

Challenges and opportunities among digital native businesses

How digital native companies are shaping the future of marketing, sales, and customer service



In partnership with:

INSIGHTS
Worldwide Business Research



Challenges and opportunities among digital native businesses

03 /

Executive summary

04 /

About the respondents

06 /

Key insights

07 /

The digital native model provides unique advantages, but also challenges

10 /

Core technologies are critical to digital native business success

13 /

Conclusion: Advice for future digital native organizations

15 /

Key suggestions

16 /

About the authors



Executive summary

Consumers have increasingly adopted digital channels as avenues to communicate with companies, make purchases, and monitor their services. B2B businesses have also embraced digital as a means to conduct business, whether it is delivering consulting services, selling software, or providing computing capabilities.

According to Natasha van Putten-Gorkova, Microsoft Azure's business lead for CEE, "Everything in one project—from sales, through customer service, to production can now be coordinated and carried out remotely. Every business is a digital business, so building digital opportunities is paramount."¹

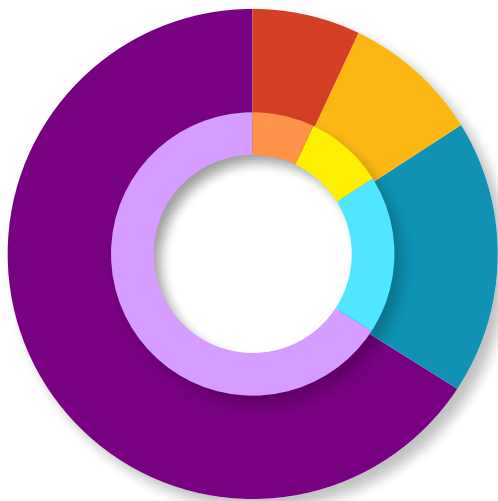
This shift has led to the emergence of "digital native" companies—companies that are born in the cloud, conduct all their business online, and have no physical location for sales or customer service.

This report explores how digital native companies are performing in terms of lead gen, customer journey orchestration, customer support, and customer loyalty. It also reveals the current technologies these companies are using to facilitate their operations, and it identifies key challenges and opportunities specific to digital native businesses.

¹ CEE Multi-Country News Center, "Every business is a digital business today." June 20th, 2022. <https://news.microsoft.com/en-cee/2022/06/20/every-business-is-a-digital-business-today/>

About the respondents

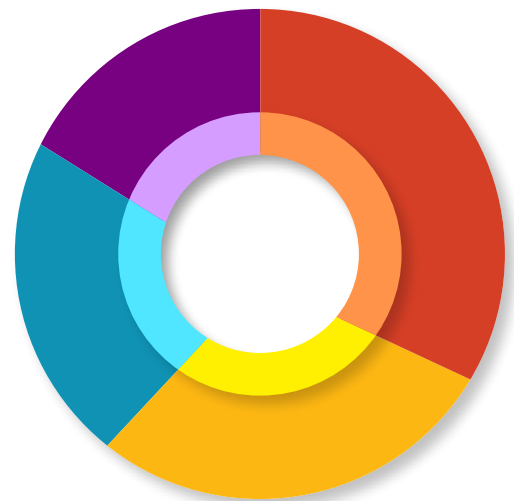
The WBR Insights research team surveyed 100 customer experience (CX), customer service, marketing, and IT leaders from across the U.S. to generate the results featured in this report. All the respondents represent “digital native” companies—companies that do business entirely online, as opposed to in physical environments.



What is your seniority?

- 7% C-Suite
- 9% Vice President
- 18% Department Head
- 66% Director

Most of the respondents (66%) are directors. The remaining respondents are department heads (18%), vice presidents (9%), and C-suite executives (7%).

