

HOW TO ACHIEVE SUCCESS IN DIGITAL TRANSFORMATION:

# REALIZING THE POTENTIAL OF PLATFORMS

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Platforms can help established companies scale their businesses, offer new services, and add value when supported by comprehensive digital transformations. The recent success of international steel distributor Klöckner & Co demonstrates a thriving digital transformation strategy and shows how legacy organizations can maximize the benefits of a platform play.



**kloeckner.i**

## Introduction

International steel and metal distributor Klöckner & Co (KCO) made its first step toward digital transformation when CEO Gisbert Rühl set foot in Silicon Valley. Rühl and his company had plenty of challenges to contend with. Steel demand, especially in Europe, had never fully bounced back from the 2008 financial crisis. KCO's business model as a stockholding steel distributor was no longer viable. The company lacked the opportunity to differentiate, and the market was flooded with overcapacity, primarily stemming from China. Inspired by the startups and innovative digital businesses he encountered in the United States, Rühl resolved not only to digitize his existing business, but also to build an entirely new platform-based business model from the ground up. His reasoning was simple: "Platforms will become the dominant business model of the twenty-first century, not only in B2C [business-to-consumer] but also in B2B [business-to-business]."<sup>1</sup>

**Platforms aren't a magic fix—they're simply one component of a complete digital transformation.**

Rühl had tapped into a larger trend in consumer behavior, one that's doubtlessly here to stay. As Professor Marshall Van Alstyne famously put it, platforms beat products.<sup>2</sup> A so-called "platform play" gives both B2B and B2C companies the ability to scale their businesses in an instant and combine multiple services into an end-to-end offering. Research by McKinsey Digital, a division of the global management consultancy, backs this up: "Going beyond the mere digital delivery of products or services and setting up an online marketplace correlates with markedly improved performance at established companies."<sup>3</sup> By 2022, platform provider revenues are expected to reach a staggering USD 40.2 billion.<sup>4</sup>

But platforms aren't a magic fix. Rather, they're simply one component of a complete digital transformation. In addition to replacing existing business models with digitized services, operations, and customer engagement, companies making a digital turnaround need to achieve top-down cultural change. A recent survey found that a mere 14 percent of organizations that had recently launched a digital transformation reported

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1 Jennifer L. Schenker, "Steeling for Change," *The Innovator*, 2019, <https://innovator.news/steeling-for-change-314e51972381>.

2 "Why Platforms Beat Products Every Time," MIT Sloan Executive Education, 2015, <https://executive.mit.edu/blog/why-platforms-beat-products-every-time>.

3 Jacques Bughin and Nicolas van Zeebroeck, "New Evidence for the Power of Digital Platforms," *McKinsey Quarterly*, 2017, <https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/new-evidence-for-the-power-of-digital-platforms>.

4 "Quick Take: The Boom in Marketplace Platforms," *Coresight Research*, 2018, <https://coresight.com/research/quick-take-the-boom-in-marketplace-platform/>.

sustained performance improvements.<sup>5</sup> Digital transformations fail for a multitude of reasons—most notably because too often they are hardly transformational at all.

In 2014, after Rühl returned from his American excursion, KCO slowly began to recover its profits and established a buffer to help defend against economic and geopolitical instability. A comprehensive digital transformation, has since helped KCO reach more than EUR 2 billion in annual digital sales. The company's successful digital transformation lights the way for other legacy businesses, also known as incumbents, in steel and metals. Aggressive, proactive digital strategies, supported by marketplace platforms, provide legacy companies with the best possible chance of growing and thriving, despite the uncertainties of the future.

## Realizing the potential of platforms

Marketplace platforms offer a compelling business strategy for incumbents thanks to the wealth of opportunities they provide. Even a non-proprietary third-party platform allows companies to instantly scale their businesses, streamline their operations, maximize their efficiency and flexibility, and collect and analyze valuable data. What's more, the buyers and sellers on open industry platforms such as KCO's XOM Marketplace benefit at low or no cost: Sellers pay only a small commission on each transaction, and buyers use the platform for free.

