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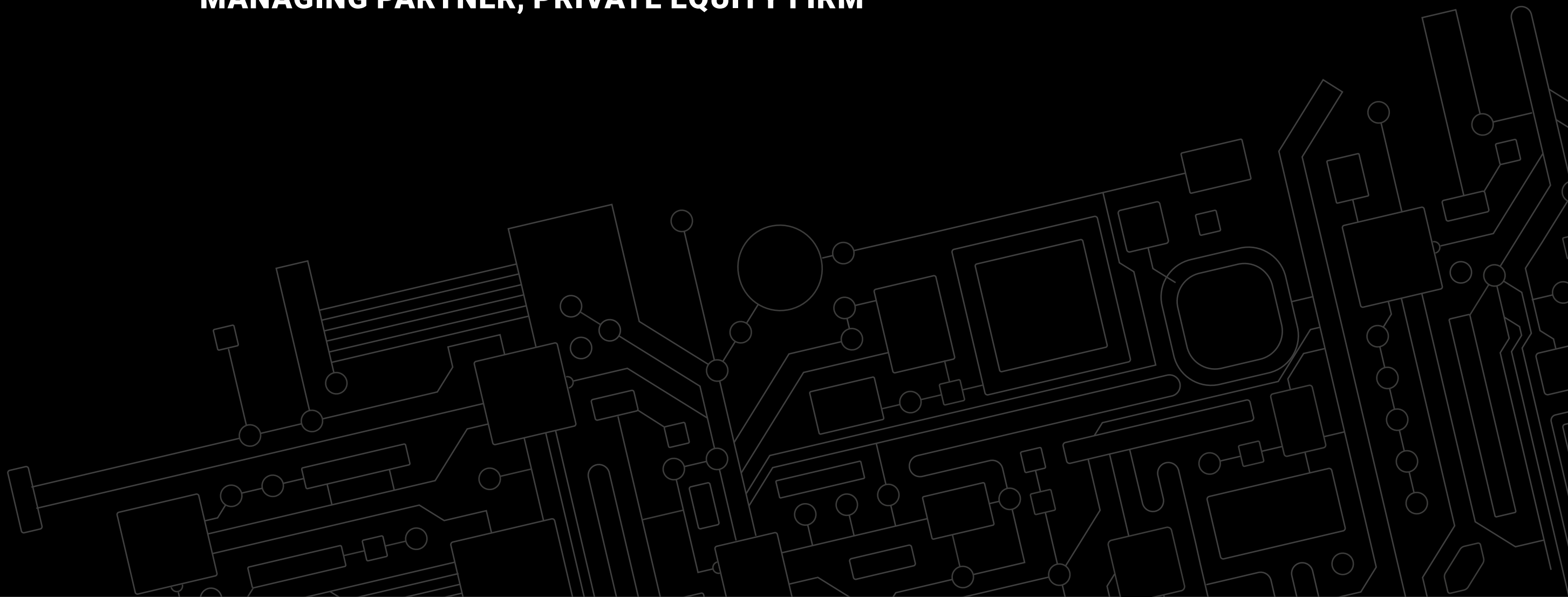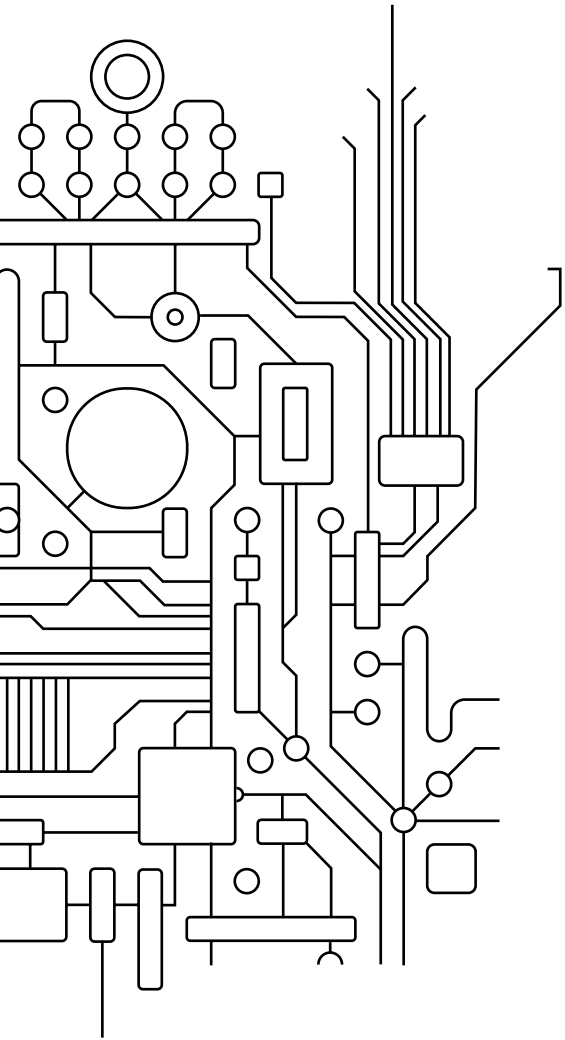
BORN-DIGITAL

What can any company learn
from born-digital approaches?

" The good news is that you can put up a web page today and tomorrow you can have a billion customers. The bad news is that you can put up a web page today and tomorrow have a billion customers."

— MANAGING PARTNER, PRIVATE EQUITY FIRM

FOREWORD

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. The pandemic has accelerated the world's reliance on digital communication and e-commerce, and left many born-traditional organizations unable to effectively ride the wave of opportunity offered up through such a long period of enforced physical restrictions.

However, that doesn't mean that born-digitals are now on a one-way street towards market domination. As they move into recovery mode post-COVID-19, they must carefully consider which of their unique characteristics could present advantages and understand how to swiftly seize them to sustain their success in the new world order that's to come.

In fact, 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 our in-depth study of born-digital companies.

The results of the effort yielded this article series, together with a diagnostic tool 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. Likewise, traditionally born companies can use the tool to quickly focus on and prioritize areas they need to address.

REPEATED MISSTEPS, EVOLVING COMPETITION AND TALENT MANAGEMENT

While the pandemic was the catalyst for a surge in demand for many born-digital businesses, we have also uncovered a number of prominent themes that enterprises who did not materially benefit in this way must keep in mind to help them craft sound recovery strategies to accelerate their recovery in the post-pandemic period.

Repeated missteps that cost time and waste money, eroding shareholder and stakeholder value; the competitive threats posed to early digital innovators by second-wave born-digital enterprises and some born-traditional companies; and an almost unanimous trail behind the curve when it comes to talent management are challenges in need of immediate attention.

Both born-digital companies and born-traditional companies can also 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 those 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 their future, even if it is one that proves permanently altered in some respects by the pandemic.

ANGELA ZUTAVERN
Managing Director
azutavern@alixpartners.com
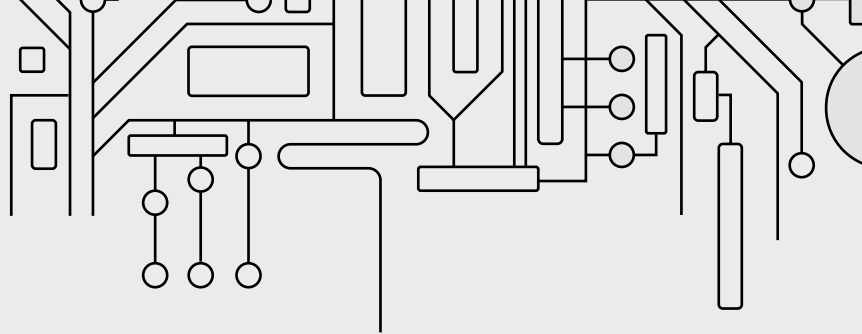
WHAT'S THE DIFFERENCE?

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
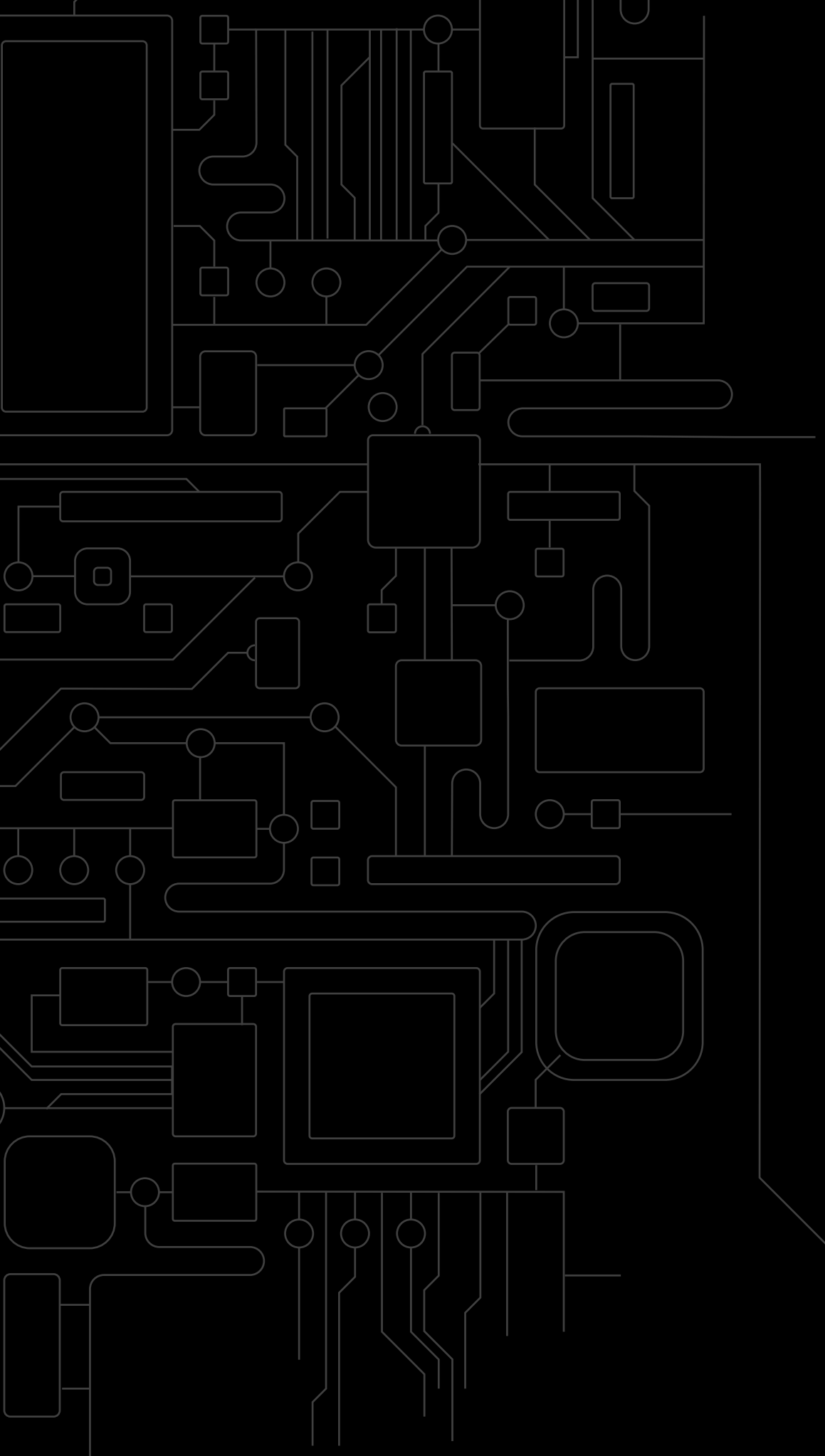- Legacy systems

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 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 completed 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.

