

BORN-DIGITAL

THE MISSING INGREDIENT IN BORN-DIGITAL BUSINESSES: EXPERIENCE WITH OPERATING AT SCALE

Born-digital companies focused on growing revenues fast sometimes neglect to set up operations required to serve customers effectively at scale. During crises such as the COVID-19 pandemic—when customers' needs shift, sometimes dramatically—lack of experience with operating at scale can leave these companies vulnerable to savvier rivals eager to snap up disgruntled customers.

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 was comprised of several key components:

- **INTERVIEWS.** We conducted 12 in-depth interviews with C-suite executives and board members from born-digital companies. The companies represented were based primarily in the US.
- **ONLINE SURVEY.** We executed an online survey of C-suite executives from both born-digital and born-traditional companies. The survey was fielded primarily with 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.

SO, WHICH WOULD YOU SAY IS SEXIER?

Launching a new product line?



OR



Making sure customers can return items efficiently?

HOW ABOUT THIS CHOICE?

Expanding a business to a new region?



OR



Assembling a customer service team that can handle customer complaints professionally?

JUST ONE MORE:

Acquiring new customers by extending the firm's social media reach?



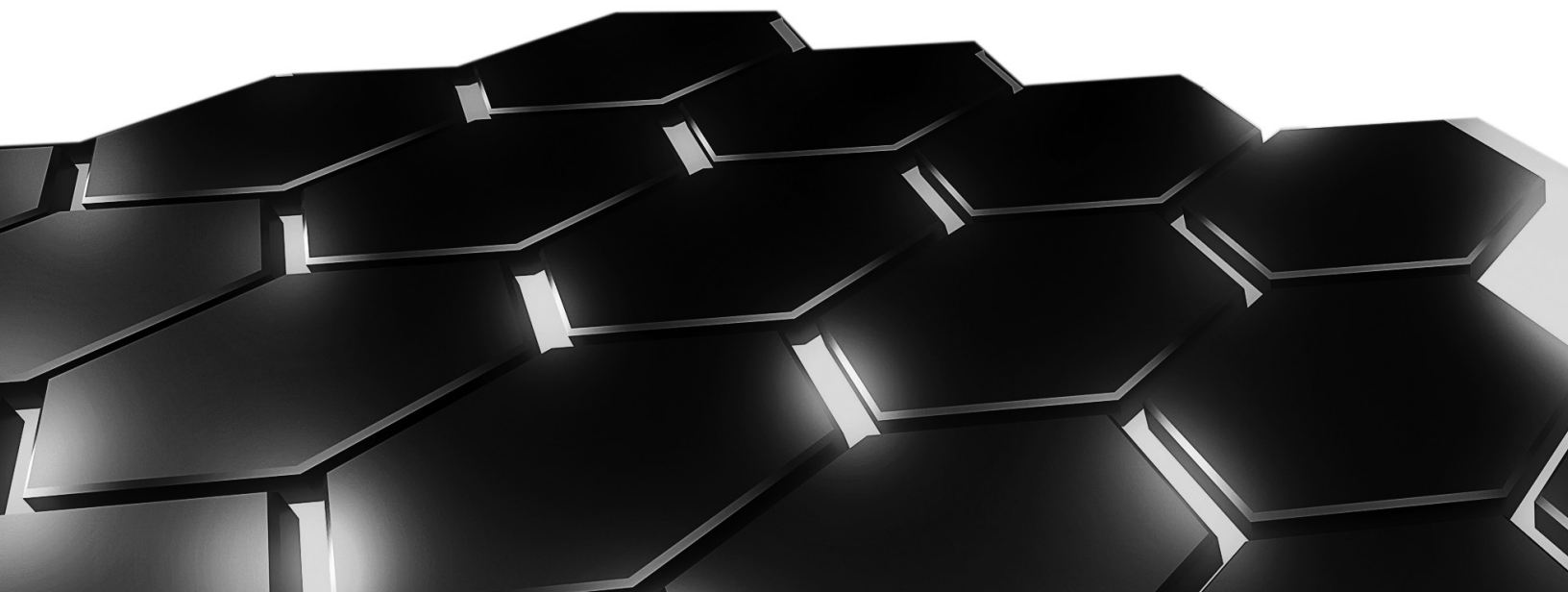
OR



Setting forth a code of conduct to guide your company's use of customer data?