However, research into the digitization of legacy businesses reveals limitations to the power of platforms alone. In a working paper titled *Platform play among incumbent firms: The wrong focus?* Nicolas van Zeebroeck and Jacques Bughin write that platform plays are only successful when coupled with a bold digital strategy and an emphasis on customer experience. The authors note that bold strategies require “a mix of ambition (building digital solutions and models at scale) and courage (since the risk is cannibalizing existing profit pools).” A new focus on customer experience, on the other hand, calls for “a change of mindset and most likely the acquisition of new capabilities focused on demand-side rather than supply-side economies of scale. This is not a digital capability per se, but a cultural mindset.”<sup>6</sup>

**“The potential long-term benefits of an aggressive, bold-at-scale digital transformation can hardly be overstated.”**

5 “Five Moves to Make during a Digital Transformation,” McKinsey Digital, 2019, <https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/five-moves-to-make-during-a-digital-transformation>.

6 Nicolas van Zeebroeck and Jacques Bughin, “Platform Play among Incumbent Firms: The Wrong Focus?” (Brussels, 2017), 12.

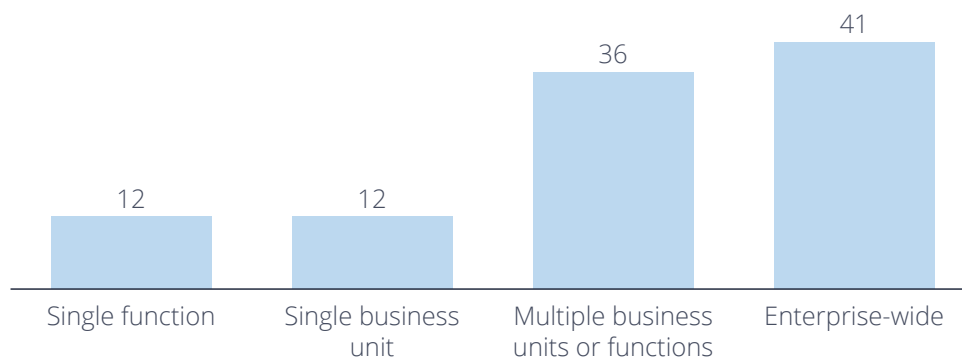
Furthermore, surveys indicate that a company is most likely to enjoy business success if its digital transformation is carried out across the entire enterprise, or at least multiple business units (Exhibit 1). To be sure, undertaking an aggressive, bold-at-scale digital transformation, complete with company-wide cultural change, is no small effort, particularly within traditional industries such as steel and metals. However, the potential long-term benefits can hardly be overstated. The World Economic Forum (WEF) posits that companies in the mining and metals industries that undertake digital transformations could enjoy 70 to 200 percent increases in their 2025 EBITDA compared with their “laggard” counterparts.<sup>7</sup> Digitization is also good for the environment and can even reduce workplace injuries: The WEF speculates that it could bring about a 610-million-ton reduction in carbon dioxide emissions and a 20 percent decrease in on-the-job injuries within these industries alone.<sup>8</sup>

Business leaders in legacy and slow-to-digitize industries need to realize that digital transformation may be necessary not just for their success, but also their survival. What’s more, transformation takes time. For companies willing to take the leap, the moment for action is now.

### ENTERPRISE-WIDE TRANSFORMATIONS CORRELATE WITH SUCCESSFUL OUTCOMES

Exhibit 1

Percentage of all respondents reporting successful outcomes



Source: McKinsey & Company

<sup>7</sup> “Mining and Metals: Digital Transformation and the Industry’s ‘New Normal,’” World Economic Forum, <http://reports.weforum.org/digital-transformation/mining-and-metals-digital-transformation-and-the-industrys-new-normal/>.

<sup>8</sup> Ibid.

## Klöckner's digital pivot

Founded in 1906 in Duisburg, Germany, Klöckner & Co quickly became a leader in international steel distribution. It finally went public in its centenary year, 2006. However, the 2008 financial collapse forced it to make significant changes to its structure. International overcapacity and a decline in demand led the company to slash its expenditures drastically: KCO reduced its workforce by 20 percent and shut down 25 percent of its locations, saving a total of EUR 174 million.<sup>9</sup>

But even after the economy began to bounce back, the steel industry continued to suffer. In his annual letter to shareholders, CEO Rühl noted that European demand for steel in 2013 was still almost a third lower than in 2007, and Chinese oversupply would stunt recovery efforts for years, if not decades, to come.<sup>10, 11</sup> Crucially, however, Rühl recognized that the industry's prevailing business model needed an overhaul. Rather than extend the company's restructuring mission, he decided to immerse himself in the new generation of startups. In 2014, he traveled to Silicon Valley, hoping to identify the source of new digital contenders' growth and borrow from their techniques for digital disruption.<sup>12</sup>

