**2021 MIT Platform Strategy Summit**

Fireside Chat: Building B2B Platforms, Gisbert Ruhl and Geoff Parker

**Geoff Parker** [00:00:11] All right, well, thank you, Peter. Joe, and especially Alice and David for the great music. You know, when we were putting this event together, we've been thinking hard about how to make it a multimedia experience, and this is the second year we've been online and that's giving us the opportunity to bring really interesting new talent from all over the world. So if I just can take a moment to set the stage over the course of the day, we've now been hearing about platforms in finance and health care, energy, music and more. But if we want to be honest, an awful lot of the news and attention and focus comes from the largest technology firms that we're all familiar with, and they kind of dominate the conversation around market cap and certainly around regulation data, artificial intelligence and more. But I think it's worth stepping back for a minute and saying there are only a handful of those and as large as they certainly are, there are many thousands of firms, if not tens of thousands or millions, with ongoing operations that represent the overwhelming majority of global economic activity. And one of the stories we've been watching over the past several years is the adoption of platform business models by traditional firms. And a fascinating example that I've seen comes from a firm that is really pretty far up the supply chain for most companies. So we're really fortunate today to have one of the pioneers in this space who led Klöckner still in its transition from pipe to platform. Gisbert Ruhl spent the last six years at Klöckner and led the firm for 12 years as CEO until stepping down just two months ago, and we can talk a bit about that. Gisbert is now an investor in Chepstow Capital, and I want to close on some of that. But, you know, just to kick this off, Gisbert, what are some of the most profound changes you've seen in industry during your career that led you to make some really interesting changes?

**Gisbert Ruhl** [00:02:27] Yeah, thanks. First of all, for having me in this conference drive and yeah, OK, I've seen, of course, in my 35 years of business a lot of changes, but most of them in the last 10 or 20 years, driven by the internet and companion technologies. And as a consequence, for instance, disruption was getting much, much faster than 20 or 30 years ago. So the speed is much faster and disruption what is not normal only as in the past, product driven disruption is now much more software and much more business model driven also through platforms. And I think this is a significant change. We also, I must have experienced in the last 10 or 20 or 10 or 15 years in more traditional industries.

**Geoff Parker** [00:03:30] So, so if we kind of stick with that theme of disruption and then particularly the way that the internet has changed the way we interact, we do business. I'd say you were a relatively early leader in digital transformation, particularly in a traditional firm. You know why? Why did you think that needed to happen at Klöckner and that they needed to understand that effort? And in particular, if you think about digital strategy, would you differentiate that from strategy in general or is that just a natural progression over time?

**Gisbert Ruhl** [00:04:12] Told Klöckner is a steel and metal distribution company, also have a company, and there is the problem we are we are faced with and our industry is that we are not able to act very much related to what we are doing. So we are very comparable. And with this will do to bring the same prices. And with this margin came always or we're always under pressure. And that was the reason that we started to think about it, not not about new products, which was was typically typical in the past that we started to think about a new business model. And that was in 2013, 2000, 14. And we were asking ourselves at that point in time if steel distribution with all these changes also through the internet, its steel distribution will also the service center business would be really the same and 10 years from now, and it came to the result that this will not be the case. And then the we we developed the idea of a platform transforming Klöckner into a more platform type company and concerning strategy. And I think transformation or digital transformation is more than a strategic program because in the end, you have to change everything. You also have to change, especially the culture of the company. And with this, it takes on too much longer than typical strategic project.

**Geoff Parker** [00:06:04] So let's kind of dig into that a bit, because I think this notion that digital transformation equals technology, you just flat out said this is really a cultural effort and that's a longer term kind of effort. Maybe talk a little bit about why that is and what some of the time skills might be in the beginning.

**Gisbert Ruhl** [00:06:28] We also thought that this is a more technology technological thing and to build this platform to implement this platform. But then we were getting relatively quickly aware that without a cultural change, without our people, this transformation also the implementation of a platform would not be possible because we have to convince not only our people, we have to convince also, by the way, customers and also suppliers. Probably even this, of course, especially in traditional industries that people are typically very change resistance and you cannot implement or you cannot transform the company into the end against your people. And with this, we started then after a while when we find out the problem was, of course, we had no blueprint. But then when we find out throughout our journey that that without a culture of change, that it will not work, that we then started with this cultural change, but also here we had problems. And that was at least my experience inside of five years in business that I never experienced such a successful, successful cultural change because of the resistance. But we also did it then differently than in the past. So we initiated, for instance, very early on Digital Academy with the right of our people to do courses also during working hours. And with this, we were able to increase step by step over the year, for instance, the digital IQ of the company. We also changed very much our communication. We were one of the very heavy and use of we are one of the very, very heavy users of Yammer, which came then was Microsoft a couple of years ago. And to but above all we did is that we tried all the things. We also changed our behavior, but we were not like two so typical and traditional companies that you make a plan that can define the strategy. And so. But we did it while the other way round by saying, Look, let's try it out. And if it works good and if not, then we have to pivot. And all this came together, and after a while then the transformation model was getting pace.