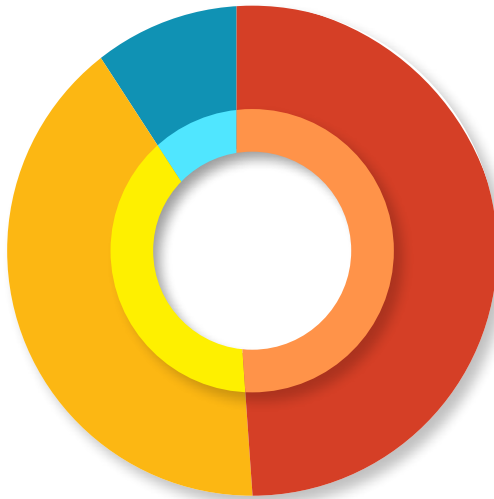


What is your role?

- 32% IT & Technology
- 30% Marketing
- 22% Customer Experience
- 16% Customer Service

Almost one-third of the respondents (32%) occupy roles in IT and technology. The remaining respondents occupy roles in marketing (30%), CX (22%), and customer service (16%).

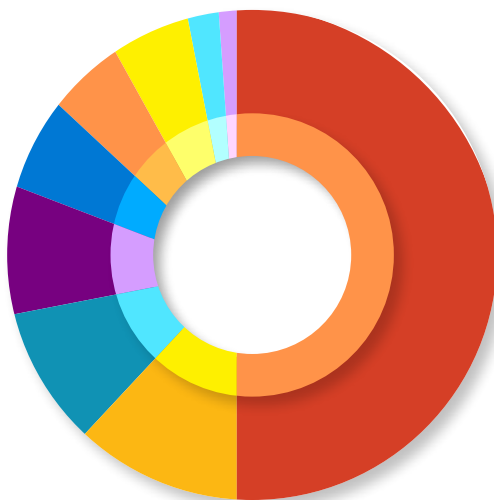
What types of business do you represent?



- 49% Business-to-Business (B2B)
- 42% Business-to-Consumer (B2C)
- 9% Direct-to-Consumer (DTC)

The respondents represent B2B (49%), B2C (42%), and direct-to-consumer businesses (9%).

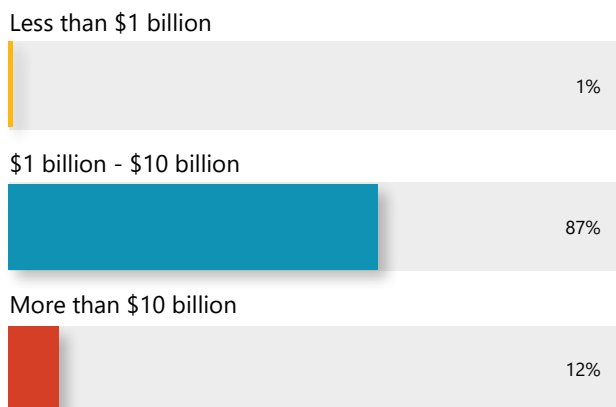
In which industry does your organization provide products or services?



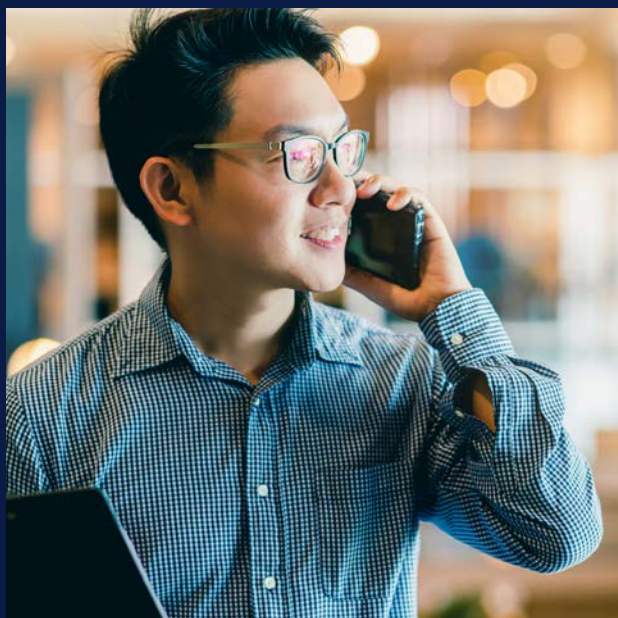
- 50% Software
- 12% Financial Services
- 10% Retail
- 9% Professional Services
- 6% Travel
- 5% Telecommunications
- 5% Media
- 2% Consumer Services
- 1% Real Estate

The companies represented in the study occupy a variety of industries, such as financial services (12%), retail (10%), and professional services (9%). However, half of the respondents represent companies that provide software to businesses or consumers.

