AlixPartners

BORN-DIGITAL
HOW INNOVATORS RE-INNOVATE

Born-digital companies can be overtaken by newcomers edging into their markets—if they let their technology get stale. And they can get caught off guard by major disruptions—such as the COVID-19 crisis. The increase in remote work catalyzed by the pandemic prompted a revisiting of technology roadmaps.

To avoid the outdated-tech trap, companies must infuse discipline into their tech management processes and take a business-focused approach to keeping their tech current. By doing so, they can sustain the growth momentum they gained in their early years.

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
- Nonexistent 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.

"This need to constantly re-innovate, we call it revolutionize, is very real for digital companies. The rate of innovation is so high that being born-digital now means you [still] have legacy infrastructure."

– Chief Marketing Officer, born-digital company

It's easy to assume that born-digital companies always have the latest and greatest technology. But that's not necessarily true. Indeed, we've found that technology is one of the toughest areas for these businesses to keep up—perhaps because they feel committed to the breakthroughs that launched them. Equally important, many technologies are quickly and easily copied, so they don't, in themselves, provide a competitive advantage forever. In a strange irony, it's the very pace of technology change that can render born-digital companies obsolete as soon as even more agile newcomers muscle into their markets.

Letting tech get out of date comes with a high price tag. For example, employees may lose valuable time that they could spend with customers or partners because their internal systems are not up to date, sapping their productivity and agility. A company with outdated tech may also be more vulnerable to cyberattacks and data breaches.

But it doesn't have to be this way. To avoid these pitfalls, born-digital companies will have to keep up with tech as they age and put the right people in charge of their digital strategy. Moreover, they'll need to proactively correct their mistakes as well as quickly beef up their digital capabilities.

Examples of companies that have excelled on this front include Airbnb, which surmounted growth challenges affecting its digital platform by launching a major initiative aimed at reconstructing its warehouse and revitalizing its data engineering community.[1] Similarly, to address issues arising from rapid growth in demand for its services, food delivery and takeout company DoorDash established a platform strategy and roadmap focused on understanding and responding more effectively and efficiently to its customers' and its own immediate as well as longer-term data needs.[2]

MAKE EXTENSIVE USE OF CLOUD APPLICATIONS

70% BORN-DIGITAL COMPANIES

30% BORN-TRADITIONAL COMPANIES

1. 'Data Quality at Airbnb: Part 1—Rebuilding at Scale,' Jonathan Parks, Vaughn Quoss, and Paul Ellwood.
Available at: https://medium.com/airbnb-engineering/data-quality-at-airbnb-e582465f3ef7. Accessed on November 16, 2020

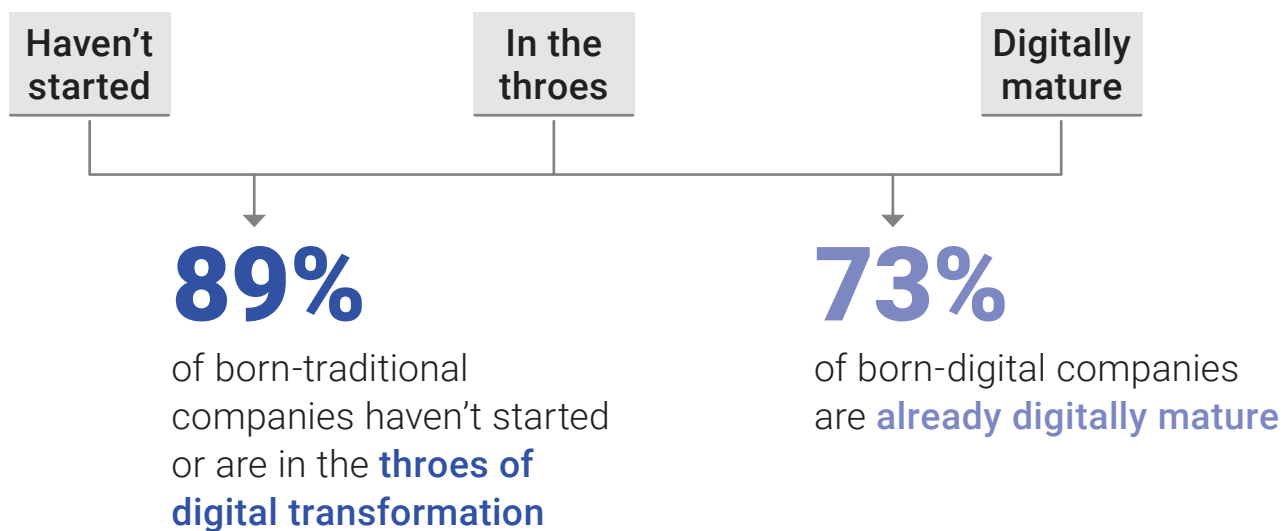2. 'How DoorDash Is Scaling its Data Platform to Delight Customers and Meet Our Growing Demand,' Sudhir Tonse.
Available at: https://doordash.engineering/2020/09/25/how-doordash-is-scaling-its-data-platform. Accessed on November 16, 2020

