AlixPartners

BORN-DIGITAL

HOW DIGITAL NATIVES ARE WINNING THE AI RACE

Why are born-digital companies pulling ahead in the race to use artificial intelligence to spur impressive growth? Because they take a decidedly different approach to AI than their born-traditional counterparts do. Any company falling behind in this contest can learn from the exemplars' experience.

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
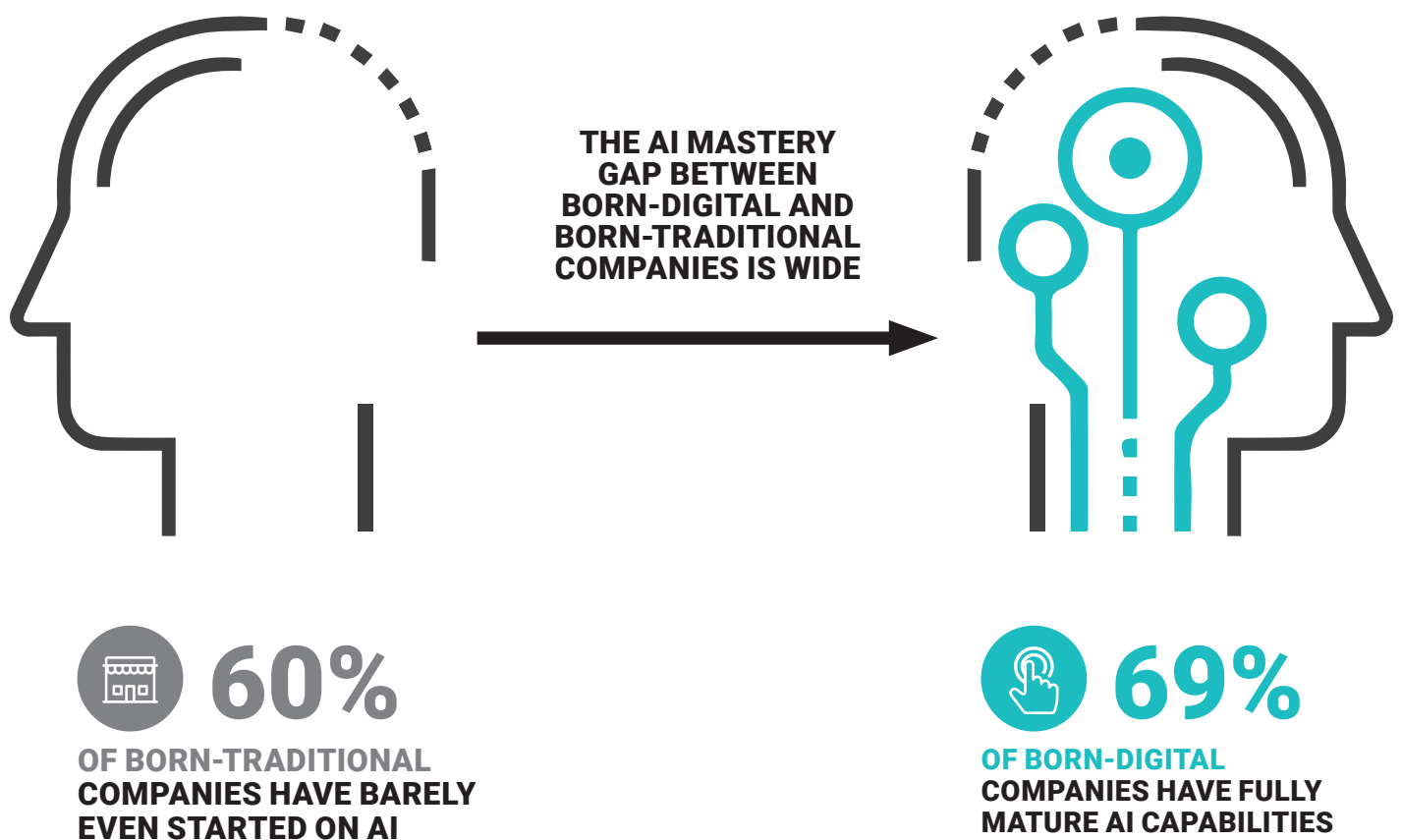- Cultural inertia at odds with agile innovation
- Legacy systems

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 in-depth 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 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.