What is your company's annual revenue?



At 87%, most of the respondents represent companies that make \$1 billion to \$10 billion in annual revenue, while 12% represent companies that make more than \$10 billion. Only 1% of the respondents represent companies that make less than \$1 billion in annual revenue.



Key insights

Among the respondents:

- The two biggest advantages of being a digital native company are having a more robust data analytics operation (47%) and experiencing faster technology adoption and digital transformation (40%).
- The two biggest challenges of being a digitally native company are maintaining growth momentum beyond “start-up” status (49%) and maintaining customer loyalty (40%).
- 33% say competing against other digital native companies is a top challenge of being a digital native company.
- 66% say their most significant barriers to growth are hiring and staffing challenges.
- 46% say customer service and CX issues are significant barriers to growth.
- 45% say incomplete or unusable customer data are significant barriers to growth.
- The three most important tools for success as a digitally native company are ERP or CRM software (54%), digital marketing solutions (53%), and content management systems (52%).
- 57% are somewhat satisfied with their current cloud computing service provider, while 15% are very satisfied.
- 57% of those who are not satisfied with their cloud computing service provider say low functionality or low ease of use are among their most significant challenges.

The digital native model provides unique advantages, but also challenges

Many of the advantages of operating digital native businesses are easy to identify. Without the need to maintain physical infrastructure, the business can enjoy a certain level of cost savings that other types of companies must endure year after year (Indeed, 37% of the respondents list this as an advantage).

However, there are also other advantages to operating a digital-only business that may not be as apparent.

The respondents were asked to identify the two biggest advantages they've realized as digital native companies compared to non-digital native companies. Almost half of the respondents (47%) say they enjoy a more robust data and analytics operation compared to their non-digital native competitors.

This is likely because data and analytics are a core component of running a digital business in any respect. Without face-to-face interactions with customers and other metrics, such as store or branch traffic analyses, harvesting and using data is paramount to measuring the results of marketing campaigns, CX initiatives, and more.

Some digital native companies may have even built their companies around their data operations, whereas physical companies may have adopted data and analytics capabilities as a priority during periods of digital transformation.

What are the two biggest advantages you've realized as a digitally native company when compared to non-digital native companies?