KEEP UP WITH TECH UPDATES

The good news is that born-digital companies in an array of industries possess the expertise to tackle sophisticated, complex technology challenges (for instance, automatic image recognition and fabric selection for fashion design). But, they have very little capacity to absorb unplanned shocks, such as an outage, cybersecurity breaches, and unexpected explosions in demand for their technology.

That's especially dangerous when these companies' entire business model and competitive advantage hinge on technology. True, born-digital enterprises are substantially more digitally mature than their born-traditional counterparts. But to keep up with tech as the company matures, they should invest in their digital platform to ensure that it is sustainable and continue strengthening their internal business systems to maintain their ability to grow.

DIGITAL MATURITY SCALE

Haven't started	In the throes	Digitally mature

89%
of born-traditional companies haven't started or are in the **throes of digital transformation**

73%
of born-digital companies are **already digitally mature**

Employees may lose valuable time they could spend with customers or partners because their internal systems are not up to date, sapping their productivity and agility.

PUT THE RIGHT PEOPLE IN CHARGE OF YOUR DIGITAL STRATEGY

In born-digital and born-traditional companies alike, keeping tech current is essential to executing digital strategies. But even a brilliant digital strategy will fall flat if it's not led by the right people. In our study, born-digital companies said they trust the crafting and execution of their digital strategy to newer C-suite roles like chief technology officer and chief digital officer. Born-traditional companies, by contrast, rely more on the direct involvement of the CEO in this realm of strategizing. While it's critical to have CEO support, being the main driver of digital strategy comes at the expense of other essential responsibilities if left to the CEO.

What's more, many born-digital companies have a product or service that's based on technology. This situation can blur the line between having an internal IT strategy to support employees and an external digital strategy to serve customers. To sustain the advantage these companies gained early on, they need to integrate technology with their business processes—for example, by creating a single, integrated view of their customer, designing fully automated processes (such as order-to-cash), and using the data they have on hand to create a multichannel experience for customers. The newer C-suite roles are better positioned to orchestrate this integration.

60%

of both born-digital and born-traditional companies report **having a clear distinction between their IT strategy and digital strategy**

PROACTIVELY CORRECT YOUR MISTAKES

Technology lifecycles are getting shorter; for instance, software updates on smartphones come just six months after the latest version was launched. Owing to their leading-edge nature, some born-digital companies made the wrong bets on early technologies that didn't pan out.

At the same time, they've underinvested in non-core functions such as customer service or finance. And that oversight has come back to haunt them. The most forward-looking of these companies plug in best-in-class cloud-based services to handle outsourced functions like payroll management, to cover these other bases. They also combine their focus on innovation and revenue growth with attention to cost control through efficiency and automation. That's because they know that as they mature, their investors will concentrate on more balanced fiscal metrics, such as EBITDA, that are directly affected by cost.