**Geoff Parker** [00:09:04] So a couple of really interesting things in there that I want to kind of follow in on first. You know, the idea that 2013 is about when you started this and you reasoned backward, you know, we do this in higher ED. And so, you know, will we be doing the same thing in 10 or 20 years? No. And then, of course, what are you going to do about that today? But that's a whole separate topic that you've already engaged. I want to really go to this change issue for convincing customers and suppliers to change and to fold what types of changes were needed that they had to make to help you further your strategy. And then second, what types of people in your organization were good at working with the customers and the suppliers to help convince them that this would be in their interest?

**Gisbert Ruhl** [00:10:01] Now that was, of course, one of the most difficult, difficult paths to get. To convince customers and suppliers is extremely difficult. Even if you think, for instance, until five or six years ago, that most of the people are using privately ordering privately through Amazon and therefore firstly, our thinking was OK. When they're doing this privately, why not in business cannot be too difficult to convince them to do the same? But this didn't work. And so the customers, even more than suppliers, don't want to change anything. And then we did it the other way around and we were thinking about, OK, what can we do that we change it without the customer, without a need for the customer to change? But this took some time and here until then, I came very much into play and because we then developed an order of Q and on a cycle which is finally completely automated, especially through a I sold the customer. So we first tried to convince the customer, for instance, to order our platform online. This didn't work, or only a very few did it. And then we did it in a way that the customer could send us, like before a PDF or fax that we digitally took. We make the interpretation, which is not that easy because it's an unstructured document works only with machine learning. Then we matched it with our product base, which was also not easy because there are no standard names and scale. Also, the machine learning was necessary. Then we price that. Also, pricing is not easy because we don't have a price list typically in our industry. And then the customer is getting an offer digitally and that when he then clicks the link, then the customer's online on the platform. So that was a significant pivot we had to do to convince the customer. And then when customer customers were getting aware that the convenience was increasing, then step by step, they also started to integrate themselves into the platform.

**Geoff Parker** [00:12:33] So, so I love that description of how you apply AI in this type of an industry and do it right at the area of the customer sending literally faxes and PDFs, which is about as old school as you can imagine. And then essentially you internalize the friction or the transaction cost for them by implementing these AI systems would be one interpretation.

**Gisbert Ruhl** [00:13:01] Yeah, yeah. Right? So we and in the end, we've benefited both. And so we also streamline the process for the customer promises the customers are getting now much, much quicker and offer than before. In the end, they will get even if they send a fax that would get a Real-Time more or less real time offer, which which helps very much also their business and but also this, by the way, was what the new thinking of a company. So we in the traditional industry should be always saying that the customer is key. But when we started to optimize something, we always started with ourselves, with our own supply chain and also, yeah, we had we had to convince lots of people to do it differently and really to start with the customer and and try to develop everything by starting with the customer, make it for the customer more convenient. And and then finally, of course, work on well, follows us.

**Geoff Parker** [00:14:09] So when you think about an organization and you now are working with a number of companies as an investor as well as a former CEO, where do you think these transformation efforts need to come from? Does it make sense that they might bubble up from the bottom or the middle of an organization? Do they need to comes a mandate from the most senior leaders? Is there some middle ground there? What's that interplay between the people who actually have to change and implement versus how the senior leadership sort of drives this change?

**Gisbert Ruhl** [00:14:47] My experience is you're very clear and it has to come from the top. The CEO has to drive the transformation because it's so profound. Also, with all these cultural changes and so on, when this is not when this is not driven by the CEO and driven by CEO, not the CEO makes a speech everyone is on a day to day basis. It has also also in the details. It has to be driven by the CEO otherwise. And I've seen a lot of attempts here also and in Europe or in Germany. Otherwise it doesn't work. It only works and comes from talk. You, of course, have to convince people also your middle management and so on, which takes some time. But when, when, when the CEO is not behind it and it has absolutely no chance, especially in open interest. But I think it's also the same for growth of the companies and tech companies.