A more robust data and analytics operation



Faster technology adoption and digital transformation



Low operational costs or cost-effectiveness



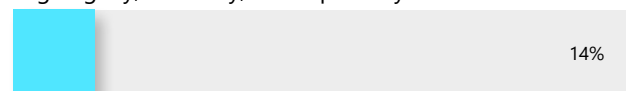
Digitized internal processes



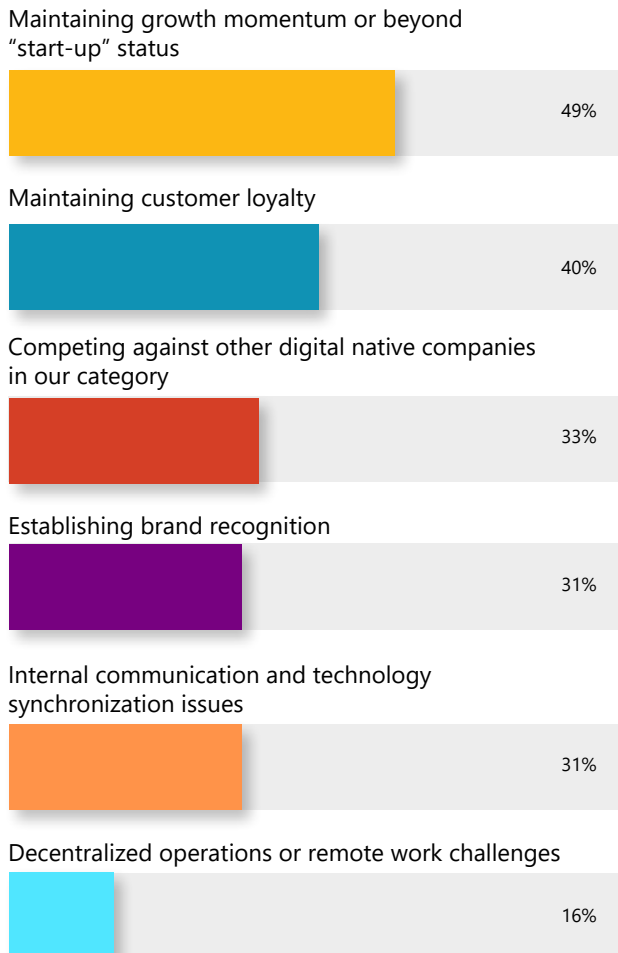
Our virtually unlimited or global



High agility, flexibility, or adaptability



What are the two biggest challenges you've encountered as a digitally native company when compared to non-digital native companies?



A significant portion of the respondents (40%) say they enjoy faster technology adoption and digital transformation compared to their non-digital native competitors, and that this is a top benefit. Similarly, 34% say they have more robust digitized internal processes thanks to their digital-native status.

Operating a digital-only business is not without its challenges, however.

Almost half of the respondents (49%) say maintaining growth momentum and expanding beyond "startup" status is one of their top challenges.

This can be a challenge for most businesses that begin their journeys as startups, but it may be a more common problem among online-only businesses. Most companies use a combination of online engagement and a physical presence to establish their brands.

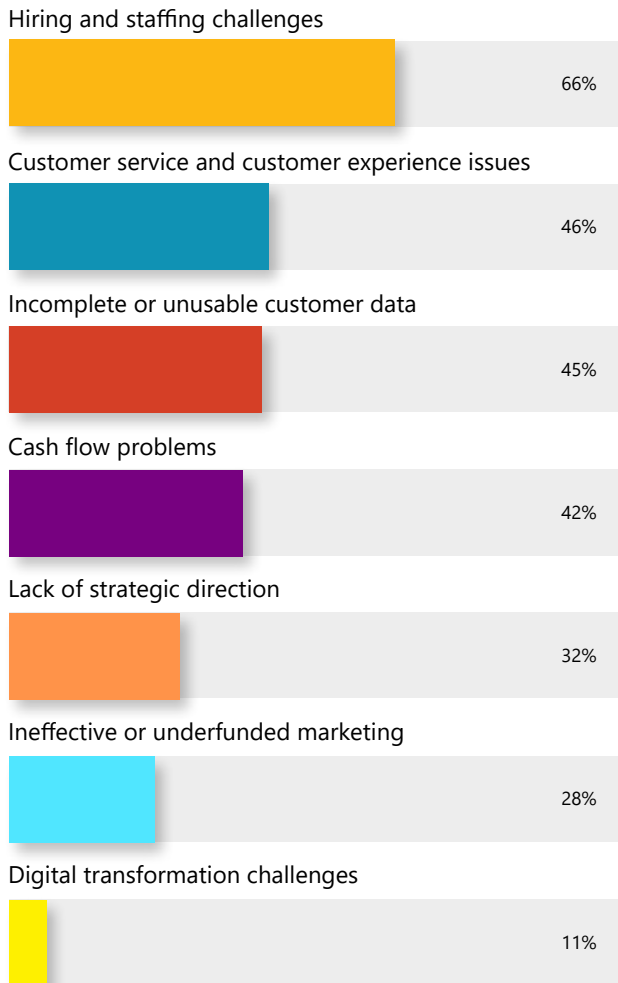
The digital marketplace is noisy. Business can sometimes be transitory because customers are subject to a constant bombardment of advertisements and offers.

Similarly, 40% of the respondents say maintaining customer loyalty is a top challenge as a digital native company. Depending on the industry, customers may have several offers to choose from for the same type of service, and all that information is available at their fingertips.