QUICKLY BEEF UP YOUR DIGITAL CAPABILITIES

For born-digital companies seeking to recover from the wrong bets, or wanting to retool their approach to tech to stay current, what options do they have? Every situation and starting point is unique, of course. But our experience with clients suggests a general approach that works well for any company eager to jump-start or strengthen its digital capabilities.

Keys to success include viewing tech management through a business-centric lens—that is, linking technology moves to actual problems that the company needs to solve. We also advise building on a series of discrete successes, and progressively updating digital capabilities, versus making bet-the-company gambles. This approach helps companies modernize outdated tech—with much lower risk and significantly shorter payback periods than big bang approaches deliver. It also positions them to reinvent their business model and operating model as needed to keep pace with rapid advances in the technological and competitive landscape.
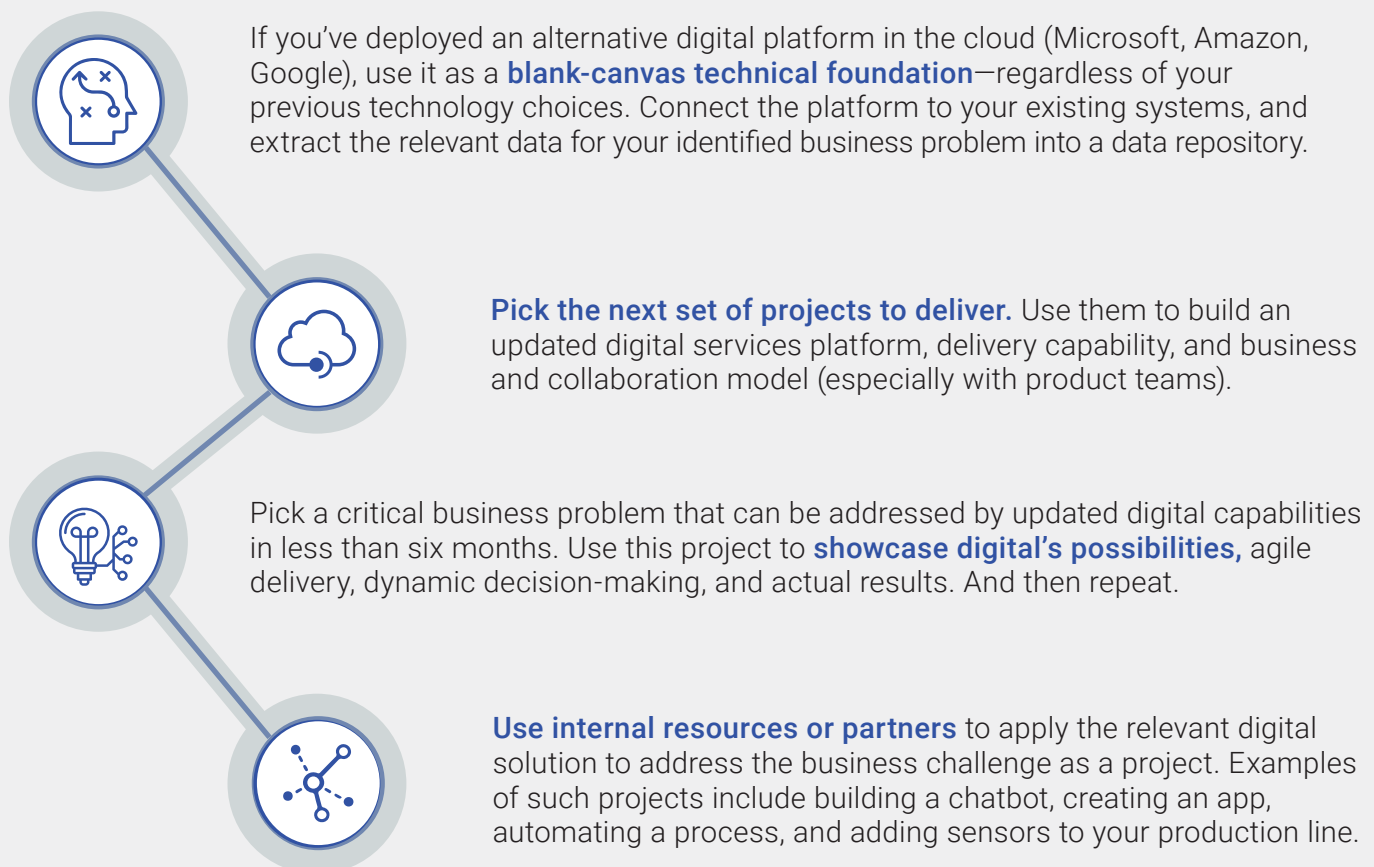
RESULT?

