

## **BORN-DIGITAL**

# **UPPING YOUR DIGITAL GAME: WHAT BORN-TRADITIONAL COMPANIES CAN LEARN FROM THEIR BORN-DIGITAL COUNTERPARTS**

To compete against digitally savvy businesses, born-traditional companies built on Industrial Age principles and practices will have to make big changes. It won't be easy, but taking a page from digital exemplars' success playbook will help.

## 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.

“In the digital era, what is your company?

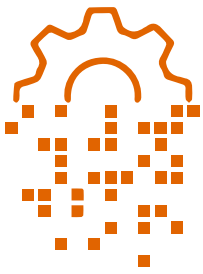
Ultimately, it’s your ideas. In legacy enterprises, the applications they built served tens of thousands of employees, whereas now you have to think that your application will serve millions of people quickly. This makes intellectual property critical.”

— C-suite executive, technology company

Everyone knows that born-digital companies are growing at a blistering pace compared with their born-traditional counterparts. Born-digital businesses are both the protagonists and the disruptors in a diverse array of industries—and they're making life simpler for customers by providing meticulously personalized offerings, delivering goods and services at unprecedented speeds, and presenting customized options like delivering to your door versus delivering you to their door.

For born-traditional companies, competing against their born-digital counterparts is no easy feat, and many are at risk of being displaced. In our experience, many born-traditional businesses have dragged their feet in responding not only to the threats posed by born-digital successes but also to the new opportunities these fast-growing newcomers present.

Specifically, born-traditional firms have a valuable chance to learn from their digitally savvy counterparts on multiple fronts—like how to extract maximum business value from data, how to tailor their offerings to a customer's every need, how to empower their employees to innovate, how to use digital technologies such as cloud computing, and how to rethink their organizational structures. Indeed, findings from our recent survey show that born-traditional companies have lagged behind their born-digital counterparts in several respects, including how far along they are in digital transformation, where they focus their digital efforts, and how they use analytics.



## DIGITAL TRANSFORMATION

Most of the born-digital companies in our study consider themselves digitally mature, whereas most of the born-traditional companies are still transforming.

**9%**

**OF BORN-TRADITIONAL COMPANIES SURVEYED ARE DIGITALLY TRANSFORMED**

**73%**

**OF BORN-DIGITAL COMPANIES SURVEYED ARE DIGITALLY TRANSFORMED**





## UNDERSTANDING WHAT'S BEHIND BORN-DIGITAL NIMBLENESS AND SPEED

Why are born-digital companies so much more nimble than born-traditional ones, and how do they manage to grow so quickly? In part, it's because born-digital enterprises have less to lose than their born-traditional counterparts do. That is, they don't have to destroy something to create something else. That's why they can more easily move quickly and with less disruption.

For born-traditional companies willing to initiate major change, walking away from the winning formula that got them where they are today is difficult. Closing stores, shutting down factories, outsourcing functions, using analytics in new ways to get insights on pricing and promotion strategy—all such moves require painful choices and a willingness to destroy old ways of doing business. That's especially upsetting and frightening for the people who created those old ways of doing things.

### CUSTOMER JOURNEY

Born-digital companies focus on understanding and improving the customer journey, and they use customer data more proactively than born-traditional companies do.



**49%** of born-digital companies report having a single view of the customer across all of their business areas.

**80%** of born-digital companies have fully digitized the customer journey, as compared to only **20%** of born-traditional companies.

### CLOUD COMPUTING

Born-digital companies adopt cloud-based applications more readily than born-traditional ones do.



**73%** of born-digital companies cite using a high amount of cloud-based applications as compared to only **30%** of born-traditional companies.

### ADVANCED ANALYTICS

Born-digital companies embrace advanced analytics and agile methodologies more than born-traditional companies do.

**69%** of born-digital companies use advanced analytics in their marketing efforts as compared to only **26%** of born-traditional companies.

**91%** of born-digital companies use agile methodologies to introduce new products and services as compared to only **39%** of born-traditional companies.



## BBVA'S USE OF DATA TO SHARPEN ITS COMPETITIVE EDGE<sup>2</sup>

Madrid-based BBVA, a global financial group, set out to enhance its use of data to drive its competitiveness. The strategic pivot involved several steps.

- Established a wholly owned data and analytics subsidiary to serve as BBVA's data science center of excellence, staffed it with newly recruited data scientists, and crafted strategies for retaining them
- Taught employees throughout the company about why data-driven transformation was important and how it worked, including showing them how data science applications boosted sales and customer engagement
- Paired the data scientists with business unit heads to co-create operational improvements, such as delivering individualized product recommendations to branch managers on demand
- Converted the best new data-driven work practices into tools and techniques that could be reused across the company, including a customer analytics platform that let users throughout BBVA find data models and solutions to problems already solved
- The new data and analytics subsidiary launched 40-plus data science projects for dozens of business units within BBVA, including a flagship commercial data product for point-of-sale customers that enabled merchant users in Spain to achieve margins 25% higher than their compatriots who weren't using the application

2. Wixom, Barbara H. and Asadi Someh, Ida. "Accelerating Data-Driven Transformation at BBVA" MIT CISR Research Briefing, July 2018.