Brands that operate exclusively online also don't have the benefit of a physical location, which means they don't have a built-in potential customer base in any immediate area.

Furthermore, 33% of the respondents say competing against other digital native companies in their category is a top challenge.

What are your most significant barriers to growth?



In certain categories, the digital-only model is no longer novel. Customers have several options, including options from companies that are entering digital sales and service after years of recognition as physically established brands.

Nonetheless, it is a mix of internal and external barriers that digital native companies are struggling with to achieve growth.

Most of the respondents (66%) agree that staffing is one of the most significant barriers. Finding talent has become increasingly difficult for a variety of roles, especially in the data and technology space. Just as “every business is a digital business,” every business is currently competing for digital talent.

Digital native companies may be able to gain an edge by offering more flexible working conditions than other companies. Many digital native companies rely on remote employees because they don’t have as much of a physical footprint. They may be able to offer more positions that are exclusively “work-from-home” when compared to other companies.

In each case, almost half of the respondents say customer service and CX issues (46%) and incomplete or unusable customer data (45%) are barriers to growth. These issues could relate directly to companies’ need for talent. However, they could also indicate that digital native companies need to make further investments in their data operations.

These decisions will be critical moving forward, as most companies in this space rely heavily upon data for customer acquisition, personalization, and trend analysis.

Core technologies are critical to digital native business success

Digital native companies, by nature, are supported to a significant extent by the technology they've deployed. Companies operating under this model must be able to service high volumes of customers at any given time, and they must have the tools and resources to deliver personalized services at scale.

However, some tools are more important than others for facilitating this type of business.

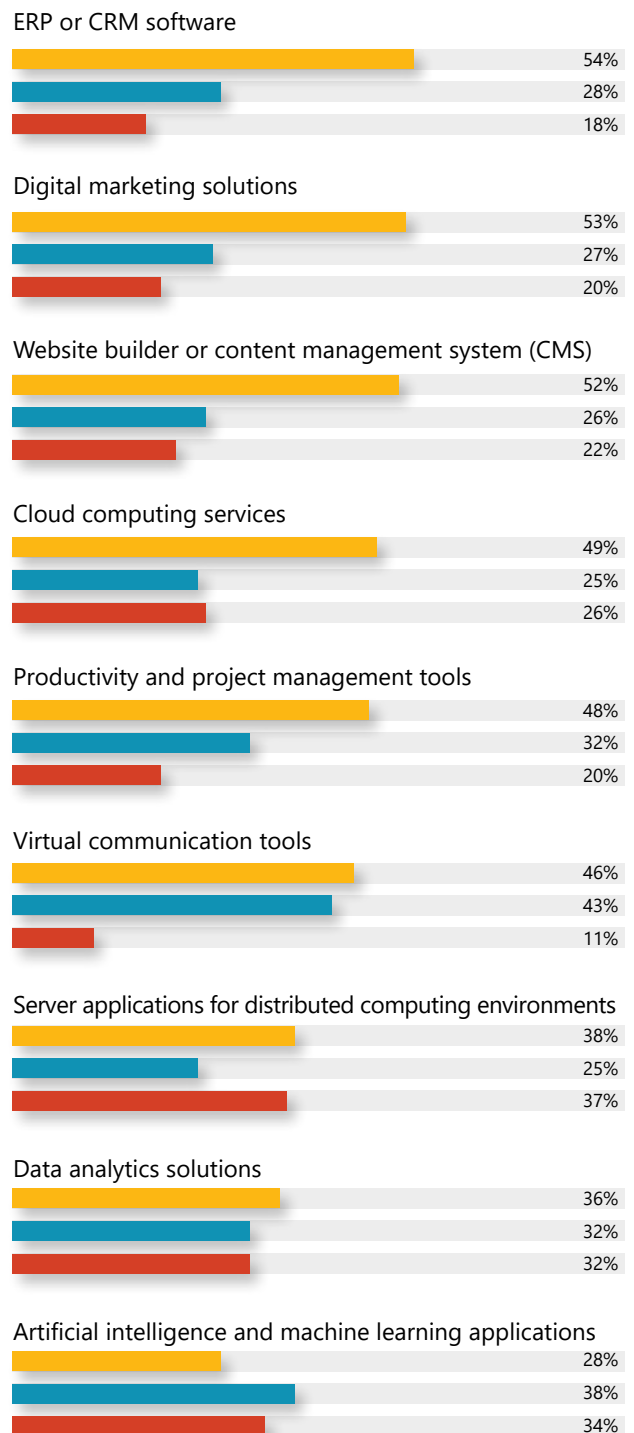
Majorities of the respondents feel that ERP or CRM software (54%), digital marketing solutions (53%), and content management solutions (52%) are very important for their success. This is likely because these systems often work in tandem to acquire customers, facilitate transactions, provide customer service, and support loyalty programs.