CONTENTS

> **"** You're starting it from scratch with a business that's growing and doubling every year."

— MANAGING PARTNER, PRIVATE EQUITY FIRM

1 UNIQUE ANCESTRY AIDS FAST GROWTH—BUT CAN ALSO IMPERIL HEALTH

It's been nearly 25 years since the dawn of the born-digital era, which birthed a super-breed of companies that grow at blistering paces. Take Groupon, launched in 2008. It took only two years for the company to reach $1 billion in annual revenue, which seemed fast at the time. Bird, a micromobility company, is another apt "unicorn" example.

Now operating in
120 CITIES,
the personal mobility start-up achieved a
$1 BILLION VALUATION
in a mere
14 MONTHS
after its inception.
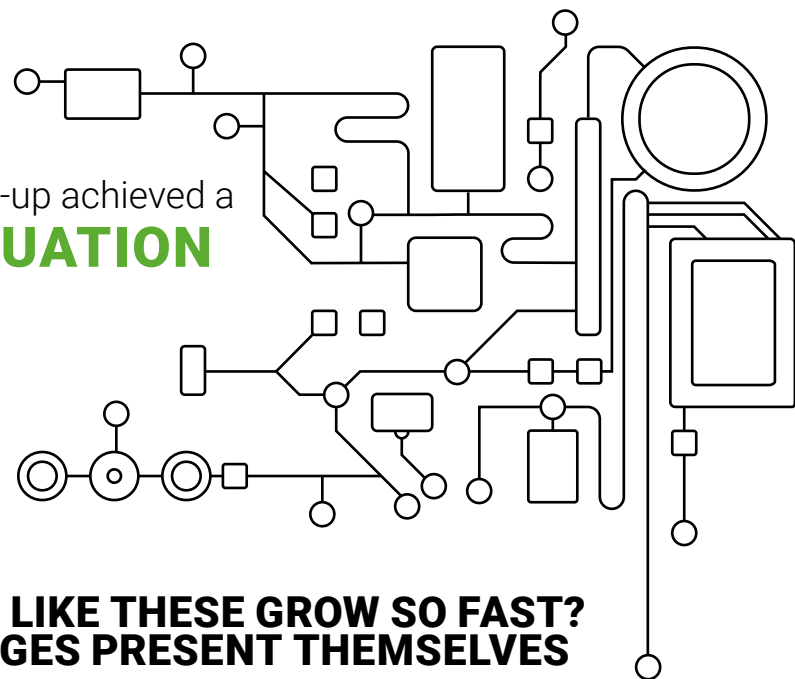
HOW DO COMPANIES LIKE THESE GROW SO FAST? AND WHAT CHALLENGES PRESENT THEMSELVES WITH SUCH RAPID SCALING?

We can piece together answers to those questions by looking at:

1 The ancestries of born-digital companies—including the lineages of their leadership teams.

2 The components of the companies' DNA—particularly the very speed at which they grow and assemble leadership teams.

3 The kinships in the business ecosystems those enterprises take part in.

The story that emerges from mapping your so-called business family tree is fascinating and will likely surprise you. These three elements of a born-digital company's ancestry confer not only vital advantages if a business manages them right, but also dangerous weaknesses if mismanaged.

LINEAGE OF THE LEADERSHIP TEAM: DIVERSITY OF EXPERIENCE IS QUEEN

In a born-digital enterprise, the company itself or its product or service offering might be new, but most of the members of the leadership team have acquired considerable experience throughout their lives. We call that their business lineage, and it arises from the industrial, functional, educational, professional, personal, and start-up expertise they've gained from their various previous endeavors.
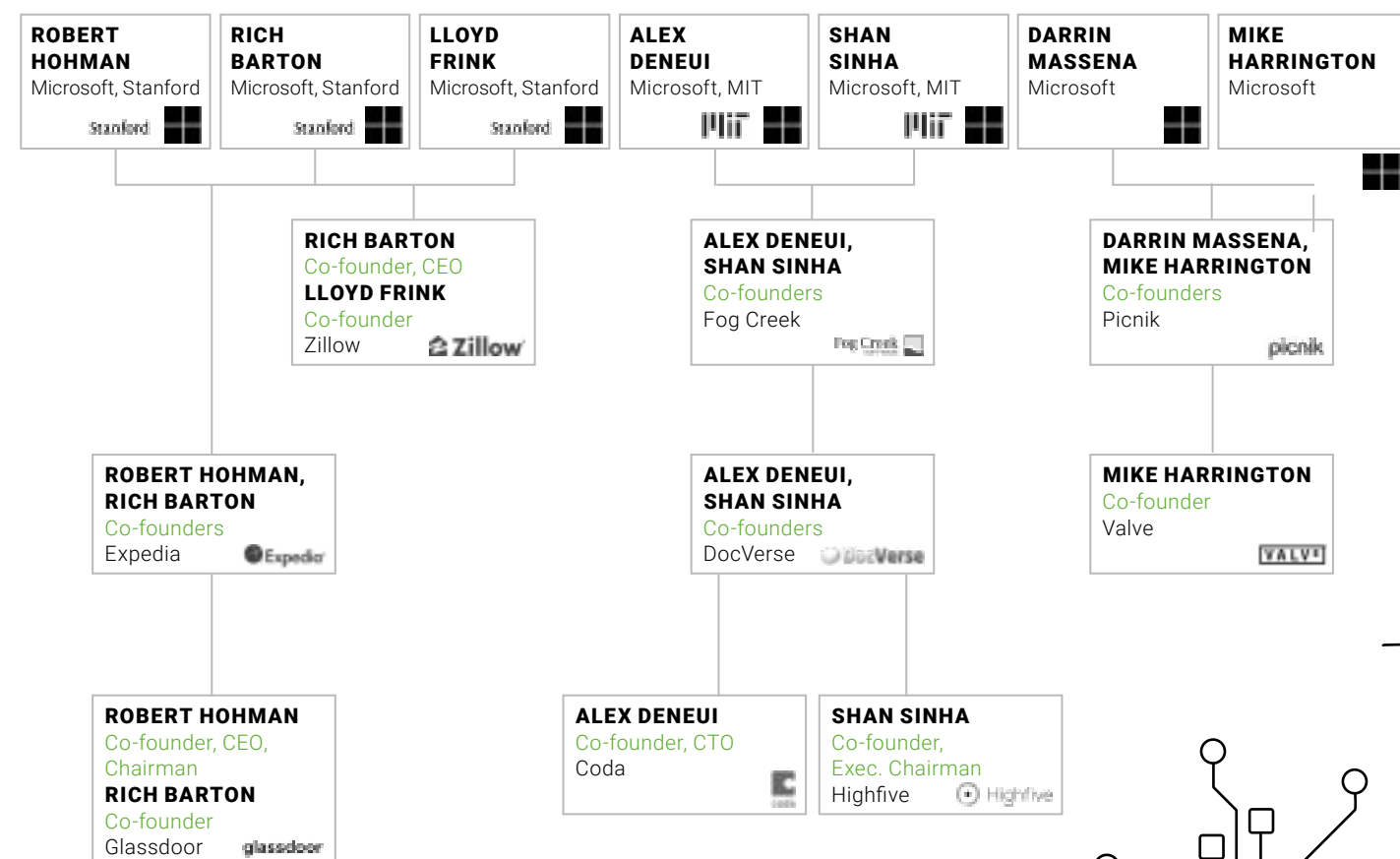
1,287 Apple employees have founded 599 new companies[1]

In tracing a business family tree, it's not just the lineage of the founder or CEO that matters. It's the combined lineages of all of the members of the top leadership team. Why? When senior executives bring diverse, complementary lineages to the table, a born-digital enterprise stands a better chance of succeeding. That's because members have the knowledge and skills required to better relate to customers and to anticipate—and surmount—the wide range of new challenges the company will face as it grows. Conversely, similar lineages within the top team can spawn weaknesses in the form of dangerous gaps in knowledge and expertise, leaving the company vulnerable when new threats arise.
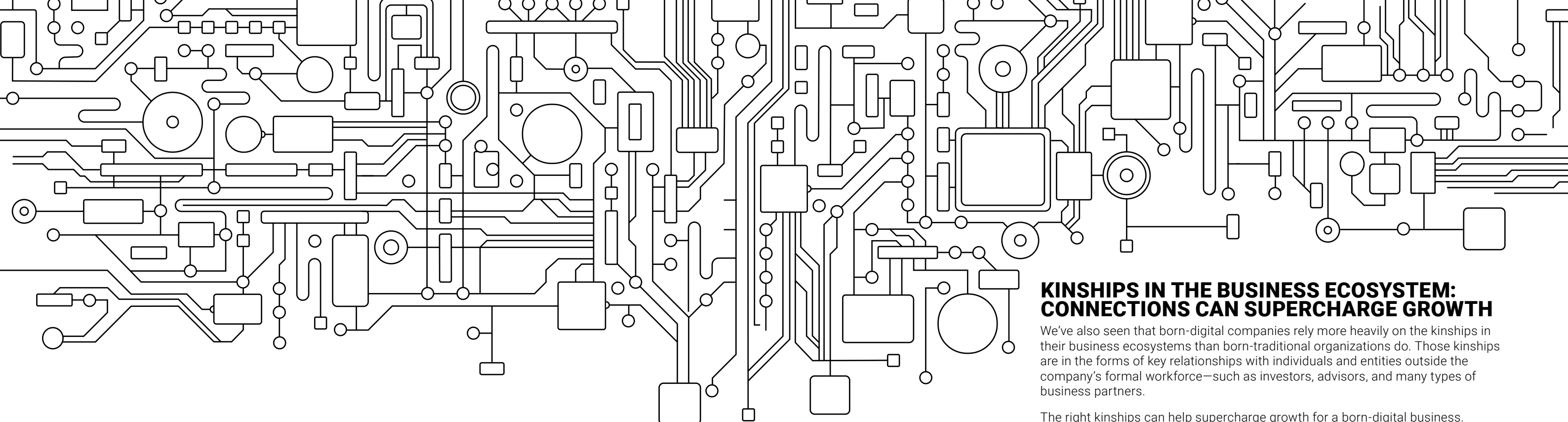
1. https://www.crunchbase.com/hub/apple-alumni-founded-companies#section-investors-that-invested-in-companies-in-this-hub

FAMILY TREE EXAMPLE

Microsoft · MIT · Stanford

This chart illustrates an example of Microsoft employees starting multiple new companies with classmates from business school who were also colleagues from Microsoft. Many founded multiple new companies together.