"AI is the run-time which is going to shape all of what we do going forward in terms of applications as well as the platform."

— Satya Nadella, Microsoft CEO

Artificial intelligence (AI) is the hottest tech topic in the world right now. And born-digital companies are clearly ahead in the race to get maximum business value from AI. That's not surprising. What *is* surprising is the size of the gap between the front-runners in this race and the laggards: born-traditional companies. In our recent study, we not only sized the divide; we also defined what, precisely, sets the two groups apart and how the laggards can catch up.

THE AI MASTERY GAP BETWEEN BORN-DIGITAL AND BORN-TRADITIONAL COMPANIES IS WIDE

60%
OF BORN-TRADITIONAL COMPANIES HAVE BARELY EVEN STARTED ON AI

69%
OF BORN-DIGITAL COMPANIES HAVE FULLY MATURE AI CAPABILITIES

AI TAKES CENTER STAGE

From nanotechnology cancer diagnoses to package-delivery-time estimates, movie recommendations, and video games, AI plays a central role in the products and services that most born-digital companies offer. AI doesn't even have to be visible to customers to do its job. In fact, in the business-to-consumer world, consumers usually are not consciously aware that a product or service is AI enabled. They only know that they like their new Snapchat filter or virtual-reality-enabled home design app. And they may not realize the extent to which the messages they see about offerings and companies in their social media are being driven by AI aimed at winning over new customers.

When it comes to improving the customer experience to grow market share—and revenues—many companies turn to AI to craft smart pricing, promotion, and advertising strategies. Take financial services giant JPMorgan Chase.

The company uses AI to tailor marketing messages such as headlines in e-mails to targeted segments of customers, such as prospective borrowers. In an experiment, an AI-generated headline delivered nearly twice the number of weekly applications for home equity lines of credit that the human-generated headline delivered.[1]

But customer acquisition isn't the only thing companies are using AI for. They're also deploying it in back-office functions—to automate processes like accounts payable, to reduce the risk of human error in business processes, to inform decision-making, and to achieve cost-saving efficiencies in their operations.

AI is becoming increasingly pervasive at born-digital companies across an array of industries. Why? Findings from our study suggest five reasons.

REASON #1

AI IS ESSENTIAL TO BORN-DIGITAL COMPANIES' GROWTH STRATEGIES

For many digital natives, AI is not a choice; it's central to their business model, product, service, or operations. And it plays a vital role in those companies' growth strategies. AI is woven into the very fabric of those organizations from their inception, which gives them a major head start. By contrast, their born-traditional counterparts must take time to launch AI-powered transformations in order to achieve the same benefits.

Our study found significant differences between born-digital companies and born-traditional companies in such areas as their views of AI as a growth driver, management of the customer journey, and use of customer data.