## EMBRACING AN INNOVATION MINDSET—GIVING UP MANAGEMENT CONTROL

In taking a page from their born-digital counterparts' playbook, born-traditional companies will have to make two especially daunting changes. First, they'll have to adopt a new mindset—one characterized by rapid prototyping and experimentation. And second, they'll have to let go of the centralized control and process management approach they've long used.

Industrial Era principles and practices have been honed across many decades—from the eighteenth century to today. Its defining characteristics include the achievement of economies of scale, the establishment of repeatable and predictable physical processes, and the use of centralized and hierarchical decision making. Some of the elements of that approach are still needed today to support operational efficiency—and born-digital companies can benefit from mastering them, too. But when it comes to the innovation and growth that born-digital businesses excel at, other elements of the Industrial Era approach have become increasingly out-of-date—and even harmful for traditional, born-traditional companies.

Modifying a born-traditional approach to business will require courage on the part of these companies. Understanding the journey one company followed demonstrates that it can be done.



### DATA

**Born-digital companies use data across the organization more effectively than born-traditional companies do.**

**Survey response:** Our digital investments are focused on value creation and have clear, measurable success metrics.

**Survey response:** Data is shared across the entire business; it is not siloed in one team.

**Survey response:** We actively mine customer data to build future products and make changes to satisfy customers.



### BORN-DIGITAL

**80%**  
SOMEWHAT AND  
STRONGLY AGREE

**65%**  
SOMEWHAT AND  
STRONGLY AGREE

**75%**  
SOMEWHAT AND  
STRONGLY AGREE



### BORN-TRADITIONAL

**44%**  
SOMEWHAT AND  
STRONGLY AGREE

**36%**  
SOMEWHAT AND  
STRONGLY AGREE

**28%**  
SOMEWHAT AND  
STRONGLY AGREE





## **AIRBUS INVESTS IN DIGITAL TRANSFORMATION WITH THE FUTURE IN MIND**

European aerospace manufacturer Airbus remained committed to investing in digital transformation even as the COVID-19 pandemic led to order cancellations and delivery delays. Airbus had set out to put digital at the center of how aerospace products are designed, manufactured, and operated—with an eye toward reducing costs, accelerating time to market for its products and meeting its customers' expectations for quality, safety, and environmental performance. To lay a foundation for success, the company:

- Maintained critical mid-term investments in digital design capabilities for next generation aircraft, even as the company faced a severe disruption in its markets with the impact of COVID on the aviation industry.
- Continued 'Industry 4.0' initiatives centered on advanced analytics to improve production efficiency for existing programs and support airlines with advanced fleet management and predictive maintenance solutions, while investing in artificial intelligence, and quantum technologies.

Airbus' investment in digital has delivered impressive results. For instance, ongoing digitalization of the company's entire manufacturing ecosystem enabled it to keep operating its production facilities and managing deliveries throughout the COVID-19 pandemic. And savvy deployment of digital tools and technologies is supporting strategic projects—including the Future Combat Air System, the European defense technology initiative led by France, Germany, and Spain to develop sixth-generation fighter-jet technologies and fully automated remote air platforms. Future projects also include using digital to improve carbon-emission performance in Airbus's next-generation hydrogen-powered aircraft as well as eVTOL air taxi vehicles.

3. Bellamy III, Woodrow. "Airbus CEO Bets on Future Benefits of Digital Design Investments," Aviation Today, 4 August 2020, [www.aviationtoday.com](http://www.aviationtoday.com).

To up their digital game, born-traditional companies will have to make major changes on multiple fronts—including their business and operating models, their organizational cultures, and their talent management approaches. Companies that tackle those tasks now will stand the best chance of surviving the disruption that born-digital enterprises have introduced into the business environment.

## LEADERS' TAKEAWAYS

- 1** **Be open** (1) to adopting new business and operating models that help you get greater value from data and (2) to designing new organizational structures that boost your digital prowess—such as integrating your IT organization more tightly with the business.
- 2** **Foster an agile, innovative culture** to accelerate your product development processes—for instance, by establishing collaborative relationships with external partners versus viewing them through an us-versus-them lens.
- 3** **Craft strategies for managing the staff turnover** that will inevitably result from making the changes needed to up your digital game such as stipulating new skill requirements, setting forth new job definitions, starting to use new technologies, shifting from command-and-control to employee empowerment, and creating new organizational structures.

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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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