Rühl's visit to Silicon Valley proved to be pivotal. He returned to Germany with a new approach to growing his company's profits. The result was the launch of kloeckner.i, a new digital hub whose two original employees worked out of a coworking space in Berlin, independent of KCO and away from KCO's offices. This new hub would apply integrated, agile methods and the experimental mindset of a startup to develop a comprehensive digital strategy that would revitalize the incumbent business. The gambit paid off: Coupled with KCO's use of proprietary and third-party sales and service platforms, kloeckner.i helped KCO reach a new, expanded customer base and pushed its share of sales happening digitally up to its current level of more than 30 percent. By 2022, the company intends to double that figure.<sup>13</sup> Today, kloeckner.i provides consulting services to other incumbents, drawing on its learnings from KCO's transformation. The goal? To turn around legacy businesses and ensure their sustained profitability in the digital age.

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9 "The Case of Klöckner & Co SE: An Incumbent's Business Model Innovation to Disrupt Not Only the Steel Industry" (University of St. Gallen Institute of Management, 2019), 5.

10 "Annual Report 2013" (Duisburg, n.d.), <http://www.equitystory.com/Download/Companies/kco/Annual-Reports/DE000KC01000-JA-2013-EQ-E-00.pdf>.

11 Rik Kirkland, "How a Steel Company Embraced Digital Disruption," McKinsey Quarterly, 2016, <https://www.mckinsey.com/industries/metals-and-mining/our-insights/how-a-steel-company-embraced-digital-disruption>.

12 Ibid.

13 "Klöckner & Co 2022' – Our Strategy," kloeckner.com, n.d., <https://www.kloeckner.com/en/group/strategy.html>.

## The three pillars of marketplace e-commerce in a digital transformation strategy

kloeckner.i has identified three pillars of marketplace e-commerce that allow incumbents such as KCO to capitalize on the full potential of their marketplace platforms (Exhibit 2). The first, technical transformation, enables these businesses to enter the digital game and to begin to reap the benefits at relatively low costs. The second, digital sales strategy, assists incumbents in maximizing the potential of digital tools to develop targeted marketing and pricing strategies and more robust data sets. Finally, cultural change helps companies transition existing employees to a new way of working and ensures coordinated cooperation by all parts of the organization, in addition to instilling greater flexibility and new approaches to problem-solving. We examine each pillar in detail below.