For most people, the sexy activities seem obvious:

They're the ones that directly drive revenue growth. And according to findings from our recent study, the entrepreneurs who run born-digital companies feel the same way.



BORN-DIGITAL COMPANIES FOCUS THEIR DIGITAL EFFORTS PRIMARILY ON REVENUE GROWTH OVER COST REDUCTION

Survey response: Our digital efforts focus on:

46%

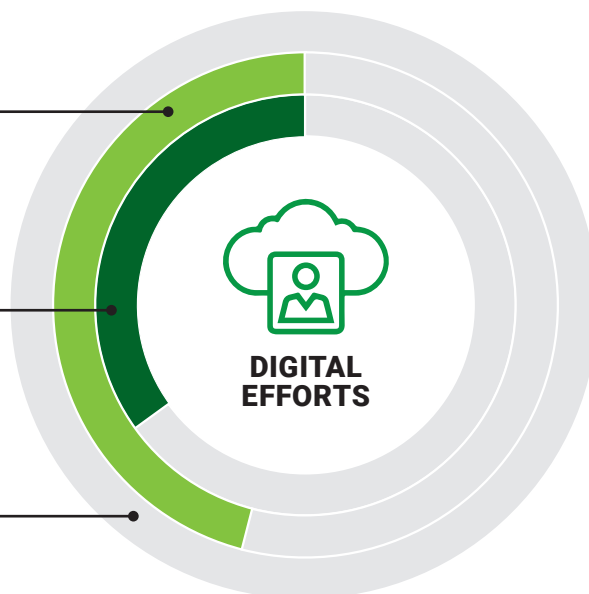
REVENUE GROWTH

35%

BLENDED

0%

COST REDUCTION



Successful born-digital companies grow their revenues rapidly, and for many of them, their founders find aggressive growth far more interesting than operations- and infrastructure-related topics like supply chain management, reverse logistics, customer service, information governance, public relations, compliance, tech stack, and data privacy.

But founders who ignore those less-than-glamorous functions put their company in a perilous position. Why? Even a gushing revenue stream won't translate into fat profit margins and high valuations for very long if the company doesn't also scale up the infrastructure

and operations required to ensure that its key business processes run smoothly—and will keep doing so even after a crisis strikes and the company must pivot quickly to adapt. When companies get forced to double back, admit mistakes, and retool, these costly missteps give competitors a chance to grab customers and market share—and they do. What's more, once the worst of a crisis passes and companies venture into a period of recovery, a born-digital business that has scanty experience operating at scale may struggle to jump-start its growth in a new landscape that looks very different from the old one in terms of customer needs and preferences.

**DESPITE APPLYING DIGITAL SOLUTIONS, BORN-DIGITAL COMPANIES
AREN'T CONFIDENT THAT THEY'RE GETTING THE BEST PRICING OR
USING THE MOST-EFFECTIVE SUPPLY CHAIN STRATEGIES**



ONLY 53%

of born-digital companies surveyed stated that their **pricing from suppliers is very competitive**