PERCENTAGE OF COMPANIES ACTIVELY MINING DATA FROM CUSTOMERS TO IMPROVE PRODUCTS, SERVICES, AND CUSTOMER SATISFACTION:
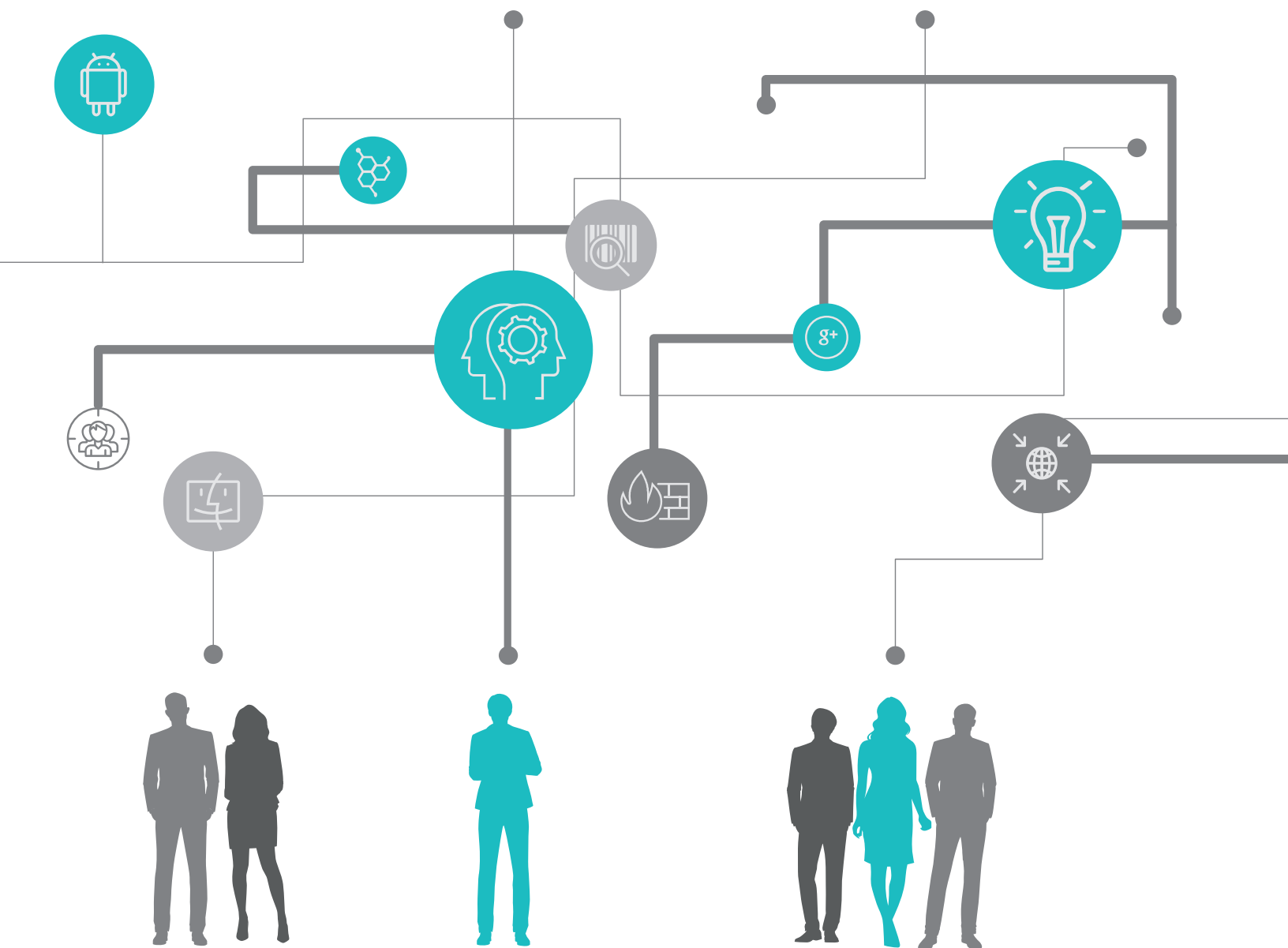
75%
Born-digital companies

28%
Born-traditional companies
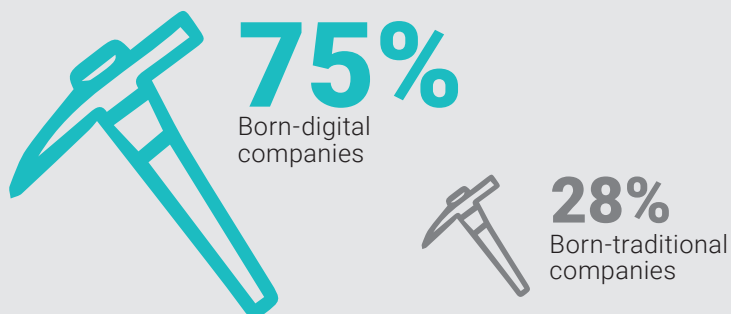
Born-digital companies in our study cited **enhanced customer experience and AI/analytics** as their top two drivers for growth

83% of born-digital companies say that **adopting new technologies** will drive growth in their companies

1. www.wsj.com/articles/jpmorgan-chase-taps-ai-to-make-marketing-messages-more-powerful-11564482606?mod=hp_minor_pos3

80%

OF BORN-DIGITAL
COMPANIES HAVE FULLY
DIGITALIZED THEIR
CUSTOMER JOURNEY

20%

OF BORN-TRADITIONAL
COMPANIES HAVE FULLY
DIGITALIZED THEIR
CUSTOMER JOURNEY

REASON #2

BORN-DIGITAL BUSINESSES USE AI TO COMPLEMENT PEOPLE, NOT REPLACE THEM

Born-digital companies don't think of AI as just another tool in their company's technology tool kit. They know that AI can perform routine work which enables people to bring more insight and creativity to their work. They know, given the right training data, AI can even learn on its own about vital topics such as customer desires, margin drivers, and equipment failures. And it can even *generate* valuable, new knowledge that can boost a company's performance on multiple fronts.