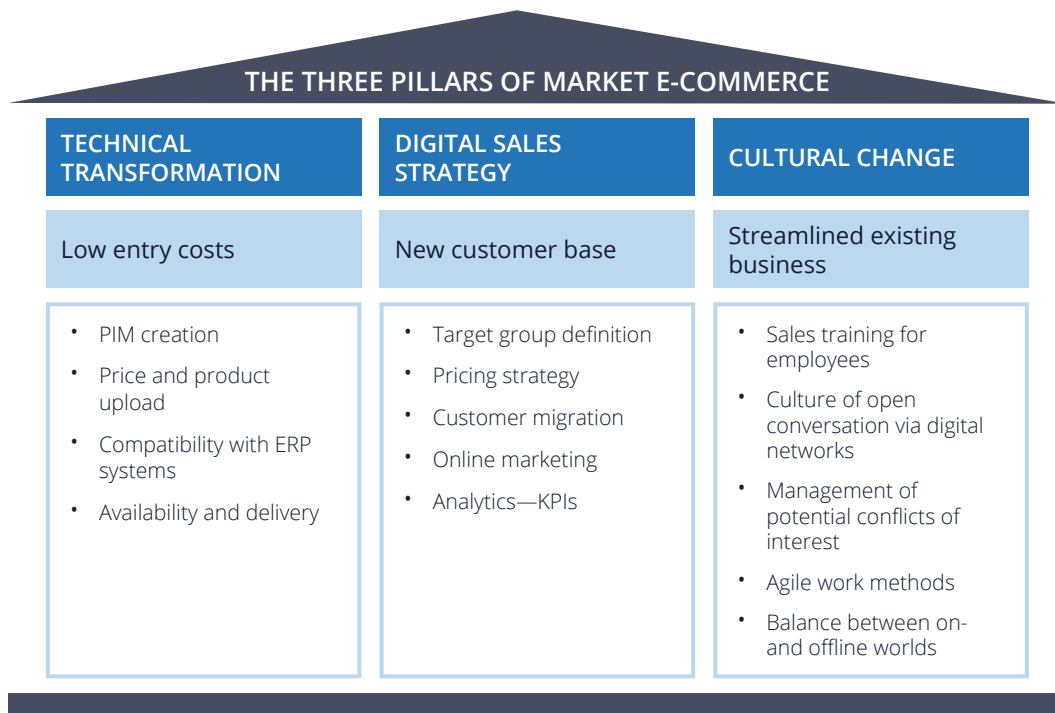


Exhibit 2

## Technical transformation

Many business leaders assume that digitizing product sales and availability is in itself a transformative leap into digital waters. In fact, while this is a necessary first step, a company's technical transformation is only the beginning of a successful platform play. The good news? A low cost of entry makes it easy for incumbents to get their feet wet.

Technical transformation requires companies to acquire key data, such as product availability and delivery dates, that they can use in tandem with marketplace platforms to maximize their operational efficiency. Unlike younger startups, incumbents have often already amassed vast amounts of proprietary data prior to going digital. A complete technical transformation requires unlocking this data wealth and making sure that this valuable resource is in place and in the correct format for future use.

For many established companies, taking a bird's-eye view of a long-standing business model can help illuminate pain points and opportunities for innovation. Kai Becker, VP of Product at kloeckner.i, recalls that when the company embarked on its digital transformation, KCO employees could enumerate plenty of challenges in their day-to-day activities, but no one ever complained about the inefficient process of manually typing thousands of orders into an SAP system each year. "When people aren't conscious of a problem, they don't realize that it could be resolved," Becker says. "But of course that lack of awareness is incredibly costly."

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## Digital sales strategy

Once the foundation for a digital business model is in place, a comprehensive digital sales strategy not only helps companies retain their long-standing clientele but also attracts and provides access to a new customer base. Smart technology is just the start of a successful transformation, notes kloeckner.i CEO Ricardo De Sousa. "You can create and implement digital tools, but if you cannot take customers there—or even if they don't notice—then you have a problem," De Sousa argues.

Fittingly, a complete digital sales strategy begins with migrating customers to online stores or platforms and acquiring new customers within these solutions. Improvements to internal processes and automation must be implemented in parallel to achieve profitability. Data analytics and key performance indicators provide valuable information to fuel sales profits, including comprehensive customer data, which can be used to identify target groups and enable dynamic pricing and marketing, and key insights to

maximize sales efficiency. Furthermore, online and offline marketing analytics can help optimize campaign strategy and boost return on investment.

Digital transformation and effective data analytics also make it possible for key account programs to better serve long-term and high-value customers. While nothing can replace face-to-face interaction, research indicates that customers increasingly prefer digital touchpoints to traditional means of communication.<sup>14</sup> Online and off, comprehensive data about these key accounts allows companies to improve and personalize customer experience.

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## Cultural change

A Boston Consulting Group survey found that the vast majority of companies that pursued cultural change reported “sustained strong or breakthrough performance,” yet none of the companies that neglected cultural change could say the same.<sup>15</sup> Perhaps the most challenging component of digital transformation for a legacy company also ranks among the most crucial: top-down cultural transformation of the entire organization. “Many legacy businesses have operated in more or less the same fashion for years, if not decades, with the same set of employees,” says Christian Pokropp, Managing Director of kloeckner.i. “But a comprehensive cultural shift is key to fostering curiosity and building flexibility—qualities that will serve an organization even as its business landscape changes.”

This shift in mindset must begin at the top of the organization. As Microsoft CEO Satya Nadella argues in his book *Hit Refresh: The Quest to Rediscover Microsoft's Soul and Imagine a Better Future for Everyone*, “The CEO is the curator of an organization's culture.”<sup>16</sup> Nadella, who has helped his company's share price reach all-time highs, says that Stanford psychologist Carol Dweck convinced him of the importance of a company's growth mindset.<sup>17, 18</sup>

14 Varun Kohli, Ryan Paulowsky, and Jennifer Stanley, “How Digital Is Powering the Next Wave of Growth in Key-Account Management,” McKinsey & Company, 2019, <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/how-digital-is-powering-the-next-wave-of-growth-in-key-account-management>.