Digital native companies are heavily dependent upon their CRM and ERP systems for storing, managing, and leveraging data collected from customers. This data is what enables them to identify customers during service interactions, track customer behavior, and deliver personalized experiences at a scale.

CRM data can be used in conjunction with digital marketing solutions to re-target customers, generate buyer profiles, and even conduct trend analyses. Both CRMs and digital marketing tools can be used in conjunction with a website to create a positive online customer experience.

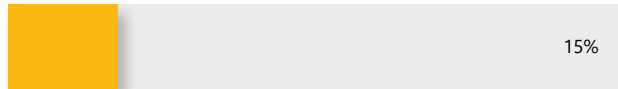
How important are the following tools to your company's success?

- Very important
- Somewhat important
- Not important or not used



How satisfied are you with your current cloud computing service provider?

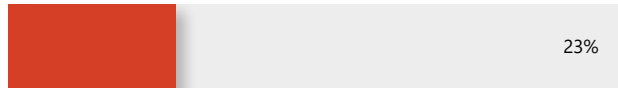
Very satisfied



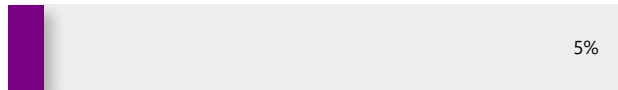
Somewhat satisfied



Not very satisfied



Not satisfied at all



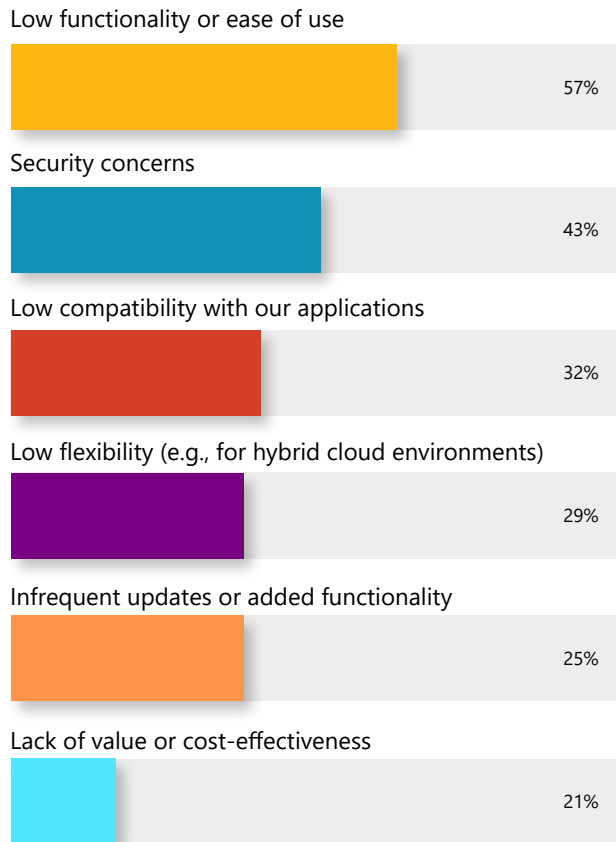
Other important technologies include cloud computing services, which 49% say are very important, and project management tools, which 48% deem very important.

