

BORN-DIGITAL

THE TRIUMPHS AND TRUTHS OF COMPANIES BORN-DIGITAL

Born-digital companies are fountains of innovation that have taken advantage of an unprecedented explosion of technological and analytic capabilities to redefine industry after industry. As they look ahead to a time of recovery from the COVID-19 pandemic, born-digital companies have to consider which of their unique characteristics could present advantages—and how to swiftly seize those advantages to sustain their success in the new world order that’s to come.

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. 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. Primarily from companies based in the US, 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.

“Our industry does not respect tradition—it only respects innovation.”

— Satya Nadella, CEO, Microsoft

According to the Oxford Dictionary of Proverbs, the oldest written version of the saying “what you don’t know can’t hurt you” comes from 1576, “so long as I know it not, it hurteth me not.”

While this venerable quote may be true in certain circumstances, based on our in-depth study of born-digital companies nothing could be further from the truth.

We have observed a pattern of evolution that has been destructive in many cases by causing companies to back up, catch up, and evaporate billions of dollars along the way. In fact, it was that reality that caused us to undertake this study.

The results of the effort yielded this article series, together with two diagnostic tools: one that born-digital companies can use to quickly learn the areas of vulnerability and then prioritize areas of focus so as to avoid costly missteps, and one that traditionally born companies can use to quickly focus on and prioritize areas they need to address.

When we reflect on the details of our study findings, we find three prominent themes. As born-digital enterprises strive to accelerate their recovery in the post-pandemic period, keeping these themes in mind can help them craft sound recovery strategies.

1 WHAT BORN-DIGITAL COMPANIES DON'T KNOW CAN—AND DOES—HURT THEM

These amazing enterprises, headed by visionary and driven leaders, are so hyperfocused on innovation, customer acquisition, and growth that they usually make the same mistakes repeatedly. Examples include business models that unreasonably extend profitability runways as well as missteps concerning information usage, customer privacy, corporate governance, executive behavior, and communications—to name just a few. Those mistakes cost time and waste money, to say nothing of eroding shareholder and stakeholder value, reducing customer loyalty, damaging reputations, and destroying jobs. Such consequences could prove even more costly if born-digital businesses remain ignorant of their causes during the post-pandemic recovery period.

But we now have enough information to know what the mistakes are, to find the places and reasons they occur,

and to devise ways of avoiding them or at least reducing their impact by proactively rectifying them.

What many observers have found particularly striking about born-digital businesses in the past is the rate at which these companies can go from unknowns to household names overnight. However, that sentiment can turn negative in a heartbeat, corroding corporate reputations and valuations. WeWork, for instance, was valued at \$47 billion early in 2019. Only months later, a potential initial public offering at a valuation of around half that amount was withdrawn when the market reassessed the company’s business model. In another recent example, video conferencing giant Zoom had to scramble to restore its reputation after seeing usage soar—and cybersecurity glitches erupt—during the pandemic.

2 THE WORLD IS CATCHING UP WITH THE FIRST WAVE OF INNOVATORS

As with most innovations, early followers have the advantage of learning from the innovators. These followers can avoid many costly mistakes and can operate more efficiently than the pioneers can—often by making savvy use of more effective technological platforms. Though their initial burst of value creation may be relatively unspectacular, second-wave born-digital enterprises—and some born-traditional companies—are now creating impressive value with lower risk. Later-stage born-digital

companies are also potentially more sustainable than are first-wave companies, many of which are finding that their blazing pace of innovation is rendering their technological underpinnings obsolete already. Tellingly, six of the top ten e-commerce sites in the US were traditional, brick-and-mortar retailers as of April 30, 2020.¹ For first-wave born-digital companies struggling with obsolete technology platforms, hitting the ground running in the post-pandemic recovery period may prove particularly challenging.

1. <https://disfold.com/top-e-commerce-sites-us/>

3 WHETHER YOU KNOW IT OR NOT, IF YOURS IS A BORN-DIGITAL COMPANY, YOU'RE BEHIND IN TALENT MANAGEMENT

Perhaps the study's most consistent finding is that virtually every born-digital company is behind when it comes to the broad topics of (i) talent management, (ii) diversity in both the traditional sense (gender and race) and non-traditional sense (functional and industry experience) at board and executive levels, (iii) succession planning, (iv) performance management, (v) training and development, and (vi) career management. While that's not surprising given their

accelerated rates of growth, the mis-handling of these areas is nevertheless a major cause of performance issues and risk. As the world continues to catch up to the early innovators and as the impact of the pandemic rewrites the rules of how talent can best be recruited, developed, and retained, the war for talent will be where the competition is ultimately decided. And already at this point, born-digital companies are in serious need of an upgrade.

Both born-digital companies and born-traditional companies can benefit by learning from each other. To compete against digital-savvy businesses, traditional companies built on Industrial Age principles and practices will have to make big changes such as fostering a more innovation-oriented mind-set. Such changes won't come easy, but taking a page from digital exemplars' playbooks will help. Born-digital companies can avoid the pitfalls touched on previously through proactive planning in the areas of risk, digital ethics, data privacy, operations, and infrastructure. Plus, those that infuse discipline and rigor into their talent management functions—early on—will stand the best chance of sustaining their earlier successes far into the future, even one that proves permanently altered in some respects by the COVID-19 pandemic.

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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.

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