**Geoff Parker** [00:15:54] So you mentioned this notion of trying then to increase employee digital IQ. I'd love to know what that means. At Klöckner what were the courses or the kind of modules that you asked people to complete? What was most effective? What did you really think moved the needle?

**Gisbert Ruhl** [00:16:16] Well, we did it on the one side voluntarily, so we providing all kind of courses. We my basic courses also programing when they want to learn Python, they can do it on our platform, but also much more advanced courses like artificial intelligence and so on. So the whole spectrum of courses and voluntary on the one side. But on the other side, I must see old maids always clear that we will not only be even going forward to employ people with the digital now at least they need at least a certain basic know how digital and basic know how this is. This is the way, how we how, how we did it. And also, by the way, this took some time to craft was relatively set in the beginning. But meanwhile, most of all of our at least white collar employees doing this courses and with this, so we had two effects one effect of causes consequences for the employees itself. But if they fall for four deployments going forward, they are much better prepared, even outside of what I will say to them to. So there could also be a career outside of them. But on the other hand, we then increase step by step the Digital IQ throughout the company. And with this, it's much, much, much more easier right now to implement new digital tools and to drive digitalization into the organization because there is a much, much better understanding why are we doing it and how it works and what the benefits of?

**Geoff Parker** [00:18:03] And you said something earlier where you had adopted essentially an experimental try something mindset. In my experience, I had all my early industrial career at General Electric. It was very much of a planning culture. Projects took years and you sort of planned every detail. It's kind of classic waterfall how. And I would have to imagine that many of your customers and your own firm probably fit that mold. How did you pivot to this experiment? Try mindset as opposed to I must planned it all out and know every detail.

**Gisbert Ruhl** [00:18:46] So I had to learn it, too, because I have grown up in the same mantra of planning everything, budgeting everything, and then when I started to say 2013 or 2014, I went, I remember I went to Berlin and made a made a start up to a Berlin first, by the way, in the Silicon Valley. But I decided that we are too small for the valley. Then I went to Berlin and then I was meeting company and there were all this yellow pets in the room and the meeting room and asked them What, what, what have they done? And they said, OK, we prepared for you with it, and we were calling potential customers of you, and we were asking them, what are the pain points when you're ordering steel and metal? And that was my eye opener. And because I have had some the past visited customers, but I always met the CEO or whatever, and then I was asking, OK, what can we do better? And so on to the typical future. But that was really, for me, the eye opener. But we knew that we had to start with the customer, that we had to learn where the pain points are. And I did it myself, by the way, I visited some customers together with the team and this approach and then this this lean startup approach, if you like now, were then building an MVP and so on and then dispute metal on cycle. And this is what we then implemented. And this is what we did it then, with everything the digital academy rolled in, it was an MVP. The our communication wasn't and we always did it now the other way around, no more than waterfall projects. And this was an enormous change. But this helped them very much to speed up this process, even as the process took longer than I expected. But without this, I would say when we had the typical wave wouldn't have look.

**Geoff Parker** [00:20:51] Yes, and I would imagine you'd have some advice for other leaders. I mean, what you just said, literally, if I had to learn myself and I had to go experience a customer pin?

**Gisbert Ruhl** [00:21:06] So that is also why. And by the way, I learned this then and since then very much integrated also into Europe, you know, especially German startup ecosystem. And what I learned from these people is that they always learn and to see all typically always speaks and doesn't learn anymore. And this was also a tremendous change for myself. And I always since then, I always try to adapt things and try it out. And also not everything worked. And we had also to pivot a couple of times. But in the end, it suits the better approach.

**Geoff Parker** [00:21:48] So, so let me ask you a bit about how you worked with the board. So there were investments that needed to be made. You're using a different approach in this more agile experiment. Test Learn. Was the board ready for that or was there a lot of work? And specifically, when they measured what you did, what were they looking to see? Yes. And you know, I'm used to typical ROI things. What did you have to do to explain your investment strategy?

