

The Success of Startups Through Digital Transformation

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ABSTRACT - Digital transformation and startups are strongly emerging terms in today's organizational world. This paper aims to identify the main factors of success of startups through this digital transformation. The paper starts by defining what is digital transformation and how it works in order to fully understand what it is. For years, startups have found their place in business world by disrupting market. The question is to understand what is the difference between startups and more traditionally companies, according to their strategy, management, or organization. However, the digital transformation can meet some limitations, that find mention at the end of this paper. The paper allows to understand why startups can have a clear advantage through digital transformation.

Key words— Digital transformation, Startups, Customer centricity, Digital management.

I. INTRODUCTION

The world we live in is a constant change and does this in an increasing pace. The digital is more and more present in our daily life, thereby we are talking about a digital transformation, also called digital revolution. This digital transformation makes evolving daily things, especially in the business dimension and it creates a lot of opportunities that any company has to seize – even the same for every organization regardless if it is business oriented or not.

The digital transformation is not always well understood by both companies and individuals, and may lead to a misunderstanding of what is going on. Indeed, the digital transformation can be confused with the digitalization. Whereas digitalization deals with the use of technologies. However, digital transformation is not only about tools. Indeed, digital transformation in addition to tools, extends to people, organization and their habits, operating mode, and obviously to the managerial practices and the hierarchical models.

According to Mazzone (2014), the digital transformation can be described as follows: “Digital transformation is the deliberate and ongoing digital evolution of a company, business model, idea process, or methodology, both strategically and tactically”. It impacts organizations as a whole. In this digital areas, startups appear on markets by taking advantage of the low entry barriers that technology

provides, and compete with existing companies. Startups also adapt a different business model and strategy than oldest companies, by turning the digital sphere into a powerful ally. One of the greatest opportunities that appears within the digital transformation is to rethink everything. Thus, startups own a clear advantage because they have no legacy or corporate constraints, and innovation and the adoption of new technologies are key aspects for those new business.

II. TRANSFORMATION AND ITS CHALLENGES

First of all, it is quite important to precise that the digital transformation is different from the digitalization concept, by itself. Digitalization deals with the use of digital tools (technologies and data), enabling companies to improve and transform their business operations, function, models and activities. Therefore, companies work in a more digital way, using digital tools and, in turn, create new opportunities.

The digital transformation is broader than digitalization as a way to move to digital business. Indeed, it does not only deal with tools, it also includes people, organizations, habits, operating mode, managerial practices and the hierarchical vision. This transformation happens everywhere, it impacts the company as a whole, that is, in marketing sector as well as in accounting or human resources sectors. Even if all kind of companies in every industries are impacted, they share a common goal that is to create new customer experiences, transform business models, and empower workforce innovation. The digital transformation is sometimes compared to an industrial revolution. I-SCOOP (w/d) defines digital transformation as: “the profound transformation of business and organizational activities, processes, competencies, and models to fully leverage the changes and opportunities of a mix of digital technologies and their accelerating impact across society in a strategic and prioritized way, with present and future shifts in mind.” The digital transformation is a critical change for the human activity, company and organization. Models, processes and skills must be reconfigured and digital based, and also deal with different notion of space and time. In other words, organization have to break down barriers between people, businesses, and things, in order to create new products that meet the new customer's expectations.

Digital transformation offers a big challenge to organization that is to meet the technological opportunities and the new business and grow models.

Those changes will have an impact on the survival and quality of both individuals and organizations. Therefore, company must ask itself on how to adapt its business to the new digital economy. According to CISCO, companies need

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three critical capabilities to embrace digital transformation. The first one, is to transform their business models. Because businesses are now more and more connected, companies can get data from every extremity of their value chain and it allows them to have a faster time-to-market, leaner operations and a greater agility to respond to market changes. Indeed, having an automated digital supply chain improve the productivity and the efficiency as well. Then, companies must create a new customer experience in order to attract and keep customers. Companies have to win the customer's unwavering loyalty by delivering them the best customer experiences as possible. A great customer experience is the main key to win and retain credible sustained differentiation. But it is important to notice that, the way we use new technologies in our personal life or in business as well, has profoundly changed the customer expectations, and thus companies must adapt themselves to those new higher expectations by providing users and customers the experience that they now require.

Accenture Digital, a professional services agency, has administered a survey and found out that, 2 out of 3 customers switching providers cited poor customer experience as the reason. The importance of the customer experience leads company to be more attentive to it, and 9 out of 10 companies now competing primarily on customer experience, according to Gartner, a global research and advisory firm. The third capacity needed by organization is an empowered workforce innovation. Most of the companies have a multigenerational workforce, and the digital transformation can engage them and meet the unique requirements and motivation of each generation. As a matter of fact, digital transformation provides to employees the tools to be more connected, engaged and mobile. Nowadays, employees want to be more engaged, empowered and inspired at work, and are looking for companies that allow them to be more productive and responsive. Having an empowered workforce innovation increases the productivity of any company and improves its ability to attract and retain the best people.