ONLY 54%

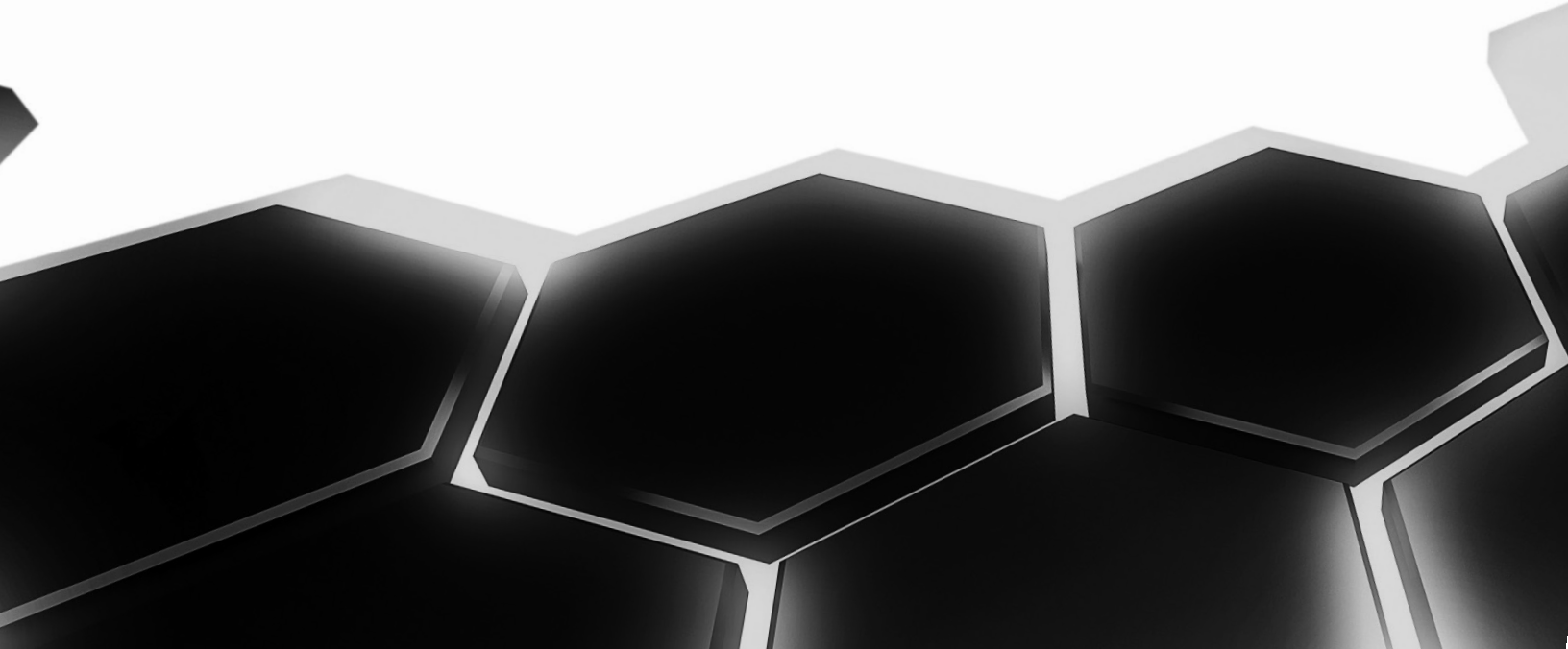
of born-digital companies surveyed believe they **have a lean SG&A**

A TRICKY PUZZLE

Born-digital companies are grappling with a tricky puzzle. After all, growth in revenues and market share fuel investment and valuation—especially in the early days of a born-digital company's existence. But diverting funds and talent to other areas of the business that will drive loyalty and profit can curtail growth at this stage.

Under those tough conditions, there's no single recipe for success. But we've seen enough in our work with clients to make the following assertion:

Most born-digital companies lag behind in scaling of the business operations that drive customer loyalty and profit and that help avoid serious risks such as legal nightmares and bad publicity.