For instance, an AI inspector can vastly reduce the number of items a human inspector has to look at by automatically passing products that are clearly in spec based on pictures or video. To foster such collaboration, companies apply computer algorithms and model outputs in a give-and-take fashion. That is, employees continue to help the algorithm learn, and they modify business processes based on outputs from the algorithm. As algorithms become more advanced in accuracy, they can take on more work in such forms as volumes of data handled and the processes the data get applied to.

To illustrate, AI is increasingly being used to prioritize and steer messages coming into contact centers. In mortgage lending, for instance, the message "I want to make an offer on a house today" gets prioritized for loan origination one way, while "I have a problem and need to speak to a manager" gets prioritized another way.

"We blend technology and humans [and] use technology as an amniotic fluid to connect and feed everyone."

— Chief Technology Officer, born-digital software company

REASON #3

BORN-DIGITAL COMPANIES UNDERSTAND THE AI MODEL DEVELOPMENT PROCESS

Born-digital companies recognize that they need the right digital platform to use AI at scale—that is, throughout their enterprise versus simply to improve a few business processes here and there. Of course, a digital native can still end up making technology gambles that don't pay off. But born-digital enterprises understand the fundamental importance of the AI platform. Whats more, most of them have the ability to build that platform and then adapt and retool it when technology takes a meaningful leap forward.

Born-digital businesses also know that an overall lack of well-structured and labeled data from which algorithms can be trained presents a major roadblock to AI right now. Training data is needed to help an AI algorithm identify relationships between different types of data, to help the algorithm understand cause-and-effect connections, and to help the algorithm make decisions. As those activities improve, AI models become more accurate and useful. To that end, born-digital companies recognize the immense value of data. Indeed, they cite data architecture and data management as highest-priority investments required to drive growth.
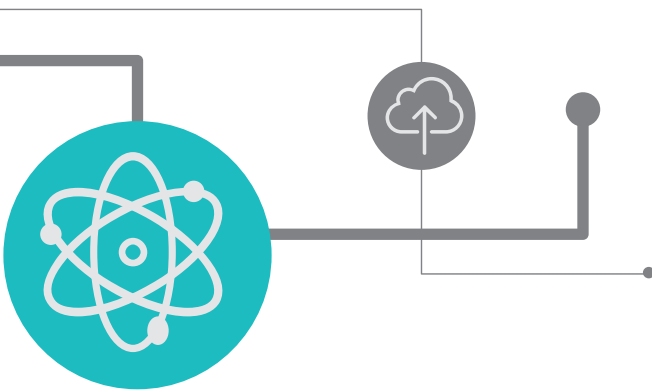
REASON #4:
BORN-DIGITAL BUSINESSES MANAGE AI TALENT EFFECTIVELY

Born-digital companies manage AI talent in ways that support their growth agenda. For instance, they tend to have a greater proportion of the right AI talent in their workforces than their born-traditional counterparts do—whether by recruiting such talent from outside or developing it internally. With internal development of AI skills, when the company clarifies how AI is being used to fuel growth, people understand which skills are needed to make this work. They can start building those naturally through on-the-job learning or through participation in training programs.

Employees with AI skills excel at such activities as computer science and statistics but also display creativity and perseverance in applying domain knowledge to model complex business problems. Having enough of the right AI talent enables born-digital enterprises to apply AI holistically across their businesses versus relegating it to a specialty function that can devote time to only a few projects.

Of course there's a shortage of people in the labor force available to recruit who are already fully trained in what AI is and how to use it in business. That makes internal talent development a top priority, and some born-digital leaders have already taken steps to meet that imperative.

REASON #5
BORN-DIGITAL ENTERPRISES FOSTER AN EXPERIMENTATION CULTURE

Using AI strategically to meet business goals such as growth requires a culture characterized by experimentation. And that, in turn, hinges on generous doses of creativity and perseverance. For example, when building an AI model aimed at improving customer-facing business processes, a data scientist typically tries several different algorithms and adjusts the parameters within them to yield the best results. Companies characterized by rigid, risk-averse organizational cultures—such as many born-traditional businesses—have difficulty incorporating AI into how they do business on a daily basis.