Obviously, all those changes must be accompanied by management change. Organization must adapt its management to the human dimension, regarding all their stakeholders. It could be done by providing them all the necessary tools, the necessary information, to keep them informed about what is going on the organization and so on. It is important for employees to feel involved and recognized. If things are changing too fast without taking into account individuals that are touched and their concerns, it will lead the organization to a fail, because human dimension is most important than whatever.

III. STARTUPS

Startups are seen as key actors in today's innovation landscape. The appellation Startup is more and more used, but is quite often unclear. Indeed, a new company using new technologies is not enough to get the appellation startup. In this way, it is important to define properly what a startup is in order to fully understand its place in the economy. According to Steve Blank, a startup can be defined as follows: "a startup is a temporary organization designed to search for a repeatable and scalable business model". Steve

Blank is a Silicon Valley entrepreneur and creator of the customer development method and the lean startup movement.

The fundamental difference is that an enterprise is organized to execute and optimize a business model (a business model describes how a company creates, delivers and captures value) that works, whereas a startup is organized to find one. To be a startup, the new company must fulfil four characteristics: the temporary, the search of a business model, to be industrialized and reproducible, and to be scalable. The temporary of a startup deals with the fact that, being a startup is not an objective. The term startup is linked to a research phase, and the main objective is to go out of this phase, by transforming an idea into an enterprise. In other words, the startup is looking for a business model, which corresponds to the second objective. Being a startup is bringing value to customers with a product or service that no one has ever done before. And the challenge of a startup is to find and build the Business Model that goes with it, and that is not modeled on an existing structure. The industrialized and reproducibility means that, once the business model is designed and works, it can be realized on a larger scale, in other places, or be done by others.

The other characteristic of a startup is its scalability. The aim is to have a business model which allows an exponential growth, that is, the more customers increase, the bigger the margins are. The first customers cost more than the next, and so on. It is this scalability, and the fact that the model is reproducible, that allows startups to grow so quickly and so far, in a short time, compared to a more traditional business.

By dealing with Startup, we must also talk about a climate of high uncertainty, because the startup is a pioneering company, and it is linked to a notion of exploration. The startup is developing an activity in a new market, without knowing its customers, the product position and so on. As said Xiao Wang, the Cofounder and CEO of Boundless, "A startup is a company that has more questions about its business model and its sustainability than answers". Thus, considering this perspective, the risk is very difficult to assess.

However, some big companies claim a startup spirit by having an operating mode that asserts innovation, strengthen the team spirit and make the team more reactive. It means that even the biggest companies can break codes. Also, startups are also related to innovation which they aim to support and develop in a more focused way.

IV. CUSTOMER CENTRICITY, THE KEY OF SUCCESS

As mentioned above, the customer is the key of success within the digital transformation. The term of customer centricity can be used, but what does it mean to be customer centric? Firstly, we think it means putting the customer at the center and offering him a consistently great and relevant experience, because it creates value and insure the sustainability of any company – so, it is related with both cliente and its experience or, put in a more business oriented perspective, it is related with value and service. However, this principle refers to be customer focused. Even if customer centricity and customer focused are quite often confused, both are totally different. Being customer centric deals with the fact to look at a customer's lifetime value and

to be focused on marketing efforts on high-value customer segment to drive profits. As probably know, most of customers are not valuable for a company, and we must not address the average customer. According to Peter Fader, customers can be divided into three different groups. The first one, called “Meh customers” represents 70% of company’s customers, and they are not involved in the product. It means they will leave as soon as they find the same product or service with better characteristic or at lower price. Building a business around them doesn’t make sense, it is often more expensive than it is worth. Then, 20% are the “good customers”, who like the product or service, and feel a bit close to the company. Those customers have a higher lifetime value, and can move to the third customer’s group if the good strategy is implemented. Only 10% of customers belong to the third group, called “Great customers”. Those customers are the best ones for the company, they are loyal, and have a small attrition rate and a very high lifetime value. Therefore, any company must focus on this kind of customer, they are the customers that any company wants, because they are valuable.

So, in other words, to be customer centric is not focusing on the average customer because it includes low-quality customers that costs time and money for low profit. Contrariwise, a company must use customer data to better understand and segment its customer base by taking into account their lifetime value. After having identify the best customers, the company must focus on products and/or services for the best customers. Andy Sernovitz, one of the original Internet entrepreneurs said “Knowing what yours customers are worth is the secret to focusing your time and money where it makes the most difference. You cannot be all things to all people, so you need to learn to find out who really matters to your success”. These words well sum up why it is important to not focus on all customers.

Moreover, most of customers are now connected and companies must provide an optimized and transparent customer experience, in order to allow them to find what they are looking for easily and quickly.

