



TREND 1

Building resilience amid volatility

SCENARIOS FOR STRATEGIC LEADERS

Andrew Swart, Global sector leader, Mining & Metals, Deloitte Touche Tohmatsu Limited

Andrew Lane, Energy, Resources & Industrials leader, Deloitte Africa



WHILE COVID-19 HAS had a range of impacts on mining companies, varying by commodity and geography, the one thing the past year has taught leaders is the value of building resilient organizations to navigate uncertain futures. To build a resilient organization, mining companies should embrace scenario planning as part of their strategic planning processes. Doing this effectively can position miners to better anticipate a range of global disruptors that could affect their organizations. To help companies on this path, we outline four divergent scenarios based on current trends and uncertainties and consider how they might play out in the mining sector.

Setting strategy and mitigating risk have always required an element of prediction. The further into the future a company needs to peer, the harder it is to develop accurate forecasts. Mining companies that work on decades-long time horizons are all too familiar with this challenge.

When a wrench is thrown into this process, companies often scramble to recalibrate. This has certainly been the case with COVID-19. As the pandemic began taking a toll on the global economy, mining companies found themselves reacting to emergency measures, regional regulations, and supply chain disruptions.

Moving past the initial shock

To protect worker health and safety, many companies quickly canceled nonessential travel and moved to remote work, where possible. In addition to imposing stricter hygiene and social distancing measures, some also scaled down production on

specific sites in response to cases of COVID-19 and/or supply chain disruptions.

To mitigate risk, numerous companies created specialized internal task forces to develop site-specific pandemic plans, began screening onsite workers for symptoms, and took steps to solidify their finances through cash-flow planning. Several miners in remote regions also found themselves stepping up donations to help local health authorities meet their urgent needs for personal protective equipment (PPE).

“Now that the initial shock has passed, companies are facing challenging environments, alternating between restriction and relaxation,” says Andrew Swart, Global sector leader, Mining & Metals, Deloitte Touche Tohmatsu Limited. “The differential impact of COVID-19 on different commodities and geographies has heightened both volatility and uncertainty. Despite being in uncharted waters, leaders should take decisive action to ensure their organizations are resilient.”

Four future scenarios

To help mining companies set their strategy and mitigate risk in the coming three to five years, Deloitte considered how the future might be affected by two uncertainties: (1) the severity of the pandemic, and (2) the level of collaboration within and between countries.

A set of scenarios developed by Deloitte and Salesforce¹ was used as the basis for the development of four distinct scenarios related to the mining sector (figure 1).

FIGURE 1

Four scenarios based on current trends and uncertainties



Source: Deloitte and Salesforce, *The world remade by COVID-19: Scenarios for resilient leaders*, April 6, 2020.

While scenarios are merely stories of what the future may be like rather than predictions of what will happen, these hypotheses can help leaders open their eyes to new opportunities and hidden risks:

- The passing storm** presumes that, after a slow start, the COVID-19 pandemic is met with an increasingly effective health system and a strong political response. The virus is eradicated earlier than expected due to coordinated measures by global players to spread awareness and share best practices. Public institutions' competence in the crisis renews trust in them. The pandemic has long-term economic impacts. Fiscal and monetary stimulus blunt the shocks but cannot reverse the losses that small businesses and lower and middle-income individuals have begun to experience. Tensions sharpen between socioeconomic classes.
- Good company** presumes the COVID-19 pandemic persists past initial projections, placing a growing burden on governments around the world, which struggle to handle the crisis. A surge of public-private partnerships emerges as companies step up to be part of the global solution. New "pop-up ecosystems" arise as companies across industries—including mining—partner to respond to critical needs and drive much-needed innovation. Social media companies, platform companies, and tech giants gain new prestige. Ultimately, companies shift further toward "stakeholder capitalism," with a

more empathetic stance on how they can best serve their customers, shareholders, and employees to rebuild after the crisis.

- **Sunrise in the east** postulates that the COVID-19 pandemic is severe and unfolds inconsistently across the world. China and other East Asian countries manage the disease more effectively, whereas Western nations struggle with deep and lasting impacts—human, social, and economic—driven by slower and inconsistent responses. The global center of power shifts decisively east as China and other East Asian nations take the reins as primary powers on the world stage and lead global coordination of the health system and other multilateral institutions. The ability of China, Taiwan, and South Korea to contain the outbreak through a strong, centralized government response becomes the “gold standard.”
- **Lone wolves** posits that the COVID-19 pandemic becomes a prolonged crisis as waves of disease afflict the world for longer than expected, resulting in a growing death toll, social unrest, and economic freefall. Paranoia grows. Nations put strict controls on foreigners and make supply chains domestic in the name of local security. Countries become isolationist. Government surveillance is commonplace, with technology monitoring people and their movements.

In assessing how these scenarios may play out, trust figures prominently. In many ways, an effective recovery hinges not only on citizens’ ability to trust in government, communities’ ability to trust in companies, and employees’ ability to trust in their employers’ leadership, but also on the trust of investors to deploy capital.