15 Jim Hemerling et al., “It's Not a Digital Transformation Without a Digital Culture,” Boston Consulting Group, 2018, <https://www.bcg.com/publications/2018/not-digital-transformation-without-digital-culture.aspx>.

16 Satya Nadella, “Satya Nadella: The C In CEO Stands For Culture,” Fast Company, 2017, <https://www.fast-company.com/40457741/satya-nadella-the-c-in-ceo-stands-for-culture>.

17 Paul R. La Monica, “Microsoft Hits All-Time High after Hiking Dividend and Buying Back More Stock,” CNN Business, 2019, <https://edition.cnn.com/2019/09/19/investing/microsoft-stock-dividend-buyback-apple/index.html>.

18 Justin Bariso, “This Is the Book That Inspired Microsoft's Turnaround, According to CEO Satya Nadella,” Inc., 2018, <https://www.inc.com/justin-bariso/this-is-book-that-inspired-microsofts-turnaround-according-to-ceo-satya-nadella.html>.



Similarly, at KCO, Rühl's enthusiastic acceptance of the need for a new approach to steel distribution helped set the tone for change. Kloeckner dismantled the hierarchies that had structured KCO for decades and eliminated siloed communication channels. A new company-wide social media network, Yammer, allowed employees to communicate with one another—and with KCO's leadership—directly. Team members from any part of the organization could voice concerns and put forward solutions to the challenges facing the company.

From the start of the company's transformation, KCO's leadership recognized that mistakes were inevitable during digitization. It therefore became key to the company's evolution that all members of the team adopt an attitude of exploration, openness to criticism, and willingness to learn and fail. Rühl introduced a series of "failure sessions," a concept widely practiced among international startup communities that allows participants to share stories of their unsuccessful ventures in business and entrepreneurship in a risk-free environment. For KCO employees, such events fostered a healthy attitude toward risk-taking and an acceptance of honest mistakes. KCO Group HR also launched a Digital Academy, open to all Klöckner employees, providing training across a range of topics to prepare team members for the complexities of digital business.

Cultural change within any legacy organization happens gradually, and some employees will resist transformation even in the most supportive professional environment. These individuals need to feel that their contributions to the company will be valued post-transformation; often, in order to accept and master their evolving responsibilities, they also need to be reassured that their jobs won't become obsolete. In fact, far more workers will acquire new responsibilities than will lose their jobs completely as a result of digitization.<sup>19</sup>

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Angelika Kambeck, head of Group HR at KCO, says that it can take a long time for employees to recognize that changes will benefit a company, and it can take even longer for the changes to feel like the right move. Kambeck notes that the tide finally turned at KCO after years of lingering resistance. "Now people are buying into the changes emotionally," she says. "They are becoming part of the change. Being active. Being shapers."

Not everyone is going to get on board immediately, of course. But Kambeck says that companies embarking on a digital transformation should bear in mind that just

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<sup>19</sup> OECD, "Preparing for the Changing Nature of Work in the Digital Era," OECD Going Digital Policy Note (Paris, 2019), <https://www.oecd.org/going-digital/changing-nature-of-work-in-the-digital-era.pdf>.

ten percent of a team is enough to begin to make a change. “You can’t take all of your employees with you,” she adds. “People are individual beings, and not everybody likes the change. But—and this is important—you have to give everybody the chance to take part in the digital transformation.”

## Optimism in the face of uncertainty

Uncertainty has governed the steel market for many years, and concerns about the ramifications of digitization and automation have only compounded market anxiety. In fact, the alarmism about the future is not unfounded, yet in the case of proactive organizations, it is unwarranted. Research shows that digitization can cut revenue growth by one half and EBIT growth by one third in companies where employees resist change.<sup>20</sup> However, writing in *Harvard Business Review*, Jacques Bughin and Tanguy Catlin report that the outlook remains rosy for companies that adopt a different approach: “It is not too late for incumbents to reverse the digital curse and re-create a more profitable growth path, if they are willing and able to invest more in digital than their peers and take the offensive by reshuffling their activity portfolios and beefing up remaining activities with new business models.” The authors add that these businesses “would be wise” to choose to adopt digital platforms.<sup>21</sup>

In 2019, kloeckner.i launched a consulting service to help legacy companies make a digital shift. With the knowledge that steel and metals supply chains will soon be mediated by platforms industry-wide, the consulting experts at kloecker.i help to onboard companies onto platforms such as XOM, where they quickly gain experience in B2B digital trading. The consultants also share their learnings from the successful transformation of KCO, helping to future-proof incumbents’ business models (Exhibit 3).

