

# SAP Ariba a First-Mover as Blockchain Comes to B2B Procurement

*Transcript of a discussion on the major opportunity from bringing Blockchain technology to business-to-business procurement and supply chain management.*

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**Dana Gardner:** Hello, and welcome to a special BriefingsDirect podcast, coming to you from the 2017 SAP Ariba LIVE conference in Las Vegas.

I'm [Dana Gardner](#), Principal Analyst at [Interarbor Solutions](#), your host the week of March 20 as we explore the latest in collaborative commerce and learn how innovative companies are leveraging the networked economy.

Our next digital business thought leadership panel discussion examines the major opportunity from bringing [Blockchain](#) technology to business-to-business (B2B) procurement and supply chain management. We will explore how Blockchain's unique capabilities can provide comprehensive visibility across global supply chains and drive simpler verification of authenticity, security, and ultimately control.



[Fox](#)

To learn more about how Blockchain is poised to impact and improve supply chain risk and management, please join me now in welcoming our guests, [Joe Fox](#), Senior Vice President for Business Development and Strategy at [SAP Ariba](#). Welcome back, Joe.



[Kemp](#)

**Joe Fox:** Thanks, Dana. It's good to be here.

**Gardner:** We're also joined by [Leanne Kemp](#), Founder and CEO of [Everledger](#), based in London. Welcome, Leanne.

**Leanne Kemp:** Thank you, great to be here.

**Gardner:** Joe, Blockchain has emerged as a network methodology, running crypto currency [Bitcoin](#), as most people are aware of it. It's a digitally shared record of transactions maintained by a network of computers, not necessarily with centralized authority. What could this be used for powerfully when it comes to gaining supply chain integrity?

**Fox:** Blockchain did start in the Bitcoin area, as peer-to-peer consumer functionality. But a lot of the capabilities of Blockchain have been recognized as important for new areas of innovation in the enterprise software space.

Those areas of innovation are around “trusted commerce.” Trusted commerce allows buyers and sellers, and third parties, to gain more visibility into asset-tracking. Not just asset tracking in the context of the buyer receiving and the seller shipping -- but in the context of where is the good in transit? What do I need to do to protect that good? What is the transfer of funds associated with that important asset? There are even areas of other applications, such as an insurance aspect or some kind of ownership-proof.

**Gardner:** It sounds to me like we are adding lots more metadata to a process. What's different when you apply that through Blockchain than if you were doing it through a platform?

## ***Inherit the trust***

**Fox:** That's a great question. Blockchain is like the cloud from the perspective of it's an innovation at the platform layer. But the chain is only as valuable as the external trust that it inherits. That external trust that it inherits is the proof of what you have put on the chain digitally. And that includes that proof of who has taken it off and in what way they have control.

As we associate a chain transaction, or a posting to the ledger with its original transactions within the SAP Ariba Network, we are actually adding a lot of prominence to that single Blockchain record. That's the real key, marrying the transactional world and the B2B world with this new trusted commerce capability that comes with Blockchain.

**Gardner:** Leanne, we have you here as a prime example of where Blockchain is being used outside of its original adoption. Tell us first about Everledger, and then what it was you saw in Blockchain that made you think it was applicable to a much wider business capability.

**Kemp:** Everledger is a fast-moving startup using the best of emerging technology to assist in the reduction of risk and fraud. We began in April of 2015, so it's actually our birthday this week. We started in the world of diamonds where we apply blockchain technology to bring transparency to a once opaque market.

And what did I see in the technology? At the very core of crypto currency, they were solving the problem of double-spend. They were solving the problem of transfer of value, and we could translate those very two powerful concepts into the diamond industry.

At the heart of the diamond industry, beyond the physical object itself, is certification, and certificates in the diamond industry are the currency of trade. Diamonds are cited on web sites around the world, and they are mostly sold off the merit of the certification. We were able to see the potential of the crypto currency, but we could decouple the currency from the ledger and we were able to then use the synthesis of the currency as a way to transfer value, or transfer ownership or custody. And, of course, diamonds are a girl's best friend, so we might as well start there.