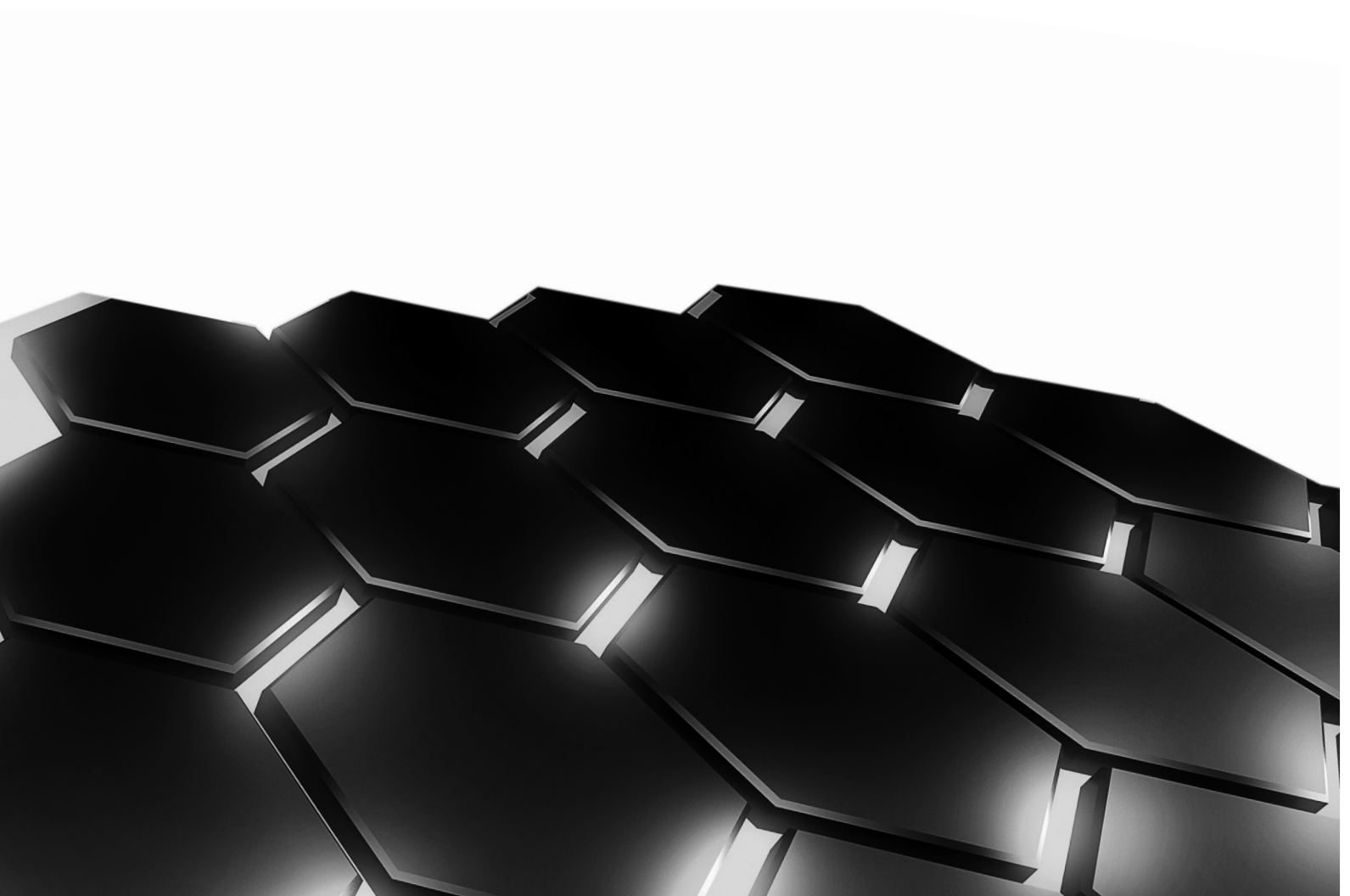


Yet even as executives at some companies have given little attention to those priorities, many of them seem to feel comfortable with where things stand on their organizational structures, business processes, and workforce capabilities, as suggested by our survey results. On the other hand, they also recognize the importance of improving their customers' experience as a way to boost company growth. This suggests that although they view customer experience as important for myriad reasons, it often takes a back seat in their set of priorities.

'Managing risk to stakeholders' was rated as one of the top three priorities of born-traditional boards—but not for born-digital boards.