These solutions are critical to the function of digital businesses. Companies that prioritize these technologies will be in a better position to serve customers and act with agility during shifts in the market.

Cloud computing services are especially necessary to deliver computing resources during times of peak activity. It's also an important resource for data storage and analysis.

Unfortunately, only 15% of the respondents say they are very satisfied with their current cloud computing service provider. Although 57% say they are somewhat satisfied, over one-quarter (28%) say they are "not very satisfied" or "not satisfied at all" with their current cloud computing services.

Since you said you aren't satisfied with your current cloud computing service provider, which of the following are the most significant issues you've encountered?



Among these respondents, 57% say low functionality or low ease of use are two of the most significant issues they've encountered with their current cloud providers. This implies that their current cloud computing resources are difficult to scale and customize, or that the control interface they've been provided is difficult to navigate.

Meanwhile, 43% of these respondents are concerned about their providers' security and 32% say their cloud resources have low compatibility with their applications.

Cloud computing services are now relevant to most sectors, but because of their importance to digital native businesses, companies in this space must select a provider that supplies versatile tools and capabilities. Companies struggling with their cloud computing tools may need to conduct an assessment of their cloud computing operations to determine if migration to a new provider is necessary or at least worthwhile.



Conclusion: Advice for future digital native organizations

In their final line of questioning, researchers asked the respondents to describe the most important advice they'd impart to a digital native organization that is just getting started.

Several respondents say that being aggressive and staying committed to the business are two of the most important steps new companies can take in this space. If companies can "maintain an aggressive approach," they can "reduce the impact of competition and achieve existential sustainability," says a marketing director at a consumer services company. These respondents believe that now is a good time to enter the marketplace aggressively, as it will only become more competitive over time.

Other respondents say that data is and will be the key to business success in the digital native space. One marketing department head at a professional services firm says data is "a digital asset that needs similar attention to the product." Data has become a type of currency in digital business, and the proper management and use of it can determine a company's success.

However, multiple respondents at the C-suite level say new entrants should prepare for disruptions and even lags in business from time to time. According to them, this is just part of the nature of digital-native business.



“Business doesn’t always run entirely on a pattern,” says a C-level customer service executive at a B2B software company. “There will be situations in which you face something no other business has faced before. In this case, having a backup plan is always essential.”

Similarly, a C-level IT executive at a B2C company says new digital native companies should train their staff “to adapt to a slack in business, because how a business functions during challenges is what develops it in the future.”

Based on these responses, it’s clear that this is still a good time for digital native companies to enter the market. However, there is evidence that competition is heating up. By securing core technologies, computing resources, data leadership, and operational best practices now, emerging companies can set themselves up for success in the future.



Key suggestions

- **Leverage your expertise in digitalization and technology to gain an edge against non-digital native competitors.** The respondents say fast technology adoption and digital transformation are two of their greatest assets.
- **Maintain an aggressive stance when it comes to marketing and market saturation.** This could help your company not only endure but also break free of its initial “startup” status. Several respondents recommend this strategy in their verbal responses as well.
- **Take steps now to create a workplace that attracts top tech talent.** Competitive benefits can help but focus also on creating a work culture that is flexible, mobile, challenging, and rewarding.
- **Assess the efficacy and ease of use of your current cloud computing services.** Many respondents aren’t satisfied with their current service providers because of low functionality or low ease of use. Determine if migrating could be beneficial to the business and create a shortlist of potential providers that can scale with your operations.



About the authors



Founded in 1975, Microsoft enables digital transformation for the era of an intelligent cloud and an intelligent edge. Our mission is to empower every person and every organization on the planet to achieve more. We believe in utilizing technology to build platforms and resources to help make a lasting positive impact.

For more information, please visit www.microsoft.com.



WBR Insights is the custom research division of Worldwide Business Research (WBR), the world leader in industry-driven thought-leadership conferences. Our mission is to help inform and educate key stakeholders with research-based whitepapers, webinars, digital summits, and other thought-leadership assets while achieving our clients' strategic goals.

For more information, please visit www.wbrinsights.com.