ROBERT HOHMAN — Microsoft, Stanford — Stanford
RICH BARTON — Microsoft, Stanford — Stanford
LLOYD FRINK — Microsoft, Stanford — Stanford
ALEX DENEUI — Microsoft, MIT — MIT
SHAN SINHA — Microsoft, MIT — MIT
DARRIN MASSENA — Microsoft
MIKE HARRINGTON — Microsoft

RICH BARTON — Co-founder, CEO — **LLOYD FRINK** — Co-founder — Zillow

ALEX DENEUI, SHAN SINHA — Co-founders — Fog Creek

DARRIN MASSENA, MIKE HARRINGTON — Co-founders — Picnik — picnik

ROBERT HOHMAN, RICH BARTON — Co-founders — Expedia

ALEX DENEUI, SHAN SINHA — Co-founders — DocVerse

MIKE HARRINGTON — Co-founder — Valve — VALVE

ROBERT HOHMAN — Co-founder, CEO, Chairman — **RICH BARTON** — Co-founder — Glassdoor — glassdoor

ALEX DENEUI — Co-founder, CTO — Coda

SHAN SINHA — Co-founder, Exec. Chairman — Highfive — Highfive
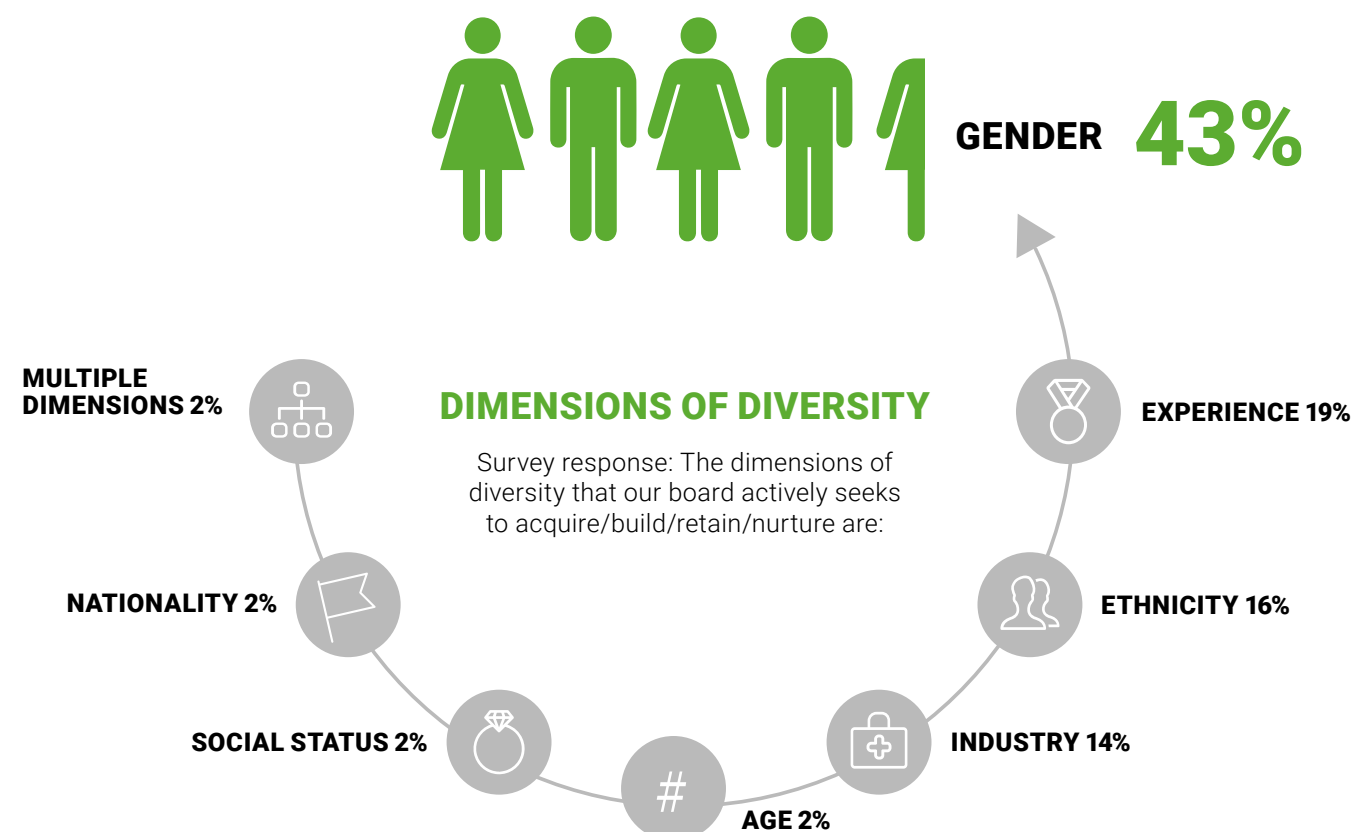
DNA OF THE COMPANY

Leadership and culture are closely related, and the collective past lineage of a born-digital company's leadership team is a major factor in forming the cultural DNA that passes on to a new endeavor.

Fast growth is a fundamental component of those enterprises' DNAs, but that manifestation of speed presents both opportunity and challenge. For instance, many born-digital businesses need large infusions of capital to fuel their growth. And company leaders have to determine how best to generate that required capital—all while the company's revenue is expanding ahead of profits and the business is scaling at breakneck speed.

To tackle those tough decisions, born-digital companies rely on another manifestation of speed: the rate at which they bring people on board and acclimate them to the new enterprise. When the time comes to assemble a top team for a new born-digital enterprise, founders typically hire people they know and have worked with in the past.

It's faster; everyone involved is already familiar with one another's working style; and they all speak the same languages of growth, innovation, and risk taking. That type of cultural DNA often takes shape while individuals are working at previous start-ups, and it gets solidified with each successful exit.

How do born-digital companies define diversity?

GENDER **43%**

DIMENSIONS OF DIVERSITY

Survey response: The dimensions of diversity that our board actively seeks to acquire/build/retain/nurture are:

MULTIPLE DIMENSIONS 2%

EXPERIENCE 19%

NATIONALITY 2%

ETHNICITY 16%

SOCIAL STATUS 2%

INDUSTRY 14%

AGE 2%

KINSHIPS IN THE BUSINESS ECOSYSTEM: CONNECTIONS CAN SUPERCHARGE GROWTH

We've also seen that born-digital companies rely more heavily on the kinships in their business ecosystems than born-traditional organizations do. Those kinships are in the forms of key relationships with individuals and entities outside the company's formal workforce—such as investors, advisors, and many types of business partners.

The right kinships can help supercharge growth for a born-digital business. For instance, advisors such as tech-world luminaries or celebrities can bring instant credibility and marketing attention to a young company by their serving on the company's board or endorsing its product or service, while partners such as third-party service providers with specialized skills can perform business processes and activities that aren't in a born-digital company's wheelhouse, such as payroll and other back-office functions.

Together those kinships give a born-digital company unprecedented access to customers, suppliers, and global markets—and free up company leaders to focus on developing and increasing the enterprise's core business. As with lineage and DNA, born-digital companies should seek out and build diverse business-kinship relationships. Not having a robust enough kinship group of advisors, investors, and partners or not looking outside the company's usual network forfeits the amplified benefit.

LEADERSHIP TAKEAWAYS

1 Map out your business family tree; examine the story that emerges around lineage, DNA, and kinship. Take steps to strengthen any experience gaps in the leadership team—especially in the areas of strategy, industry knowledge, customer insights, talent management, and business operations.

2 Candidly assess all aspects of diversity and determine whether there's enough genetic variety or perhaps too much inbreeding within the team. If your executive committee is made up only of people you've worked with in the past, evaluate the pros and cons of having that tried-and-true tribe at your company's helm.

3 Take stock of the business ecosystem—kinships your company participates in—and ask yourself whether the relationships are helping the company grow or holding it back.

To read the full article on the ancestry of born-digital companies
CLICK HERE

2 HOW TO EXCEL AT DIGITAL ETHICS AND DATA PRIVACY

Born-digital businesses that relegate digital ethics and data privacy to the back seat in favor of driving fast growth could end up crashing and burning instead of enduring. They risk unwittingly facilitating unethical (and sometimes even illegal) behaviors in their management ranks, workforces, and users.

Events during the pandemic have shown how quickly digital ethics can take center stage. Take video conferencing giant Zoom. The company had to scramble to restore its reputation after cybersecurity glitches erupted while usage of the technology soared during the COVID-19 pandemic.

Given these new realities, born-digital businesses will have to work even harder to excel at digital ethics and data privacy if they hope to mature into market leaders.

SEVEN PRINCIPLES OF PRIVACY BY DESIGN[1]

Privacy by design principles can help companies proactively meet this imperative. What's more, these principles reduce any temptation to cut corners to reach short-term goals, such as releasing a new product without proper security measures in place to accelerate speed to market.

1 Proactive, not reactive; preventive, not remedial

2 Privacy as a default

3 Privacy embedded into design

4 Full functionality: positive-sum, not zero-sum

5 End-to-end security, with lifecycle protection

6 Visibility and transparency

7 Respect for user privacy

HOW TO PREPARE FOR THE CHANGING LANDSCAPE

For many born-digital businesses, attending to digital ethics and data privacy may not seem nearly as exciting as driving topline growth by launching hot new products. But companies that embrace this effort can set themselves apart from their less-stringent rivals—including recovering more quickly in the post-pandemic era and scoring strong returns on investment through savvy risk mitigation.

How to start achieving those advantages? Explore these crucial questions:

? In what ways might the pandemic's impacts permanently change how we manage digital ethics and data privacy?

? How will rapid growth affect key elements of our culture, such as whom we hire, what products and services we offer, and where we operate?

? What commitments can we make to our stakeholder community—customers, employees, investors, regulators—with regard to digital ethics and data privacy?

? In what areas of digital ethics and data privacy can we anticipate regulatory changes, and how can we proactively design our processes to meet them?

? What ethical and privacy standards will our customers expect us to adhere to three to five years from now, and how well positioned are we to meet those expectations?

