

How a steel company embraced digital disruption

Gisbert Rühl, CEO of German metals company Klöckner, embedded himself in Berlin's start-up scene, creating two platforms to overhaul the organization's supply chain and make steel prices more transparent.

When you think about how incumbents are responding to digital disruption, steel companies may not immediately spring to mind. Yet German metals group Klöckner should. When the company's CEO, Gisbert Rühl, decided to build an innovation unit, he rented a coworking space in Berlin, brought along a couple of employees, and asked them to replace their ties with a willingness to learn how start-ups work. In this interview, Rühl tells McKinsey's Rik Kirkland how that endeavor ultimately changed Klöckner's supply chain, made the organization more efficient, and created platforms that make steel pricing more transparent for consumers. An edited transcript of Rühl's comments follows.

DIGITIZING THE SUPPLY CHAIN

I pushed the company into digitization basically for two reasons. One reason is that steel is not only in a difficult cycle, I would say it's in a very difficult cycle. Because of oversupply, especially from China, there will not be a recovery, in my point of view, anytime soon. It will take years, maybe five years, maybe even ten years. That is one issue.

The other issue is our business model itself. The business model in steel distribution is very much based on earnings margins, also making margins through speculations. That was very much the case in the past, especially when steel prices went up. The more inventory you had, the more inefficient you were, the better your results were. That was especially the case between 2004 and 2008, and then again between 2010 and 2011. What we want to change is the supply chain, from the producer to the customer.

BUILDING AN INNOVATION UNIT

We found out that Berlin is a good environment for Klöckner because Silicon Valley is not really waiting for a company like Klöckner. But it's different in Berlin. We are also better known in Berlin. We started relatively pragmatic in a coworking space. I rented a desk in a coworking space for €1,000 per month, and I took two of my people there, and said, "Look, you start on Monday in Berlin. You don't need a tie, and you have two tasks. One task is to establish ourselves in this Berlin start-up scene. The second is to find out why start-ups are so much faster than incumbents."

And I said, "You don't have to start with a big operation. You can start small, for instance, in a coworking space." The second thing we learned was, it has to be a separate unit, especially when it's at least partially disrupted. This kind of innovation doesn't work from within. That works with sustainable innovations, but with innovations that are more disruptive, it doesn't work from inside. You need to establish a separate unit because you need separate people—in our case, digital natives. You also need separate processes, and maybe even a separate way to make profits.

MAKING STEEL PRICES MORE TRANSPARENT

The separate unit goes, in principle, in two directions. The first direction is that we want to build up, or that we're building a service platform, an Internet service platform, where we're integrating on the one side our suppliers—so, the big steel producers, for instance—and, on the other side, customers. That is the proprietary service platform. That is one direction.

Our target is that in 2019, 50 percent of all transactions should go through this platform. This is proprietary. We're also starting with a separate platform, with an independent platform, an industry platform. The reason is the following: in my point of view we will have platforms going forward, Internet platforms in every industry, like we have them already in B2C. Amazon is a platform, iTunes is a platform, and then others. An independent platform means that we have also onboard competitors on this platform.

We're doing both, by the way, because we don't know where it ends. Is it proprietary? OK, then we have our own platform. Is it more the independent model? Then we have the industry platform.

The price transparency will be much higher, and that is what a lot of our competitors fear. They say, more or less, "Are you dumb?" Because it was so nice in the past when nobody really knew how we made money. I said, "In the Internet world, with all this new technology, that will not work anyhow." If we don't do it, someone else will do it. Now we want to switch the way to make money. We want to get a service fee so that there is a clear basic price for the steel. Then we get a service fee on top, either for only supplying the steel, or for certain services for prefabrication. It's very transparent for the customer.

THE FUTURE OF DIGITAL PLATFORMS

Today we are more asset driven. Our resources are assets. Our know-how is steel know-how. Five years from now, our assets will be more the platform. It will be more intellectual property. Our people will be different to a certain extent. We will have much, much more digital people.

The processes will be different. Today we have the typical traditional formal and informal processes within the company. Also this will change because in the future all transactions will go through this platform. We will come to a point where we probably do business only online. The way we make profits, not this margin-arbitrage business, will be a real service business. (Q)

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