also, investors can open doors to financiers and top executive talent who are knowledgeable about business best practices and who are critical for scaling operations while achieving sustained growth. And partners such as third-party service providers with specialized skills can perform business processes and activities that aren't in a born-digital company's wheelhouse such as payroll and other back-office functions.

Together those kinships give a born-digital company unprecedented access to customers, suppliers, and global markets—and free up company leaders to focus on developing and increasing the enterprise's core business. As a result, the company becomes able to scale far more quickly and effectively than by going it alone. As with lineage and DNA, born-digital companies should seek out and build diverse business-kinship relationships. Not having a robust enough kinship group of advisors, investors, and partners or not looking outside the company's usual network forfeits the amplified benefit. In the same way that a lack of gender diversity continues to plague born-digital companies, broader kinship networks of stakeholders outside those companies can help mitigate the risks of groupthink and myopic views.



LEADERS' TAKEAWAYS

- 1** **Map out your business family tree;** examine the story that emerges around lineage, DNA, and kinship. Take steps to strengthen any experience gaps in the leadership team—especially in the areas of strategy, industry knowledge, customer insights, talent management, and business operations.
- 2** **Candidly assess all aspects of diversity,** and determine whether there's enough genetic variety or perhaps too much inbreeding within the team. If your executive committee is made up only of people you've worked with in the past, evaluate the pros and cons of having that tried-and-true tribe at your company's helm. If the cons seem serious, consider ways you might bring less-familiar people with fresh perspectives into the leadership picture.
- 3** **Take stock of the business ecosystem—**kinships your company participates in—and ask yourself whether the relationships are helping the company grow, or holding it back. Make changes as needed to add to your network and thereby get more business value from your kinships.

CONTACT THE AUTHORS:

Fred Crawford

Senior Vice Chairman, Managing Director
+1 646 746 2450
fcrawford@alixpartners.com

Angela Zutavern

Digital Americas Leader, Managing Director
+1 202 756 9000
azutavern@alixpartners.com

ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

The opinions expressed are those of the authors and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article "Born-digital businesses' unique ancestry helps them grow fast—but can also imperil their health" ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This Article is the property of AlixPartners, and neither the Article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.