PUTTING DIGITAL ETHICS AND DATA PRIVACY AT THE CENTER OF PRODUCT DESIGN

Born-digital companies have to be nimble so they can drive changes in or swiftly adapt to customer expectations. But to build a company that lasts, leaders must also establish digital ethics and data privacy protection standards through consensus. That way, employees understand what's expected, and feel accountable for adhering to those standards. These standards define expectations on multiple fronts:

- Access to private data
- Use of data
- Accuracy and completeness in the collection of data about individuals or organizations
- Data subjects' legal rights regarding access to and ownership of their data
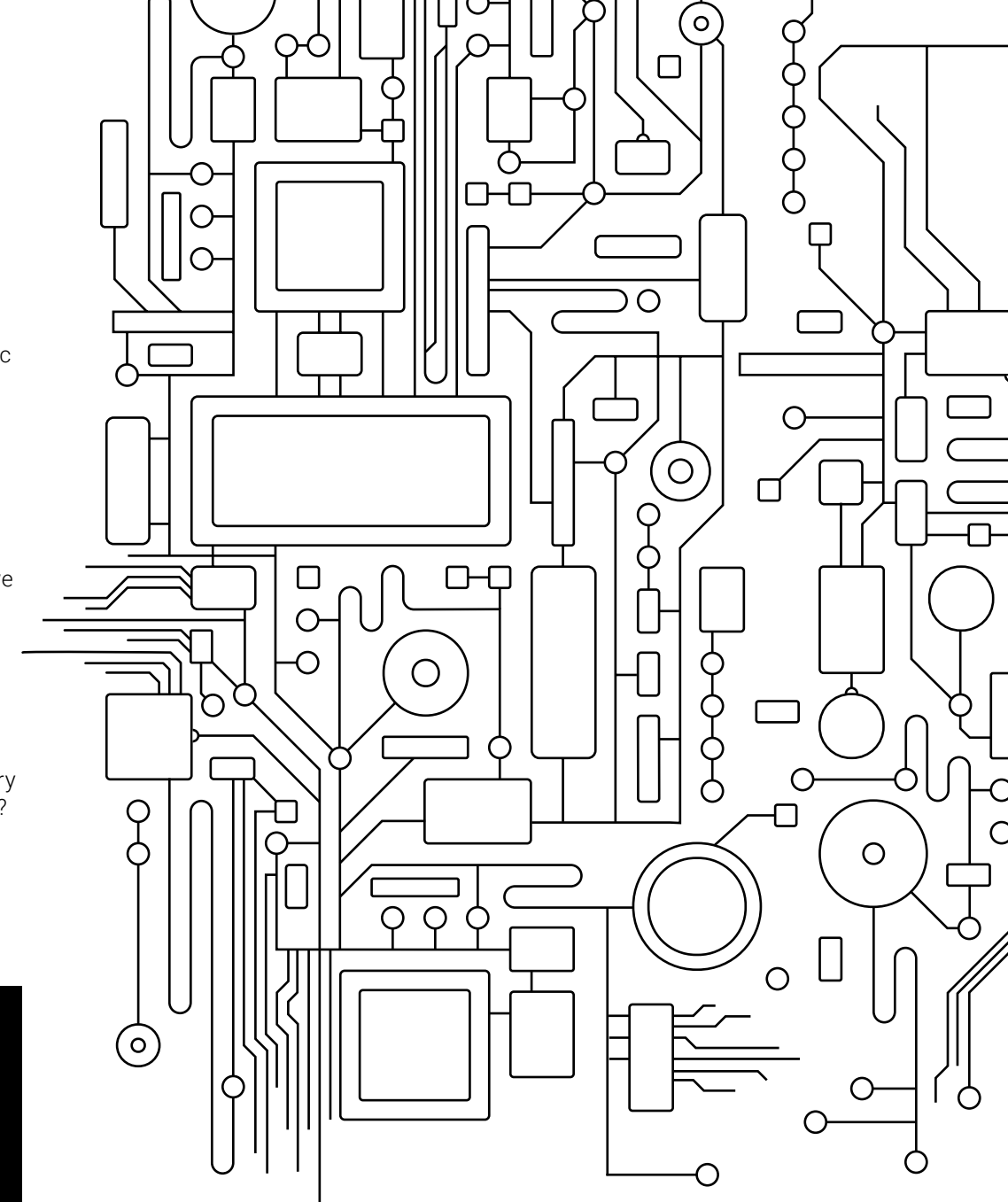- Rights involving inspecting, updating, or correcting data

Company leaders should also encourage wide adoption of the established standards throughout their organization. Doing so sends a clear message about which behaviors are acceptable—and which are not.

Equally important, these standards focus managers' and employees' attention on supporting the company's long-term objectives, such as developing products that meet requirements related to transparency and trust. Companies must put digital ethics at the core of their product or service design, rather than treating it as merely an add-on or a compliance measure.

LEADERSHIP TAKEAWAYS

1 Assess the degree to which people in your company prioritize fast growth over attention to digital ethics and data privacy.

2 Take stock of your company's current digital ethics and data privacy policies and standards and identify potential gaps or weaknesses that should be addressed.

3 Create opportunities for managers and employees to candidly discuss questions, such as which behaviors are acceptable and not acceptable, how regulations related to digital ethics and data privacy are changing, and what those changes imply for the ways in which your company operates.

To read the full article on digital ethics and data privacy **CLICK HERE**

1. First introduced by Ann Cavoukian, former Information and Privacy Commissioner of Ontario, Canada
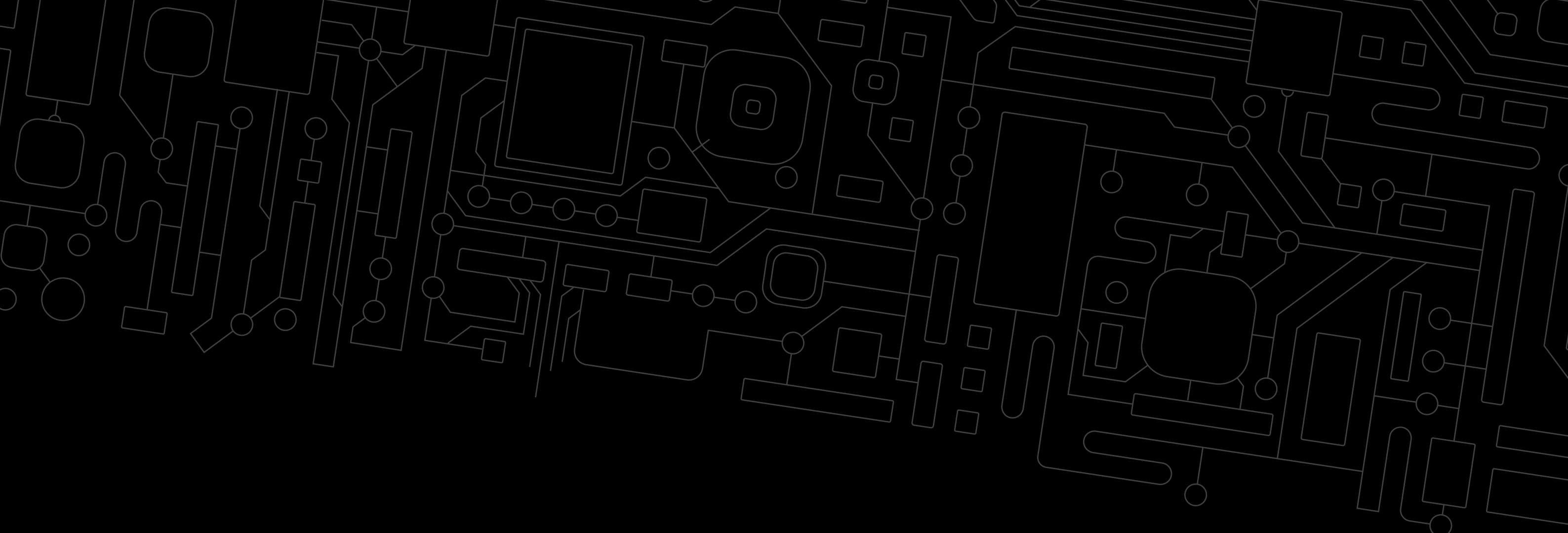
> "We had a board of investment specialists...
> I had six people with exactly the same skill sets
> and exactly the same backgrounds. For venture
> capital boards, you need real operators; and
> private equity boards need the same thing."

— CHIEF EXECUTIVE OFFICER, BORN-DIGITAL COMPANY

3 SECRETS FROM BORN-DIGITAL BOARDROOMS

Many of the companies born in the digital age are private, which makes it hard to gain insights into how their boards operate and learn of their boardroom best practices.

Our research examines what really happens behind closed doors at born-digital businesses. The secrets we uncovered point to four common pitfalls that boards at those companies are particularly vulnerable to. Here are two of those secrets to get you started…

SECRET #1: WHETHER THEY KNOW IT OR NOT, THE MANAGEMENT TEAM NEEDS HELP

We heard from born-digital boards that they spend a large portion of their time seeking to build the right management team—even well after the launch of the company. Understandable, and given the start-up nature of born-digital companies, it's not surprising to find gaps in the top team's expertise. But boards must close those gaps early on, otherwise shortfalls in the team's expertise can haunt—and hurt—the company long after it has ramped up operations.

Boards of born-digital companies should also tread lightly when it comes to making management changes, because every management change raises the risk of disrupting the company's culture and its growth trajectory. Inserting leaders with extensive management experience in traditional corporate operations into a start-up is a tricky balancing act—one that usually triggers resistance from both founders and employees. Moreover, the current members of a born-digital company's management team may bristle at the notion that 'corporate types' brought in by the board from outside will destroy the entrepreneurial culture that they value so much.
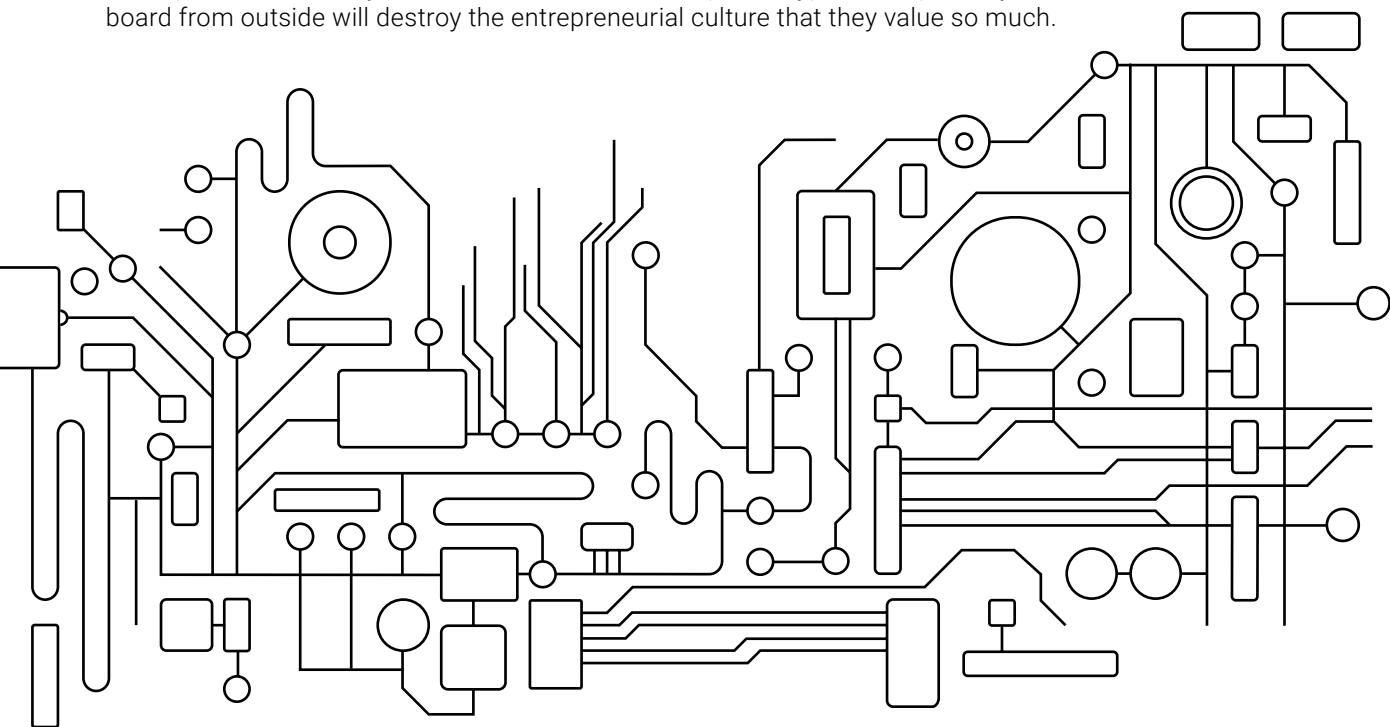
SECRET #2: TOO MUCH FOCUS ON OPERATIONS, NOT ENOUGH OVERSIGHT