For many born-digital companies, the openness and ability to engage in experimentation are inherent in their organizational cultures. That's because, from their inception, such companies have been pioneering new approaches in some or all aspects of their businesses. AI breakthroughs come from trying new ways of using the technology. And the more a company experiments with it, the more results the AI models generate. These results can be corrected and fed back into the algorithm, thereby making the model increasingly accurate and therefore more useful.

"Speed of execution is everything. We don't have the luxury of going through layers of bureaucracy. We are creating a unique culture in which taking risk is acceptable. We are agile: we take risks, we prototype, we test, and we feedback continuously."

— Chief Marketing Officer, born-digital company

76% of born-digital companies report that they **focus on innovation** above all else

**0101110000
0100110101**

AI LAGGARDS CAN CATCH UP. HERE'S HOW:

Any company—whether born-digital or born-traditional—that finds itself falling behind in the AI race can start catching up. How? Craft and execute a focused strategy for monetizing AI.

Companies can monetize AI by:

- Improving internal business execution
- Wrapping AI around company offerings
- Selling insights

These moves vary in potential for value capture and degree of difficulty of implementation. But a comprehensive AI monetization strategy will show how best to draw from all three tactics.[2]

THREE WAYS TO MONETIZE DATA	COMMON APPLICATIONS	EXAMPLES
51% of value captured **1 IMPROVE INTERNAL EXECUTION** Put data and analytics into the hands of employees who make decisions	• Customer (marketing, effectiveness, retention) • Operations (inventory, lead times, processes) • Financial (cost-plus pricing, margin analysis)	• Gap is leveraging predictive modeling of customer data for personalized campaigns • Norfolk Southern monitors rail traffic in real time to operate at higher speeds • Caesars Entertainment tracks patrons' gambling outcomes to offer enticing perks
26% of value captured **2 WRAP INFORMATION AROUND PRODUCTS** Enrich products, services, and customer experiences by adding data and analytics	• Connected products • Products as a service • Customization • Remote products updates • Loyalty programs	• OnStar services for General Motors cars • FedEx's tracking application • GE converted its sales of jet engines from a product to a service offering • Groupon is using geolocation-based offers and location discounts
24% of value captured **3 SELL DATA** Hardest way to monetize data; often requires a unique business model	• Benchmarking across customers • End-customer consumption • Market intelligence	• Toyota sells traffic data generated from cars to help optimize navigation • Barclays Bank sells anonymized retail benchmarks to UK retail chains • eBay sells anonymized transaction data generated in its platform

Across both born-digital companies and born-traditional companies, the majority of value being captured—and a great place to start—comes from putting AI into the hands of the employees who make the decisions. Wrapping AI around products and services is a more advanced application and can be revenue generating on its own, or it can simply enhance the customer journey and therefore stickiness with customers. Selling insights produced or enabled by AI is the third way companies monetize the technology. Insight selling is the most difficult way to monetize AI, but it can be successful for niche players. For companies that have fallen behind, it's never too late to start or improve AI capabilities.

Pulling ahead—and staying ahead—in the AI race isn't easy for any company—whether it's born-digital or born-traditional. Thankfully, though, companies that realize they're lagging behind can take action to correct their position. Adopting some of the attitudes and practices demonstrated by born-digital exemplars can constitute an excellent first step.

LEADERS' TAKEAWAYS

1 Identify ways AI could help grow your business, ways of making AI a tool for human/machine collaboration in your workforce, and ways your IT platforms could be improved so that AI becomes useful throughout your organization.

2 Brainstorm ways to beef up the proportion of AI talent in your workforce—whether through new hiring strategies or leading-edge training—and encourage people throughout the organization to experiment with using AI to improve the business.

3 Consider the benefits—and costs—of the various AI-monetization strategies available. Study examples of companies in different industries that have used each strategy successfully. Determine which monetization strategy would best suit your organization's needs and unique characteristics.

CONTACT THE AUTHORS:

Ted Bililies Ph.D.
Managing Director
tbililies@alixpartners.com

Rob Hornby
Managing Director
rhornby@alixpartners.com

Fred Crawford
Managing Director
fcrawford@alixpartners.com

Adam Pressman
Managing Director
apressman@alixpartners.com

Amelia Green
Managing Director
ajgreen@alixpartners.com

Angela Zutavern
Managing Director
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.