In this way, we can say that thinking more and more about the customer is where the digital transformations begins. Startups have fully understand this concept and hold a clear advantage since they turn the digital sphere into a powerful ally. Innovation and the adoption of new technologies are key aspects for any startups. The customer is changing from a digital point of view and its expectations as well.

V. FROM A VERTICAL MANAGEMENT TO A HORIZONTAL ONE

Technology is not the main reason of a viable and working digital transformation. People, processes, culture and mindset make technology work and allow the digital transformation to happen – it is a people thing, not a process. It means that people have to be prepared, managed and accompanied throughout this transformation. Having the tools, software, or a website are the first steps but they are not enough. A digital transformation cannot work without qualified people who are allowed to manage those digital devices and to explore them in ways that enhance the value that they can potentiate.

Traditional companies have a vertical management. It means that there is a hierarchical organization structure within the company, with the CEO at the top. In this model, management or supervisors pass information and orders from the top of the organizational pyramid down towards the bottom. Vertical management creates a high control and a low autonomy environment even inside the office, the hierarchy can be seen through the different office’s location. Startups, but also some big companies such as Google, have a horizontal management that corresponds to a way of organizing a company in which there are few or no different levels of management. This different approach allows people to be multidisciplinary and therefore to face changes quickly. By distributing information and processes horizontally, it offers a less hierarchical and largely more efficient model. So it allows the business to be much more agile.

Startups don’t have difficulties to implement a horizontal management since it is a new company with few people looking for establishing a business model. Moreover, startups often refer to the fact to be “young”, so there is a new and young spirit inside the company.

People who work in startups feel strongly involved since they do what they are able to do. In other words, the power is taken by people. They don’t do something because someone ordered them to do it, but because they have the capabilities. When the innovation is promoted within the company and when the team is motivated and feels involved, company takes a real advantage by being more efficient and making things happen faster.

However, it is more tricky to implement a horizontal management within a company with many people and where the vertically management has been implemented for a long time. Indeed, within this kind of company the hierarchical organization is well defined, and people don’t agree to lose their power.

VI. LIMITATION: DIGITAL TRANSFORMATION WITH SOCIETY AND CULTURE

Sometimes, society and culture are not ready to welcome and support digital transformation. Let’s take as an example Uber in Germany. Uber is an application which allows to connect people who wants to go somewhere with a driver, thanks to its location. Customer needn’t cash given that he pays the driver directly by the application and is aware of the price even before confirming the trip. This application matches demand and supply in real time, which is groundbreaking. However, in Germany, paying by cash is still more common than by credit card, so it is tricky to imagine to pay by phone.

Regarding Germany or other places in the world which refuse the presence of Uber, we can suppose that Uber’s company didn’t prepare its market entry and didn’t talk to law makers. Indeed, laws are incredibly important and sometimes have to be changed to make things happen. Let’s talk about how to make the digital transformation happen across society and culture.

Whenever a company thinks about digital transformation, positive consequences as well as negative consequences have to be anticipated. If company wants to do innovation, it has to do something that is good for everyone in the society,

and if there are risks associated to the digital transformation, company must try to mitigate them. Another point to make the digital transformation happen, is the laws. Companies have to establish a legal framework. In some cases, laws have to be created or adapted in order to support the transformation. If we take as example the social media, nowadays it is easy to enter in this market, because no law has to be created anymore.

It is also important to look beyond the Internet, because what people need are wealth, happiness, safety, among many others. The aim of companies is to identify human needs before thinking about Internet. Moreover, looking at success story is helpful for companies since it offers good examples but what is more important is to look at companies that failed. Indeed, looking at failures enables any company to not do the same mistakes, the same errors. In this way, company has knowledge in its hands to make the digital transformation happens.

VII. CONCLUSION

As seen throughout the paper, digital transformation is a critical change for both individuals and organizations. It appears as one of the biggest challenge that companies need to face and may have ever met. And it is essential for any company to consider them, even internally, in order to stay competitive nowadays and in the years to come. One of the principal characteristic is that companies have to pay even more attention than before to their customers, by being customer centric and meeting the higher customer's expectations. Then, companies need an empowered workforce and must adapt its managerial practices with the intention of promoting innovation.

In this way, innovation and the adaptation of new technologies are key aspects of startups. Moreover, the customer's expectation are at the center of any startup, in that, they are looking for a business model and to offer a product or service that no one has already offered before. The implementation of a horizontal management promotes and helps innovation within the company by the ease of communication between people.

All those previous points can explain the success of startups, but they must not forget to take care regarding the laws or the culture within some countries.

Existing companies can be digitally transformed as well. However, it can be more difficult, and obviously will take a long time. The support of leader who promotes a culture of change and innovation is indispensable. Sometimes it can be difficult to move towards a more digitally way if leader and managers don't fully understand the present challenges.

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