Findings from our study show that the boards of born-digital companies get much too involved in the day-to-day running of the business—for example, financial planning and analysis processes, marketing approaches, or helping negotiate supplier relationships. What's more, the younger the company is, the more pronounced the problem.

BORN-DIGITAL BOARD INVOLVEMENT IN SUPPORTING THE MANAGEMENT TEAM IN OPERATIONS AND STRATEGY EXECUTION

NEARLY 100%
Companies **under** 10 years old

64%
Companies **over** 10 years old
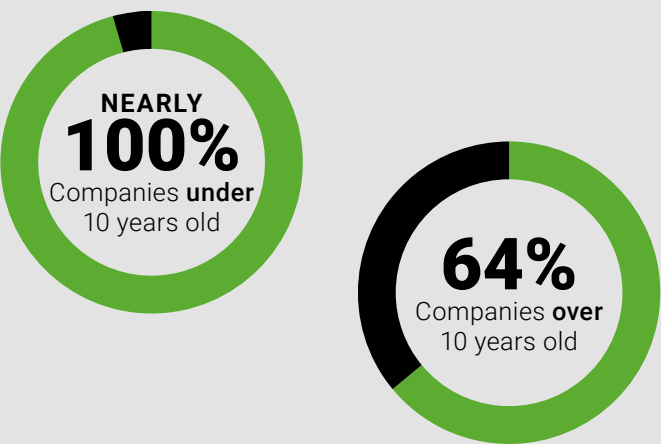
Born-digital boards' desire to involve themselves in their companies' operations is understandable, but that over-involvement sometimes occurs even though the directors themselves may not have the right operations expertise. Instead, the directors tend to know much more about the area of investment—which calls for a decidedly different skill set.

If born-digital boards are spending too much time involving themselves in their companies' daily operations and in installing a winning management team, what responsibilities are they shirking? The answer is risk oversight. Today's digital waters are fraught with complex threats that can destroy unwary companies overnight, particularly given that born-digital companies operate in a space characterized by immature or even non-existent laws and regulations.

But there's cause for hope. Even though born-digital boards spend less time on risk oversight than their born-traditional counterparts do, our study shows that born-digital boards see the value of actively managing risks to their company's reputation.

Such a long-term perspective is important, but born-digital boards have to follow that up with action—specifically, by allocating sufficient time to oversight, governance, and the development of policies that will enable the company to thrive in the face of daunting and diverse risks. Boards that early on set up the right management teams that include members with operational expertise can free up the time needed to devote to risk management.

TRADITIONAL COMPANY BOARDS PLACE A HIGHER EMPHASIS ON RISK MANAGEMENT

Survey response: The top three objectives of our board are:

BORN-DIGITAL	BORN-TRADITIONAL
Increase value	Increase value
Ensure sound financials	Ensure sound financials
Clarify and follow strategy	Manage risks to stakeholders

THE GOOD NEWS:

93%

OF OUR BORN-DIGITAL RESPONDENTS STRONGLY AGREED that their boards were more attentive to safeguarding their companies' long-term reputations over-achieving short-term goals.

LEADERSHIP TAKEAWAYS

1 Reality-check your private valuations with lessons learned from recent tech unicorn IPOs.

2 Close experience gaps in the management team early on, and guide board members' attention away from over-involvement in operations.

3 Examine your company's in-flight and planned strategies and risks, including cyberbreaches, the use of artificial intelligence, and data ethics and privacy. Take a proactive approach to your digital strategy, oversight, and defense.

4 Assess your board's digital savvy, adding expert directors and educating existing directors and executive team members to strengthen that savvy.

To read more secrets from born-digital boardrooms
CLICK HERE

4 AVOIDING THE TALENT TRAP THREATENING BORN-DIGITAL COMPANIES

Founders of born-digital firms are typically brilliant, but too many of them make a common mistake: hiring people early on who are friends, who have similar backgrounds, and who look and think like them. Result? The business lacks the diverse talent needed to respond creatively and swiftly to tough challenges that arise in the future—whether it's fast-changing customer demands (at best) or a global pandemic (at worst).

It may seem obvious that bringing in the right mix of corporate governance and larger-scale operating experience early in the process is smart business, but too many born-digital companies fail to meet that imperative. Why? Multiple reasons, ranging from the founder's mindset to the speed at which these companies scale, to culture fit considerations.

FOUNDERS' MINDSET: IF YOU'RE LIKE ME, AND I LIKE YOU—YOU'RE IN

Founders of born-digital enterprises are often brilliant, driven, and focused. Those attributes clearly contribute not only to a founder's personal success but also to the success of the founder's company. But they can also blind founders to the importance of adding people with extensive operating experience to their boards and management teams.

In fact, we've seen that many founders have a set of go-to people they put on their boards and executive teams: individuals they know, like, trust, and can easily communicate with. They may even have the same strengths and weaknesses the founder has. Result? A leadership team that lacks diversity on many fronts—not only gender and race, but also business experience. In our view, lack of experiential diversity at the top makes a management team vulnerable to missteps that have dangerous consequences.

SCALING SPEED: SO BIG BUT OH, SO YOUNG

Many of the investors we interviewed pointed out that the speed at which born-digital companies scale can create a mismatch between their size (quite large) and their age (quite young). But even though the company may become sophisticated and complex as it grows—for example, in how it uses and sells customer data, or with regard to the multiple jurisdictions and therefore regulatory environments it operates in—the company is chronologically young and therefore falls prey to common pitfalls like not providing the right levels of customer service, not building out reliable and robust supply chains, and myriad other challenges that come with scale.
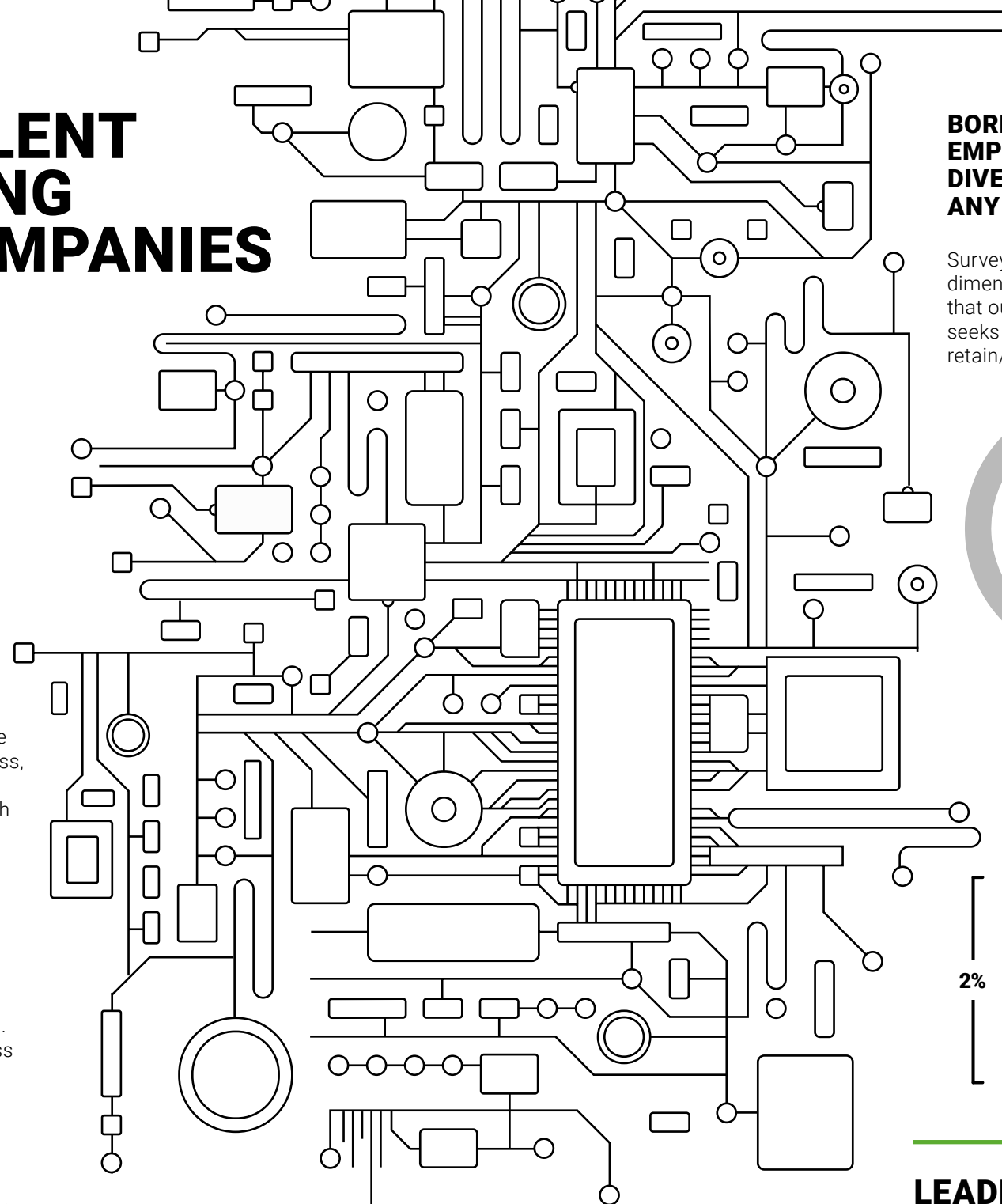
CULTURE FIT

We spoke with many born-digital executives and some investors, who described how difficult it is to bring in people with strong experience in operating a company that's growing fast. Such people must be able to assimilate quickly into the distinct culture of a born-digital business that's rapidly scaling up. If they come from traditional companies—ones that are risk averse and utilize a centralized-authority model with a command-and-control organizational structure—their philosophy may emphasize security of data, redundancy of technology, and control of business processes. But the born-digital business they get hired into philosophizes decidedly differently by instead emphasizing growth, innovation, and risk taking.