“We are not typical advisors,” Pokropp says. “We call ourselves ‘digital enablers.’ We help customers position themselves so that they can sustain positive change long after our collaboration is over.” Thanks to a century of insights into the mercurial field of steel and metal distribution, kloeckner.i not only understands the path toward transformational digitization, but is also uniquely suited to help its clients ascend the learning curve. In working with legacy organizations, the company seeks to deploy its expertise and help elevate incumbent businesses so they can sustain new growth and generate new value.

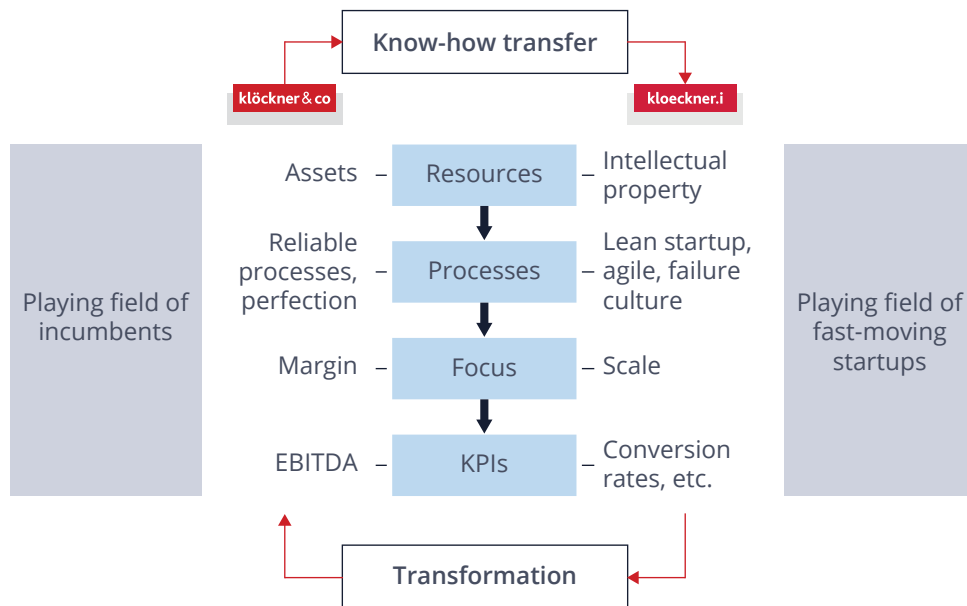
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20 Jacques Bughin and Tanguy Catlin, “What Successful Digital Transformations Have in Common,” *Harvard Business Review*, 2017, <https://hbr.org/2017/12/what-successful-digital-transformations-have-in-common>.

21 Ibid.

BRINGING A CENTURY OF EXPERIENCE IN THE STEEL AND METALS INDUSTRY TOGETHER WITH THE AGILE, CUSTOMER-CENTRIC APPROACH OF A STARTUP TO TRANSFORM LEGACY BUSINESSES

Exhibit 3



Digital transformation will alter the nature of business for legacy companies whether they choose to embark on their own transformations or not. Ultimately, the greatest liability for these companies is their own resistance to change. Of course, fear of change is a part of human nature, often triggering a “fight or flight” reaction within organizations; as a result, employees often resist or avoid change, even when it benefits them and their organizations. But proactive companies can rest assured that their efforts will serve them well. Kambeck puts it succinctly: “Digitization is not some sort of tiger, waiting in the bushes to leap out and devour you. It’s just a change in business.”

About kloeckner.i

kloeckner.i GmbH is the Berlin-based innovation hub of Klöckner & Co SE. Founded in 2014, it brings together Klöckner’s century of experience in the steel and metals industry with the agile, customer-centric approach of a startup. With a suite of digital portals and tools and a comprehensive consulting service, kloeckner.i has become a world leader in the digitization of the steel and metals industry. For more information, visit [www.kloeckner-i.com](http://www.kloeckner-i.com).