## ***Dealing with diamonds***

**Gardner:** What was the problem in the diamond industry that you were solving? What was not possible that now is?

**Kemp:** The diamond industry boasts some pretty impressive numbers. First, it's been around for 130 years. Most of the relationships among buyers and sellers have survived generation upon generation based on a gentleman's handshake and trust.

The industry itself has been bound tightly with those relationships. As time has passed and generations have passed, what we are starting to see is a glacial melt. Some of the major players have sold off entities into other regions, and now that gentleman's handshake needs to be transposed into an electronic form.

Some of the major players in the market, of course, still reside today. But most of the data under their control sits in a siloed environment. Even the machines that are on the pipeline that help provide identity to the physical object are also black-boxed in terms of data.

We are able to bring a business network to an existing market. It's global. Some 81 countries around the world trade in rough diamonds. And, of course, the value of the diamonds increases as they pass through their evolutionary chain. We are able to bring an aggregated set of data. Not only that, we transpose the human element of trust -- the gentleman's handshake, the chit of paper and the promise to pay that's largely existed and has built has built 130 years of trade.

We are now able to transpose that into a set of electronic-form technologies --

Blockchain, [smart contracts](#), cryptography, [machine vision](#) -- and we are able to take forward a technology platform that will see transactional trust being embedded well beyond my lifetime -- for generations to come.

**Gardner:** Joe, we have just heard how this is a problem-solution value in the diamond industry. But SAP Ariba has its eyes on many industries. What is it about the way things are done now in general business that isn't good enough but that Blockchain can help improve?

**Fox:** As we have spent years at Ariba solving procurement problems, we identified some of the toughest. When I saw Everledger, it occurred to me that they may have cracked the nut on one of the toughest areas of B2B trade -- and that is true understanding, visibility, and control of asset movement.

It dawned on me, too, that if you can track and trace diamonds, you can track and trace anything. I really felt like we could team up with this young company and leverage the unique way they figured out how to track and trace diamonds and apply that across a huge procurement problem. And that is, how do a supplier and a buyer manage the movement of any asset after they have purchased it? How do we actually associate that movement of the asset back to its original transactions that approved the commit-to-pay? How do you associate a digital purchase order (PO) with a digital movement of the asset, and then to the actual physical asset? That's what we really are teaming up to do.

That receipt of the asset has been a dark space in the B2B world for a long time. Sure, you can get a shipping notice, but most businesses don't do goods receipts. And as the asset flows through the supply chain -- especially the more expensive the item is -- that lack of visibility and control causes significant problems. Maybe the most important one is: overpaying for inventory to cover actual lost supply chain items in transit.

I talked to a really large UK-based telecom company and they told me that what we are going to do with Everledger, with just their fiber optics, they could cut their buying in half. Why? Because they overbuy their fiber optics to make sure they are never short on fiber optic inventory.

That precision of buying and delivery applies across the board to all merchants and all supply chains, even middle of the supply chain manufacturers. Whenever you have disruption to your inbound supply, that's going to disrupt your profitability.

**Gardner:** It sounds as if what we are really doing here is getting a highly capable means -- that's highly extensible -- to remove the margin of error from the tracking of goods, from cradle to grave.

## ***Chain transactions***

**Fox:** That's exactly right. And the Internet is the enabler, because Blockchain is everywhere. Now, as the asset moves, you have the really cool stuff that Everledger has done, and other things we are going to do together -- and that's going to allow anybody from anywhere to post to the chain the asset receipt and asset movement.

For example, with a large container coming from overseas, you will have the chain record of every place that container has been. If it doesn't show up at a dock, you now have visibility as the buyer that there is a supply chain disruption. That chain being out on the Internet, at a layer that's accessible by everyone, is one of the keys to this technology.

We are going to be focusing on connecting the fabric of the chain together with [Hyperledger](#). Everledger builds on the Hyperledger platform. The fabric that we are going to tie into is going to directly connect those block posts back to the original transactions, like the purchase order, the invoice, the ship notice. Then the companies can see not only where their asset is, but also view it in context of the transactions that resulted in the shipment.