That cultural mismatch could lead to the inability of the new executive to be successful in the job's tasks. The organization sometimes rejects them, and as a result, the born-digital company may become wary of bringing in people with extensive experience in traditional companies. That's understandable—but it also means the company misses out on the diverse capabilities and knowledge it will need in order to excel as it grows.

BORN-DIGITAL BOARDS EMPHASIZE GENDER DIVERSITY MORE THAN ANY OTHER FORM

Survey response: The dimensions of diversity that our board actively seeks to acquire/build/retain/nurture are:

GENDER 43%
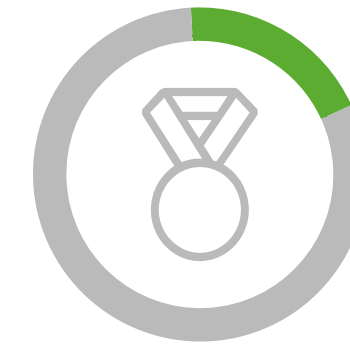
EXPERIENCE 19%
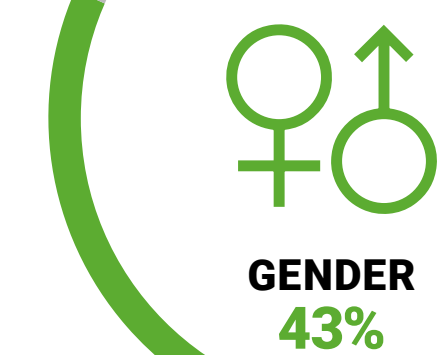
ETHNICITY 16%

INDUSTRY 14%

2%
- # AGE
- NATIONALITY
- MULTIPLE DIMENSIONS
- SOCIAL STATUS

LEADERSHIP TAKEAWAYS

1 Diagnose the degree of experiential diversity in your senior leadership team and board early, and strengthen it as needed to prevent managerial missteps.

2 Cast wider nets when recruiting and interviewing candidates for key leadership roles and apply insights on the personality characteristics of potential hires to ensure that you're bringing in the talent needed to succeed not only today but also tomorrow.

3 Invest early in a Chief Talent Officer and a professional human resources management team that can craft a rigorous talent strategy complete with formalized processes for job-performance evaluation and succession planning.

To read the full article on avoiding the talent trap
CLICK HERE

"The scaling of important infrastructure is typically a growing pain that can ultimately limit success. It is exacerbated by the absolute pace of growth in born-digital companies, which are really good at brand building but not so good at the back end. They're great at products, services, and customer acquisition but not at supply chain."

— SENIOR PRIVATE EQUITY EXECUTIVE
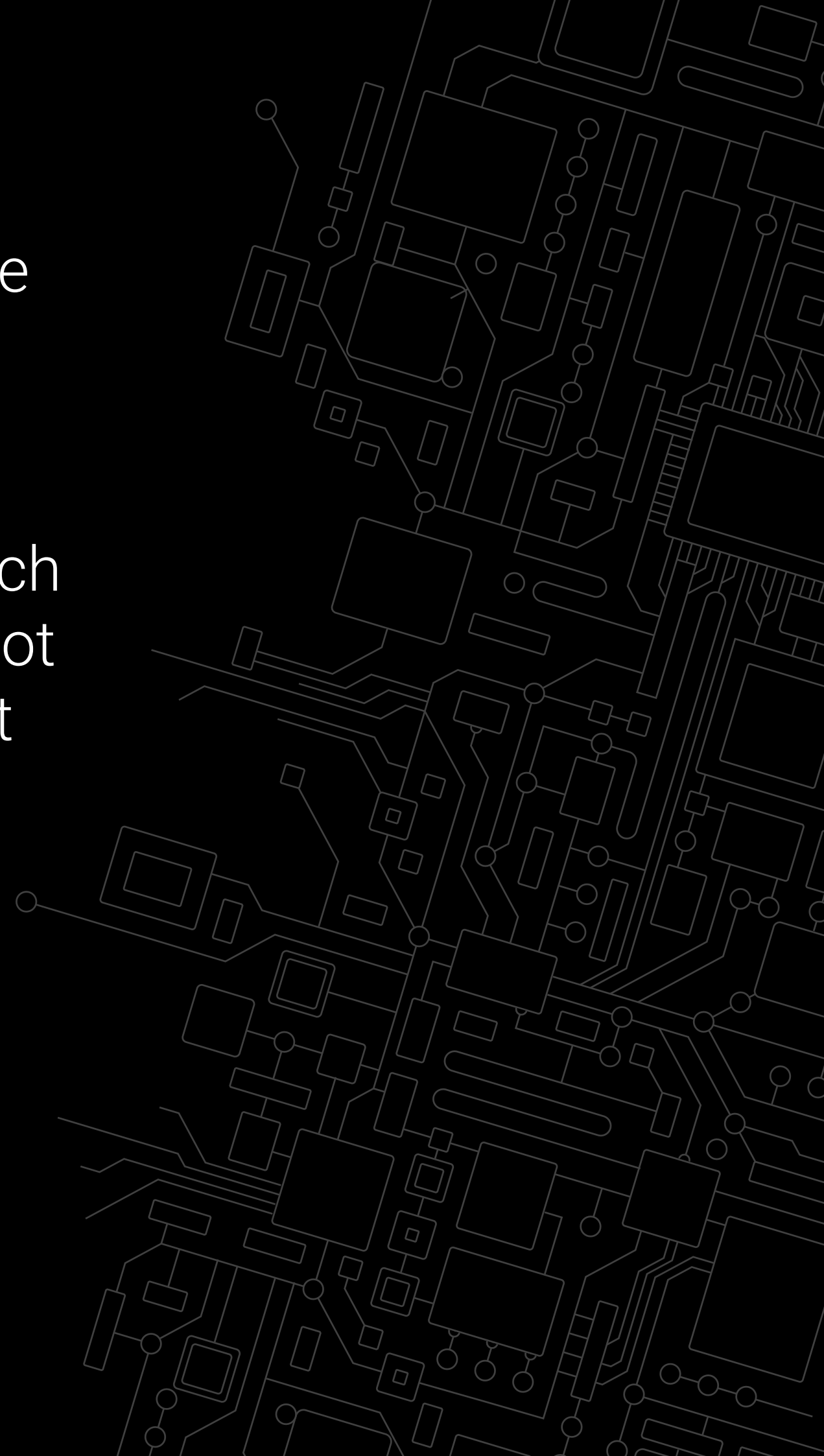
5 THE MISSING INGREDIENT FOR BORN-DIGITALS: EXPERIENCE IN OPERATING AT SCALE

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.

For most people, the "sexiest" business activities seem obvious: They're the ones that directly drive revenue growth—launching new products versus ensuring efficient returns, for example. And according to findings from our study, the entrepreneurs who run born-digital companies feel the same.

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

DIGITAL EFFORTS

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, 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.

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.

They also recognize the importance of improving their customers' experience as a way to boost company growth and improve customer loyalty. This suggests that although they view customer experience as important for myriad reasons, it often takes a back seat in their set of priorities.

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 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.

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?" The most forward-looking born-digital business leaders will keep asking such questions long after a crisis has passed.

LEADERSHIP 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.

To read the full article on operating at scale
CLICK HERE

6 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. What's more, the gap between the born-digital front-runners in this race and the laggards continues to grow in size. 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
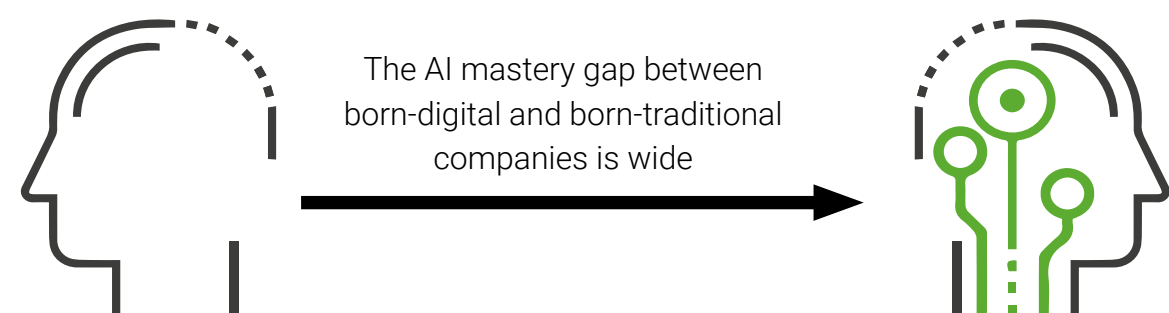
60%
OF BORN-TRADITIONAL COMPANIES HAVE BARELY EVEN STARTED ON AI

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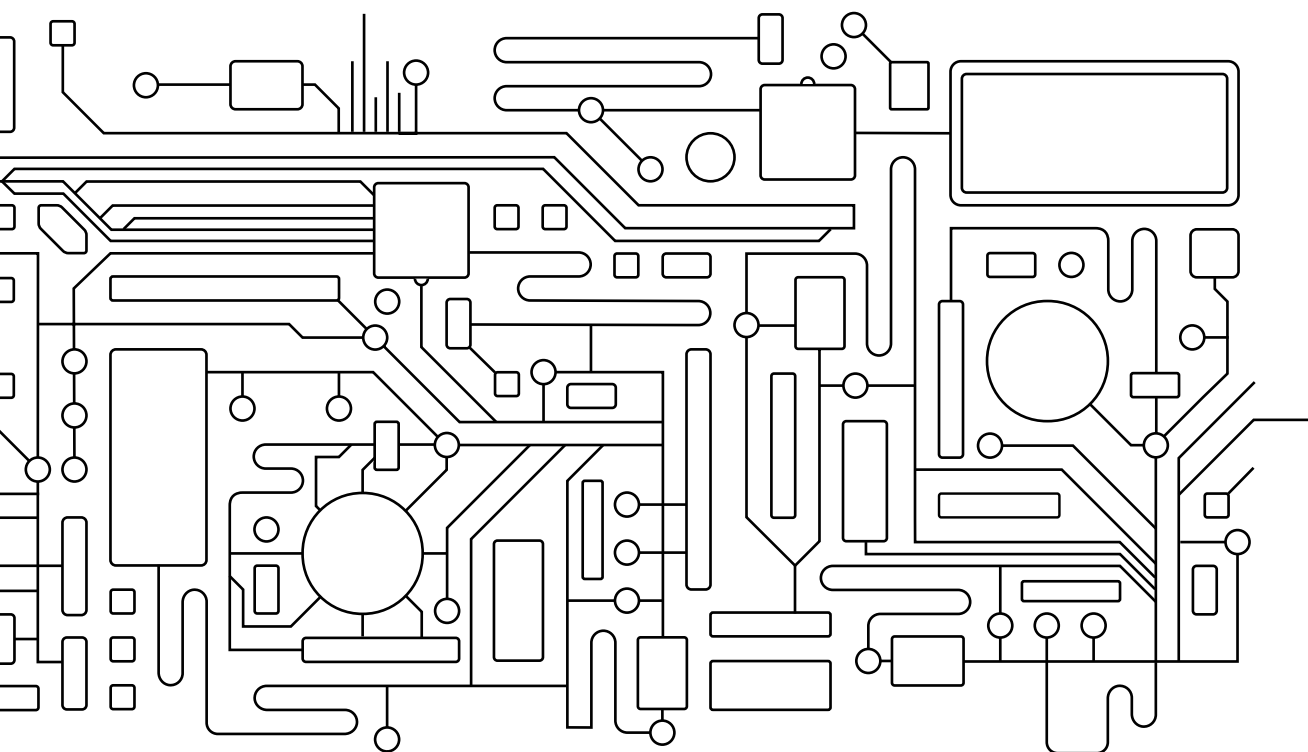
AI TAKES CENTER STAGE

From nanotechnology cancer diagnoses to package-delivery-time estimates, AI plays a central role in the products and services that most born-digital companies offer. In fact, in the business-to-consumer world, most 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.