Born-digital companies sweeten the odds of future-proofing themselves. Consider Google. As the company matured and scaled, maintaining its technology edge became more challenging. Like any business characterized by a strong innovation culture, not all new products took off (think Glass and Hangouts). To stay on top of tech as they scale, companies can strengthen digital capabilities in-house or acquire them from outside—or do both. With this in mind, Google launched a series of strategic M&A deals, ranging from Android OS, YouTube, AdMob, and ITA (a travel software tool) to Waze (the GPS navigation software app), DeepMind (an AI company), and Fitbit.[3]

Spotify, the music-streaming leader, is another case in point.[4] The company has sustained its growth through several savvy tactics. For example, it took a balanced approach to business partnerships. Understanding that streaming services technologies are easily replicated,

it forged an exclusive partnership with Facebook to become its default music service and then established similar deals with companies like Uber, Roku, and Android. Spotify also expanded its digital platform from a single application to a music service supported through browsers and mobile, thus broadening its user community. Finally, to differentiate its offering on the technical front, it has invested in advanced sound quality codecs and acquired music-personalization and discovery company Tunigo.

As these examples show, keeping tech up-to-date is no easy feat—even for born-digital companies. Meeting this imperative requires large doses of strategic thinking, along with the willingness and ability to launch major transformation programs. Enterprises that deploy the practices described here will stand the best chance of holding their position on the leading edge of technology—so they can flex in the future as their customers and competitors change.

HOW TO UPDATE STALE TECHNOLOGY—QUICKLY

If you've deployed an alternative digital platform in the cloud (Microsoft, Amazon, Google), use it as a **blank-canvas technical foundation**—regardless of your previous technology choices. Connect the platform to your existing systems, and extract the relevant data for your identified business problem into a data repository.

Pick the next set of projects to deliver. Use them to build an updated digital services platform, delivery capability, and business and collaboration model (especially with product teams).

Pick a critical business problem that can be addressed by updated digital capabilities in less than six months. Use this project to **showcase digital's possibilities,** agile delivery, dynamic decision-making, and actual results. And then repeat.

Use internal resources or partners to apply the relevant digital solution to address the business challenge as a project. Examples of such projects include building a chatbot, creating an app, automating a process, and adding sensors to your production line.

3. 'Google's 12 Biggest Acquisitions and What They Mean for You,' GadgetsNow.com. Available at: https://www.gadgetsnow.com/slideshows/googles-12-biggest-acquisitions-and-what-they-mean-for-you/photoshow/71862166.cms. Accessed on November 16, 2020

4. 'How Spotify Turned Free Music into a $10+ Billion Valuation,' Morgan Brown. Available at: https://growthhackers.com/growth-studies/spotify. Accessed on November 16, 2020

LEADERS' TAKEAWAYS

1 Integrate the digital technologies used in your organization with key business processes to create new forms of value for customers.

2 Pay just as much attention to capturing cost savings through efficiency and automation as you do to spurring innovation and revenue growth.

3 Forge business partnerships and advance your digital platform to keep growing even if digital technologies you initially developed or adopted are replicated.

4 Accelerate updating of your digital capabilities by using technology to tackle specific business problems, score quick wins, and gain insights for launching additional digital projects.

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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.