**Gardner:** So the old adage -- trust but verify -- we can now put that to work and truly verify. There's news taking place here at SAP Ariba LIVE between Everledger and SAP Ariba. Tell us about that, and how the two companies -- one quite small, one very large -- are going to work together.

**Fox:** Ariba is all-in on transforming the procurement industry, the procurement space, the processes of procurement for our customers, buyers and sellers, and we are going to partner heavily with key players like Everledger.

Part of the announcement is this partnership with Everledger around track and trace, but it is not limited to track and trace. We will leverage what they have learned across our platform of \$1 trillion a year in spend, with 2.5 million companies trading assets with each other. We are going to apply this partnership to many other capabilities within that.

**Kemp:** I am very excited. It's a moment in time that I think I will remember for years to come. In March we also made an important announcement with IBM on some of the work that we have done beyond identifying objects. And that is to take the next step around ensuring that we have an ethical trade platform, meaning one that is grounded in cognitive compliance.

We will be able to identify the asset, but also know, for example in the diamond industry, that a diamond has passed through the right channels, paid the dutiful taxes that are due as a part of an international trade platform, and ensure all compliance is hardened within the chain.

I am hugely excited about the opportunity that sits before me. I am sincerely grateful that such a young company has been afforded the opportunity to really show how we are going to shine.

**Gardner:** When it comes to open trade, removing friction from commerce, these have been goals for hundreds of years. But we really seem to be onto something that can make this highly scalable, very rich -- almost

*If you think about it,  
Blockchain is an evolution  
of the Internet.*

an unlimited amount of data applied to any asset, connected to a ledger that's a fluid, movable, yet tangible resource.

**Fox:** That's right.

**Gardner:** So where do we go next, Joe? If the sky is the limit, describe the sky for me? How big is this, and where can you take it beyond individual industries? It sounds like there is more potential here.

## ***Reduced friction costs***

**Fox:** There is a lot of potential. If you think about it, Blockchain is an evolution of the Internet; we are going to be able to take advantage of that.

The new evolution is that it's a structured capability across the Internet itself. It's going to be open, and it's going to be able to allow companies to ledger their interactions with each other. They are going to be able, in an immutable way, to track who owns which asset, where the assets are, and be able to then use that as an audit capability.

That's all very important to businesses, and until now the Internet itself has not really had a structure for business. It's been open, the Wild West. This structure for business is going to help with what I call trusted commerce because in the end businesses establish relationships because they want to do business with each other, not based on what technology they have.

Another key fact about Blockchain is that it's going to reduce friction in global B2B. I always like to say if you just accelerated B2B payments by a few days globally, you would open up Gross Domestic Product (GDP), and economies would start growing dramatically. This friction around assets has a direct tie to how slowly money moves around the globe, and the overall cost and friction from that.

So how big could it go? Well, I think that we are going to innovate together with Everledger and other partners using the Hyperledger framework. We are going to add every buyer and seller on the Ariba Network onto the chain. They are just going to get it as part of our platform.

Then we are going to begin ledgering all the transactions that they think make sense between themselves. We are going to release a couple of key functions, such as smart contracts, so their contract business rules can be applicable in the flow of commerce -- at the time commerce is happening, not locked up in some contract, or in some drawer or Portable Document Format (PDF) file. We are going to start with those things.

I don't know what applications we are going to build beyond that, but that's the excitement of it. I think the fact that we don't know is the big play.

**Gardner:** From a business person's perspective, they don't probably care too much that it's Blockchain that's enabling this, just like a lot of people didn't care 20 years ago that it

was the Internet that was allowing them to shop online or send emails to anybody anywhere. What is it that we would tease out of this, rather than what the technology is, what's the business benefit that people should be thinking about?

**Fox:** Everybody wants digital trust, right? Leanne, why don't you share some of the things you guys have been exploring?

## ***Making the opaque transparent***

**Kemp:** In the diamond industry, there is fraud related to document tampering. Typically paper certificates exist across the backbone, so it's very easy to be able to transpose those into a PDF and make appropriate changes for self-gain.

Double-financing of the pipeline is a very real problem; invoicing, of course accounts receivable, they have the ability to have banks finance those invoices two, three, four times.