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. AI is becoming increasingly pervasive at born-digital companies across an array of industries. Why? Findings from our study suggest five reasons, three of which are outlined here:

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. 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.

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 toolkit. They know that AI can perform routine work that enables people to bring more insight and creativity to their work. They know that, given the right training data, AI can even learn on its own about vital topics such as customer desires, margin drivers, and equipment failures. 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.

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. They 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, 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.

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. 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.[1]

Three ways to monetize data:

1 **IMPROVE INTERNAL EXECUTION**
Put data and analytics into the hands of employees who make decisions

50%
OF VALUE CAPTURED

2 **WRAP INFORMATION AROUND PRODUCTS**
Enrich products, services, and customer experiences by adding data and analytics

26%
OF VALUE CAPTURED

3 **SELL DATA**
Hardest way to monetize data; often requires a unique business model

24%
OF VALUE CAPTURED

1. MIT Center for Information Systems Research
Sources: MIT Center for Information Systems Research and AlixPartners analysis

LEADERSHIP TAKEAWAYS

1 Identify ways AI could help grow your business, expand on human/machine collaboration in your workforce, and improve your IT platforms so that AI becomes useful throughout your organization.

2 Brainstorm ways to beef up the proportion of AI talent in your workforce 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.

To read the full article on how born-digital companies are winning the AI race
CLICK HERE

"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
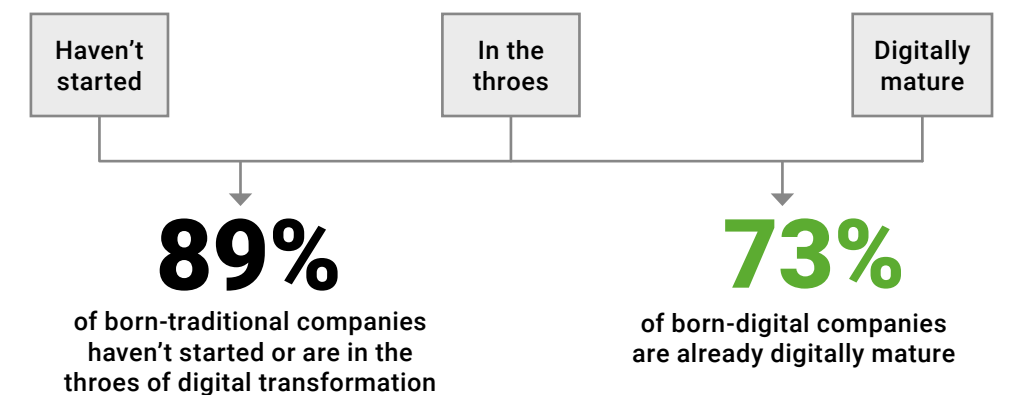
7 HOW INNOVATORS RE-INNOVATE

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.

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.
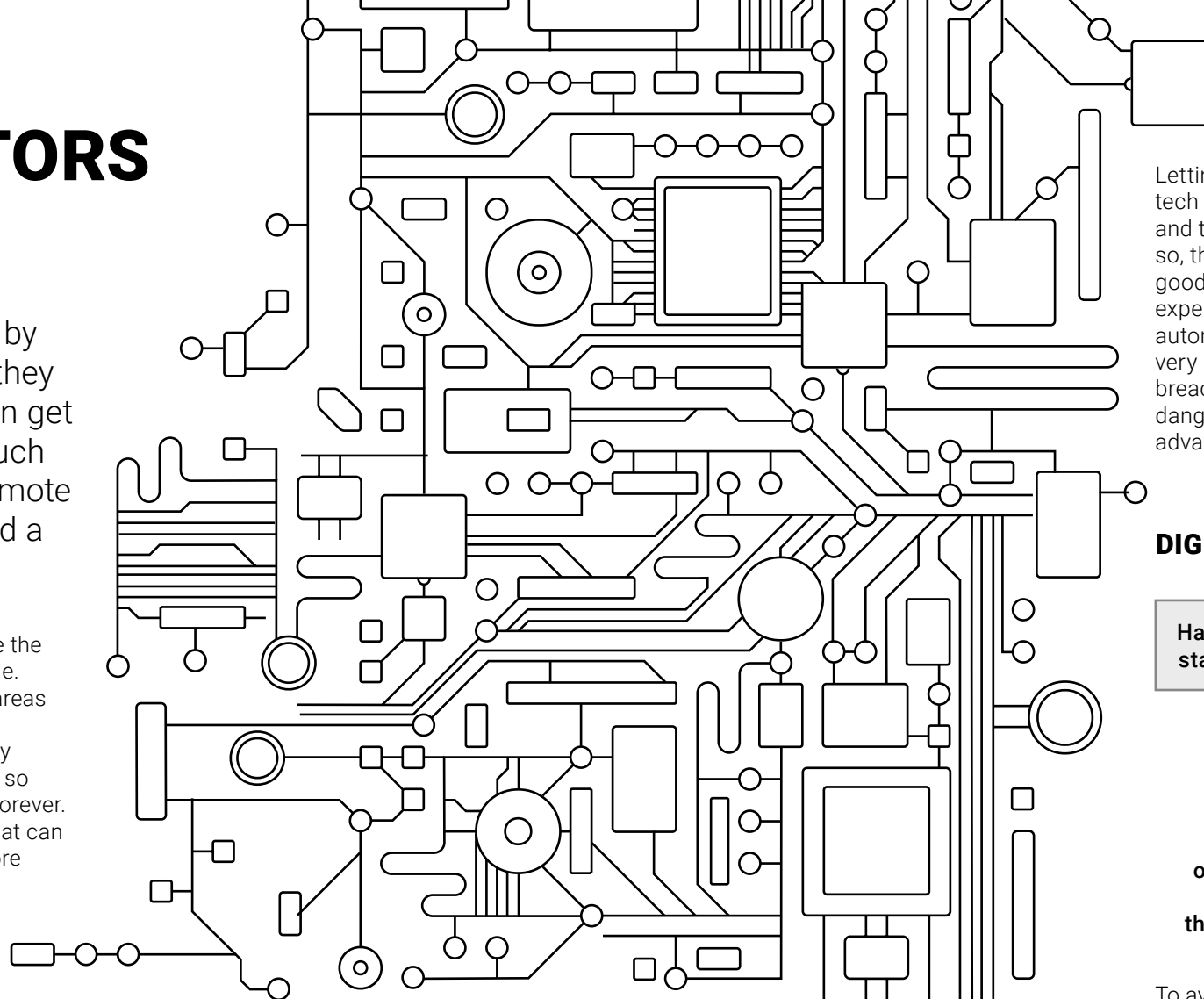
Letting tech get out of date comes with a high price tag. To avoid the outdated-tech trap, companies must infuse discipline into their tech management processes and take a business-focused approach to keeping their tech current. By doing so, they can sustain the growth momentum they gained in their early years. The good news is that born-digital companies possess 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. It is especially dangerous when these companies' entire business model and competitive advantage hinge on technology.

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

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. By following these protocols, born-digital companies sweeten the odds of futureproofing themselves. But success in this area requires large doses of strategic thinking, along with the willingness and ability to launch major transformation programs. Enterprises that deploy these practices 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.

WHO IS MAKING EXTENSIVE USE OF CLOUD APPLICATIONS?

70%
BORN-DIGITAL COMPANIES

30%
BORN-TRADITIONAL COMPANIES

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.

LEADERSHIP 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.

To read the full article on how innovators can re-innovate
CLICK HERE

8 GROWING UP DIGITAL: LEVERAGING HUMAN RESOURCES AND TALENT MANAGEMENT

Too many fast-growing born-digital businesses take shortcuts with HR and talent management. Those that infuse discipline and rigor into their talent management strategies—early on—will stand the best chance of sustaining their earlier successes far into the future, even in the face of unprecedented challenges such as the COVID-19 pandemic.

When born-digital companies are in the stages of rapid growth, they must both recruit and retain people with various capabilities that are in high demand. By strengthening their leadership on this front, born-digital businesses can sustain successful growth and also better position themselves to respond quickly and flexibly to unprecedented challenges.

Another aspect of effectively integrating and running HR processes at born-digital companies that merits mention is the degree of integration between HR and the line operation. In a company that has been around a long time and that is not growing as rapidly as it used to, it's possible to build an HR function that is more independent and that operates as a service to the operations of the business. In our interviews with born-digital line managers, we detected a strong need for HR to be tightly integrated with business operations because things are moving and changing so rapidly that without tight integration, HR runs the risk of being too disconnected from the business to be effective. So, what is a born-digital company to do to scale effectively—from an HR perspective?

TOP 3 STRATEGIES TO ATTRACT, RECRUIT, DEVELOP, AND RETAIN TALENT

Both born-digital and traditional companies prioritize focus on competitive salaries and the work environment to attract and retain employees. Born-digital companies rated development opportunities as number three, whereas traditional companies rated autonomy as number three.