**Gisbert Ruhl** [00:22:24] Yeah, that was not that easy because I had not that many believers in the beginning to say over the board and all stakeholders, not in the industry itself. And but what I saw. But on the other hand, I just managed to click through a severe crisis. I saw at least some trust not only from our people, but also in the board and the supervisory board. We have this two-tier system in Germany and in the end, and I was saying to them, Look, when you want to keep me, you only can keep me together with digitalization because I am absolutely convinced and I'm also absolutely convinced of this platform business in the end. And when we would not invest, then I would leave in direct and. And that was tough on the one side. But on the other side, I was able to implement first things and get onto some quick wins. And then over time, I would say that they were not immediately fans of digitalization and this took definitely some time, but also the stakeholders, by the way, also the, of course, the issues with analysts and investors because they were also asking quite a lot about the benefits. And honestly, it took about five years before we could really show significant benefits in our panel. But we were at least able to convince analysts that this could be a kind of wild card. So they were not taking that positive, but also not too negative. So but it was it was always something which had to be managed. But in the end, it worked quite well. And now the board and also the supervisory board is completely convinced that this is the right strategy and they are supporting this very heavy work.

**Geoff Parker** [00:24:44] So that's both inspiring, but also kind of sobering that you might be literally in a five year plus march to bring these constituents along.

**Gisbert Ruhl** [00:24:55] No, not now, because look, as you were saying, no supervisory board is also, of course, looking at the numbers and also analysts are looking at the numbers and the numbers showing no significant movement. And when you say on the other side that everything would getting better going forward and then if it even takes longer than you were hoping on saying, then it's also understandable to a certain extent people are skeptical.

**Geoff Parker** [00:25:30] So let me ask you a question, and this came out of the work that the Klöckner did with the World Economic Forum, and it was a specific governance design decision that you made around soft preferencing. And in particular, when you built the X.O marketplace platform, you actually decided not to put Klöckner products at the top of search results. Can you explain sort of the reasoning behind the decision, who was unhappy with it internally? And then maybe why you drove that anyway?

**Gisbert Ruhl** [00:26:09] Yeah, this was also a development over time. So we first had the first idea was to open our proprietary platform, which we which we started to develop 2014, that we opened this in the end, also for third party and also for competitors. Here we had, I would say, three difficulties. The first difficulty was that our people at that point in time. So three years ago accepted that that we have to push digitalization forward, but they had difficulty is really to accept that our fiercest competitors all of a sudden should be told to say customer on the platform. That was really that was too strange. And and secondly, also, by the way, the competitors had an issue because also they will say, Look, I don't want to sell only a very few, but most of them were saying, I don't want to sell my products to you. And thirdly, we had then also we would have had its own cartel issue. We went to the content authorities to get approval for our platform, and they were saying in the end, it has to be completely separate because when there are customer data on the platform, we are not allowed to have any access to the details anymore. And this is the reason why we then decided about three years ago, OK, let's split it up. So let's push the transformation of Klöckner towards a more platform company with physical assets going forward. And then let's build up a completely new business venture if you like exo and which should also be independent in the end from now through third party investors. So really adventure. But what should then, on the other hand, also be completely neutral because when we would have made it neutral, our our competitors wouldn't have joined it. So it's different than Amazon because the development is, I would say, completely the other way around. I mean, Amazon started as a bookshop and so on. And then they had, as you might remember, to set shops. They had a they that was also a third party marketplace, which was separated in the beginning from the core business, and then they joined it. But they were not competing in the beginning against the sellers on the platform, and then they started to compete also with their products. And but at that point in time, the power was so huge that they could do it. And we came definitely from the other angel. And therefore the development was until then I had to be different.

**Geoff Parker** [00:29:03] So we're nearly at an end. Gisbert. And that goes awfully fast, I have one kind of closing question, which is now that you've become an investor across industries. What are you looking for in organizations, firms ideas to deploy capital in the funds that you're involved in?

**Gisbert Ruhl** [00:29:23] Now I'm on the one side, so I'm heavily invested in venture capital to stay, but I've already started this a couple of years ago to prepare for my retirement because with this, I build up a significant network in this industry. And then I started to do angel investor investments, but typically also together with these fees. So because he's often asked myself when there's something that could, I could help if I want to join them as an angel investor. And I'm also invested in the second term and SPAC, which was listed here and Germany, and I'm a supervisory head of the supervisory board of this SPAC, and I'm working also on further SPAC. So that is my that is my space where I'm working now. And so I'm doing consulting. I'm doing only on the investment.

**Geoff Parker** [00:30:23] Well, Gisbert, I really appreciate your spending some time with us. I think this is an incredibly important story, which is the journey of transformation for, you know, a traditional firm and how they grapple with these forces. So with that, just once again, thank you so much. And over to you, Devin.

**Gisbert Ruhl** [00:30:42] Thanks very much. Great being with you. Thanks.