



Navigating the impact of COVID-19 on chemicals and materials

While both supply and demand impacts are real, chemicals and materials sector will play key role in recovery from the pandemic

What is the Story?

The impact of chemicals and materials spans applications from automotive to medical devices to institutional cleaners. Indeed, 96 percent of manufactured goods contain products of the chemical industry.¹ A sector with such broad economic exposure will, therefore, be broadly impacted by both the initial and the sustained changes wrought by the spread of the Cov-SARS-CoV-2 virus and the resulting COVID-19 illness. The impact will, however, be by no means homogeneous. Depending upon the course of the

pandemic and the impact on economic conditions, there will likely be both grave threats to vulnerable business models and significant opportunities for growth and transformations.

Deloitte's Oil, Gas & Chemicals practice tasked a team to develop scenarios, examine trends, and propose no-regret actions for market participants across the chemicals and materials ecosystem. This was done through one-on-one interviews with industry executives, deep research, and scenario analyses. There was strong

consensus amongst the industry executives that "the how and where of work" will be profoundly impacted; that expanding digital capabilities are no longer "nice to have," and that "robustness" will need to be built into all aspects of their business models.

The resulting report provides both a point of view on the implications of the COVID-19 pandemic and a series of recommendations for companies as they begin thinking of how to navigate from "recovery" to "thriving" in a post-pandemic world.

¹American Chemistry Council (ACC), 2019 Guide to the Business of Chemistry, January 2020

What issues does it help address?

The chemicals and materials sector is not monolithic but rather a collection of companies which vary in size, geography, business mode, and end-market focus. Accordingly, the team considered the COVID-19 impact through various lenses, all of which are relevant to chemical and materials companies. These include:

- Certain key trends have begun to accelerate due to the crisis, re-shaping both demand and supply across industries
- Other trends that are likely to decelerate or stop due to the crisis
- Trends that, important before the pandemic, will continue to shape the industry
- Key uncertainties that must be considered in strategy and business planning
- Detailed consideration of four scenarios that compare the reach of the pandemic versus the industry impact arising from changes in end-consumer behavior
- A set of both recovery and thrive oriented actions for market participants

While the immediate issues and impacts do vary by company, our interviews with executives, backed up by research, showed common themes across the sector. Even before the emergence of Cov-SARS-CoV-2 in late 2019, most industry observers were expecting 2020 to be low to flat growth in all geographies outside of Asia and, compared to recent years, muted in China. Operational excellence has long been a hallmark of the chemicals sector and with the quick lever of reduced capital expenditures at hand, the majority of companies are financially fit to weather a short-term, albeit very deep, drop in demand from end markets.

Nonetheless, the analysis clearly shows that there will be inevitable long-term impacts regardless of the eventual course of the pandemic. The workplace will only slowly, if ever, to return to pre-COVID practices. Companies that had invested in digital initiatives across the enterprise saw those “pay-off” in the hothouse environment of the early pandemic days. Product portfolios and, more importantly, end-market applications have differentiated, and will continue to

Figure 1. Macro scenarios emerge focused on possible futures 3–5 years out that reveal distinct structural implications for companies

The good old days

The pandemic is managed.

Consumers adopt safety measures and again feel safe mingling in public. This is not, however, without lasting repercussions, which disproportionately affect Main Street and lower- and middle-income individuals and communities.

- Relatively constrained disease dynamic
- Effective health system and a vaccine
- Offices reopen and travel resumes at a large scale
- Global supply chains remain in place

The darkest hour

Prolonged pandemic period and severe depression spurring governments to implement further public health measures, protectionist policies, and stimulus.

- Virtual work is the norm
- Retail and hospitality sectors face existential crisis and many incumbent players go bankrupt
- Economic activity is regionally concentrated, with pressure to onshore capabilities
- Automation and digitization is imperative

Times are a-changin’

The economy is beginning to return, but in a different form than pre-pandemic with **new behaviors and subsequent business models.**

- Digital solutions, e-commerce, and new service models that limit in-person interaction prevail
- Mobility remains restricted, but travel is possible
- Large companies drive solutions and leverage their position for M&A activity and consolidation
- Widespread departure from sharing economy

Let them eat cake

Extended recession as continued restrictions dampen economic activity. Consumer behavior normalizes somewhat, but with **drastically reduced spending** due to widespread unemployment and inequality.

- Virtual work is the norm
- Retail and hospitality sectors and small businesses face existential crisis and many go bankrupt
- Economic activity is regionally concentrated, with pressure to onshore capabilities

differentiate, winners from losers. One already sees double digit percentage differences in impact between companies based on their application exposure (i.e., those companies overly exposed ICE automotive versus those with products used in cleaning and disinfecting).² Finally, chemical and material companies are rethinking their supply chain strategies either by their own volition or under pressure from end-market OEM’s. The shift is from pure globalization to “glocalization.”

Finally, the analyses consider the actions firms should take through the rubric of Strengthen; Speed-up; Simplify; or Suspend. No regret steps are suggested across the enterprise from overall governance to talent and on to operational areas such as manufacturing and supply chain. Deloitte has multiple tailor-made, time-tested offerings to help clients thrive in this crisis. The report identifies seven that are specifically targeted to the current challenges.

²Chemical Week, May 25, 2020, pp19-23



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