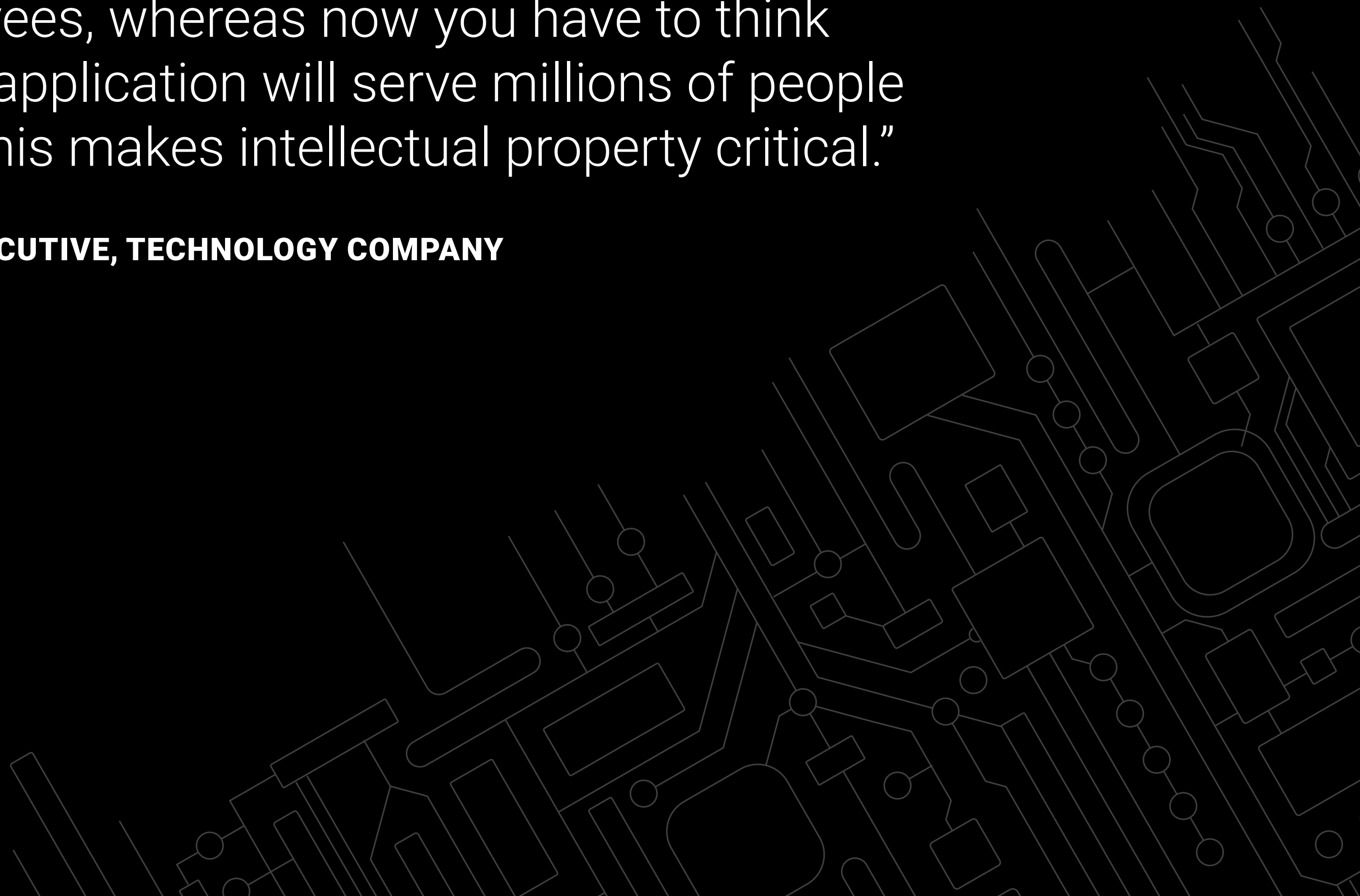| BORN-DIGITAL		BORN-TRADITIONAL
COMPETITIVE SALARY		COMPETITIVE SALARY
WORK ENVIRONMENT		WORK ENVIRONMENT
DEVELOPMENT OPPORTUNITIES		AUTONOMY

LEADERSHIP TAKEAWAYS

1 Hire a deeply qualified leader early who knows how to develop and run a quality human resources/talent management function, as well as how to work with management and the board to develop—and sustain—a highly functional and pertinent organizational structure as the company grows. The person should report directly to the CEO.

2 Make sure the CEO and the executive team understand the talent leader's role, the position's centrality and strategic importance, and the removal of any obstacles or resistance early in the appointment.

3 Embed HR resources directly into the line functions they serve. That doesn't mean the resources have to report to those line areas. In fact, they should not. But given the pace of growth and change and the need to be in touch with the culture of the firm, decentralization of the operation is a good practice for the scaling of born-digital companies.

4 Emphasize the necessity of a build-out of quality human capital performance-management processes. Certainly, all professionals crave feedback and development and even though compensation will always be an important factor, members of this demographic crave feedback on which to base the development of both themselves and their careers.

5 Start succession planning now. Born-digital companies are thinner in the management ranks than their older, born-traditional counterparts are. All of the key, value-creating roles should be profiled, and high potentials should be assessed against those roles as ready now, ready in one year, and ready in two years.

6 Install someone on the board who is experienced in the development, building, and sustaining of high-quality HR/talent management organizations. Such a representative helps the CEO learn the value of that function and gives line executives an advocate at the board level to influence direction and policy.

To read the full article on how born-digital companies can attract, develop and retain talent **CLICK HERE**

London Tech Week - Born-digital: What can any company learn from born-digital approaches?

17

" 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

9 WHAT CAN BORN-TRADITIONAL COMPANIES LEARN FROM BORN-DIGITAL BUSINESSES?

Everyone knows that born-digital companies are growing at a blistering pace compared with their born-traditional counterparts. Yet the latter have a valuable chance to learn from their digitally-savvy counterparts on multiple fronts.

UNDERSTANDING WHAT'S BEHIND BORN-DIGITAL NIMBLENESS AND SPEED

Why are born-digital companies so much more nimble, and how do they manage to grow so quickly? In part, it's because they have less to lose than their born-traditional counterparts. 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.

80%
OF BORN-DIGITAL COMPANIES have fully digitized the customer journey, as compared to only 20% of born-traditional companies.

73%
OF BORN-DIGITAL COMPANIES cite using a high amount of cloud-based applications as compared to only 30% 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.

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.

To up their digital game, born-traditional companies must have the courage 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.

DATA

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

	BORN-DIGITAL	BORN-TRADITIONAL
Survey response: Our digital investments are focused on value creation and have clear, measurable success metrics.	**80%** SOMEWHAT AND STRONGLY AGREE	**44%** SOMEWHAT AND STRONGLY AGREE
Survey response: Data is shared across the entire business; it is not siloed in one team.	**65%** SOMEWHAT AND STRONGLY AGREE	**36%** SOMEWHAT AND STRONGLY AGREE
Survey response: We actively mine customer data to build future products and make changes to satisfy customers.	**75%** SOMEWHAT AND STRONGLY AGREE	**28%** SOMEWHAT AND STRONGLY AGREE

LEADERSHIP 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.

▶ Access our video series focused on what traditional companies can learn from their digital native counterparts. **WATCH MORE**

AlixPartners

FOR MORE INFORMATION CONTACT:

Amelia Green
Managing Director
ajgreen@alixpartners.com

Rob Hornby
Managing Director
rhornby@alixpartners.com

Paul Kelly
Managing Director
pkelly@alixpartners.com

Tim Roberts
Managing Director
troberts@alixpartners.com

Narry Singh
Managing Director
ndsingh@alixpartners.com

Angela Zutavern
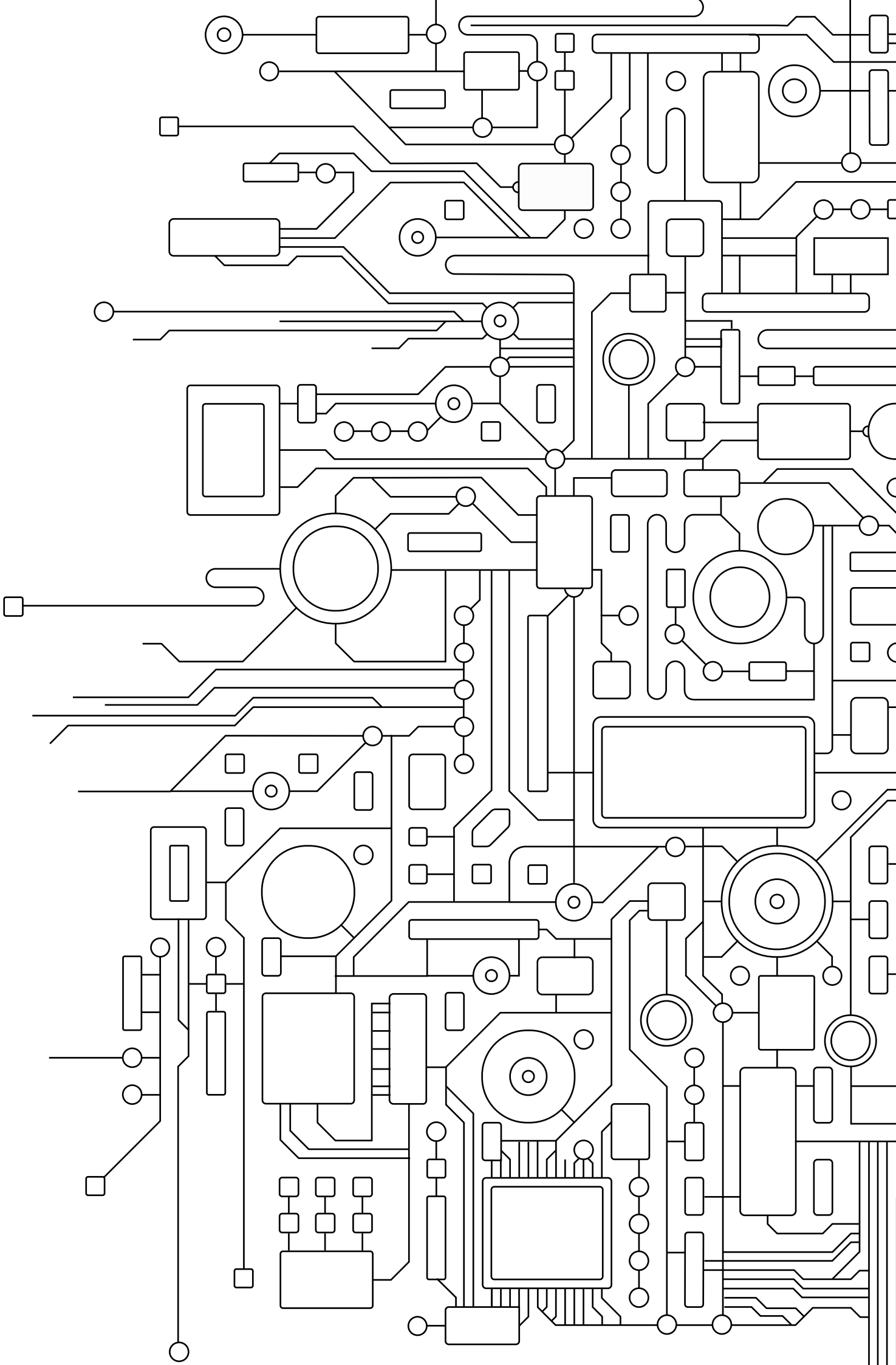Managing Director
azutavern@alixpartners.com

ABOUT US

For more than 40 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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