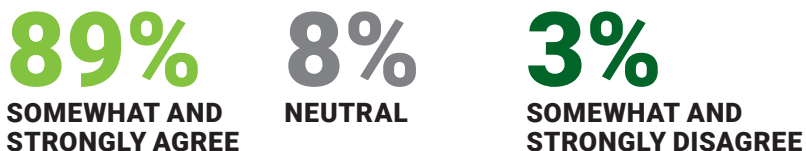
“These companies struggle to solve the question of how to provide minimal infrastructure so that the overhead is low”

— Chief Marketing Officer, born-digital company



BORN-DIGITAL COMPANIES REPORTED HIGH CONFIDENCE IN THEIR STRUCTURES AND PROCESSES THAT ARE INTENDED TO SUPPORT THEIR BUSINESS MODEL, AS WELL AS IN THEIR PEOPLE'S ABILITY TO EXECUTE THE COMPANY'S STRATEGY

Survey response: Our business model is clear; we know how we make money, and we have the structure and processes to support the model



Survey response: Our team members have the right skills needed to execute the strategy



CASES IN POINT

Lower levels of operational maturity can backfire on born-digital companies when crisis upends what customers want to buy, how they want to pay, and how they want to use the products and services they've purchased. For instance, some retailers with online-only operating models were blindsided by the surge in demand for their products among sheltering-at-home consumers during the pandemic. These companies had difficulty scaling to meet that demand and struggled to build inventory fast enough to fulfill orders. For some, shipping times were badly delayed. Others asked customers to limit their order volumes.

For born-digital companies that have given short shrift to their operations, the warning is clear: Frustrated customers may end up running into the welcoming arms of a competitor. And that competitor could well be a newcomer to the game. Encouragingly, a number of the executives in our survey who hailed from born-digital companies are at least aware of that threat. That's an essential first step to beefing up key operations in their enterprises.

BORN-DIGITAL COMPANIES RATED 'ENHANCED CUSTOMER EXPERIENCE' AS THE TOP AREA TO INCREASE GROWTH



Approximately 50% of born-digital companies say they believe their products and services are under high risk of disruption from new entrants. Over 80% of young born-digital companies (under 10 years old) have the same concern.

The risk of losing customers and market share to more operations-savvy rivals has only increased with time. Today's consumers notice when they're being treated shabbily. They have more options than ever for accessing and using the products and services they want. And they don't hesitate to switch providers. That's especially true among younger people, who have grown up with digital technology. It's that very demographic that's gaining in economic importance every year. They now account for roughly 25% of the world's population.

WANTED: SEASONED OPERATIONS EXPERTISE

To avoid being dumped by customers or worse, fast-growing born-digital companies need mature operating capabilities. And to get those capabilities, they have to recruit and hire people who possess the right skills and experience while they also train existing staff to bolster their operations prowess.

But making those moves can lead to a clash of organizational cultures. The fact is, most seasoned operations people come from backgrounds in born-traditional companies—though that's changing.

People who have grown up digital consider the born-traditional types as inflexible, afraid of risk, overly structured, and too single-mindedly focused on established role definitions and processes. If a born-digital founder or CEO sends the signal that scaling and strengthening the operational areas of the business are less important than investing in areas directly related to

driving revenue growth—which happens all too often—the born-traditional types might well feel disrespected and even dismissed. No company can operate effectively under the seething cultural tensions that can arise under conditions like those.

Crises of any kind force companies to re-examine their capabilities and to ask themselves probing questions, such as "How can we strengthen our operations to make ourselves more resilient in the face of shifting markets, customer needs, and competitor moves, and to safeguard our profitability? What capabilities are essential for meeting these imperatives, versus capabilities that are merely nice to have?" (Hint: digital supply chains, enterprise reporting automation, and customer self-checkout may join the ranks of must-have capabilities.) The most forward-looking born-digital business leaders will keep asking such questions long after a crisis has passed.

LEADERS' TAKEAWAYS

1 **Identify ways** to reliably scale key operations and infrastructure in your company early on.

2 **Hire the right mix of people** with operations experience—including people from born-traditional companies as needed—while also investing in operations training for existing employees.

3 **Send a clear message** that operational excellence and robust infrastructure matter just as much to your company's success as revenue growth does—by making sure that operational excellence and robust infrastructure receive sufficient funding and human resources.