We have issues with round-tripping of diamonds through countries, where transfer pricing isn't declared correctly, along with the avoidance of tax and duties.

All of these issues are the dark side of the market. But, now we have the ability to bring transparency around any object, particularly in diamonds -- the one commodity that's yet to have true financial products wrapped around it. Now, what do I mean by that? It doesn't have a futures market yet. It doesn't have exchange traded funds (ETFs), but the performance of diamonds has outperformed gold, platinum and palladium.

*This platform shift is like going from the World Wide Web to the World Wide Ledger.*

Now, what does this mean? It means we can bring transparency to the once opaque, have the ability to know if an object has gone through an ethical chain, and then realize the true value of that asset. This process allows us to start and think about how new financial products can be formed around these assets.

We are hugely interested in rising asset classes beyond just the commodity section of the market. This platform shift is like going from the World Wide Web to the World Wide Ledger. Joe was absolutely correct when he mentioned that the Internet hasn't been woven for transactional trust -- but we have the ability to do this now.

So from a business perspective, you can begin to really innovate on top of this exponential set of technology stacks. A lot of companies quote Everledger as a Blockchain company. I have to correct them and I say that we are an emerging technology company. We use the very best of Blockchain and smart contracts, machine vision, sensorial data points, for us to be able to form the identity of objects.

Now, why is that important? Most financial services companies have really been focused on Know Your Customer (KYC), but we believe that it's Know Your Object (KYO) that really creates an entirely new context around it.

Now, that transformation and the relationship of the object have already started to move. When you think about Internet of Things (IoT), mobile phones, and autonomous cars -- these are largely devices to the fabric of the web. But are they connected to the fabric of the transactions and the identity around those objects?

Insurance companies have begun to understand this. My work in the last 10 years has been deeply involved in insurance. As you begin to build and understand the chain of trust and the chain of risk, then tectonic plate shifts in financial services begin to unfold.

## ***Apps and assets, on and off the chain***

**Fox:** It's not just about the chain, it's about the apps we build on top, and it's really about what is the value to the buyer and the seller as we build those apps on top.

To Leanne's point, it's first going to be about the object. The funny thing is we have struggled to be able to, in a digital way, provide visibility and control of an object and this is going to fix that. In the end, B2B, which is where SAP Ariba is, is about somebody getting something and paying for it. And that physical asset that they are getting is being paid for with another asset. They are just two different forms. By digitizing both and keeping that in a ledger that really cannot be altered -- it will be the truth, but it's open to everyone, buyers and sellers.

Businesses will have to invent ways to control how frictionless this is going to be. I will give you a perfect example. In the past if I told you I could do an international payment of \$1 million to somebody in two minutes, you would have told me I was crazy. With Blockchain, one corporation can pay another corporation \$1 million in two minutes, internationally. And on the chain companies like Everledger can build capabilities that do the currency translation on the fly, as it's passing through, and that doesn't dis-remediate the banks because how did the \$1 million get onto the chain in the first place? Someone put it on the chain through a bank. The bank is backing that digital version. How does it get off the chain so you can actually do something with it? It goes through another bank. It's actually going to make the banks more important. Again, Blockchain is only as good as the external trust that it inherits.

I really think we have to focus on getting the chain out there and really building these applications on top.

**Gardner:** It's very exciting, and has certainly opened my eyes to more opportunity and potential. We will be talking about this quite a bit more, I'm sure. But I'm afraid we will have to leave it here today. We've been talking about the major opportunity from bringing Blockchain technology to B2B procurement and supply chain management.

And we've learned how Blockchain's unique capabilities can provide comprehensive visibility across global supply chains for far simpler verification of authenticity, security, and ultimately control.

So, a huge thanks to our guests, Joe Fox, Senior Vice President for Business Development and Strategy at SAP Ariba, and Leanne Kemp, Founder and CEO of Everledger.

And a thanks as well to our audience for joining this special podcast, coming to you from the 2017 SAP Ariba LIVE conference in Las Vegas. I'm Dana Gardner, Principal Analyst at Interarbor Solutions, your host throughout this series of SAP Ariba-sponsored BriefingsDirect Digital Business Insights Discussions. Thanks again for listening, and please come back next time.

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