Layering in industry megatrends

To determine how these scenarios might play out in the mining sector, we considered their impact on

five industry megatrends, which have been illuminated because of the COVID-19 pandemic. Depending on which scenario plays out over the next three to five years, some of these trends can be accelerated, while others may slow down:

- **Supply chains.** Geopolitics, the rise of nationalism, and cross-border supply chain risks are expected to reshape global supply chains. This could result in mining companies strengthening the resilience and agility of their supply chains and, in some cases, regionalizing the supply chains of critical inputs, to mitigate risk and drive more local employment.
- **Government power.** Governments may be less able to provide public services (e.g., health care, education) due to increased indebtedness, resulting in greater reliance on mining companies to fill the gap. This would present companies with an opportunity to create value beyond compliance by partnering more deliberately with governments and host communities.
- **Future of work.** As the crisis highlights the importance of operating safely, the already ongoing shift to remote and virtual working environments could accelerate. This may see miners focus more on the automation of work, deployment of different talent models, and a transition to remote operations.
- **Automation and digital.** In the more severe pandemic scenarios, mining companies could accelerate investment in automation and digital technologies to allow for remote operations and people and equipment tracking. Individuals would likely be more open to new technologies, from wearables to AI, as long as they provide benefits to personal security and health.
- **Decarbonization.** As the crisis highlights the trade-off between short-term economic recovery and long-term environmental impact, companies can seek a balance between prioritizing the economic recovery and increasing support for environmental issues,

particularly decarbonization. Underlying drivers could include a less attractive business case in a low oil price environment, the imposition of carbon taxes, and investor/community pressure around environmental, social, and governance (ESG) commitments.

Applying the scenarios to the mining sector

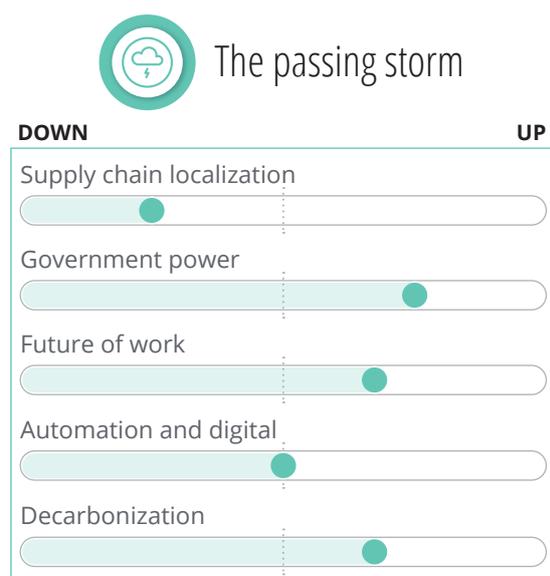
By lining these megatrends up to our four scenarios, we get a sense of how the global landscape might unfold in the next three to five years (figure 2).

SCENARIO 1: THE PASSING STORM

In response to the crisis, mining companies would likely keep automating and digitizing their operations and assets to mitigate risks. Governmental stimulus, including an accelerated infrastructure agenda, could help drive the demand for and prices of commodities. Less affected by the economic impacts, large companies would likely be better positioned to move forward by investing in new exploration and operations, technology innovations, and acquisitions of smaller players.

FIGURE 2

Scenario 1: The passing storm



Source: Deloitte, *Thriving post COVID-19: Scenarios for resilient leaders in Mining & Metals and Construction & Base Materials*, April 6, 2020.

Efforts to decarbonize the supply chain could also allow companies to respond to mounting ESG pressures and maintain social licenses.

Signposts that may indicate progression toward this scenario include:

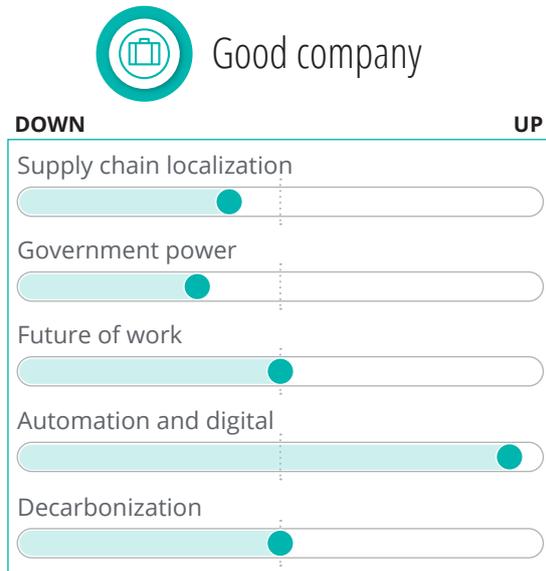
- The virus sees a single peak with no indications of further waves.
- Governments decide to reopen large swathes of society and the economy, with little to no impact on infection rates.
- Highly effective mechanisms to combat the virus are created and deployed (e.g., vaccines).
- Governments collaborate and share best practices, resulting in a worldwide decline in infections.

Should this scenario come to pass, larger mining companies would likely have better access to resources and investment to combat COVID-19 in the short term and would rebound quicker. For their part, smaller mining companies may take longer to return to normal, given their lack of resources and reduced ability to change operations in the short term.

SCENARIO 2: GOOD COMPANY

Mining companies could be forced to step up to the plate (figure 3). Companies can volunteer their resources to support and supplement containment, treatment, and recovery efforts. They would also be increasingly expected or required to make direct financial investments into their local communities to maintain their social license to operate and avoid a backlash from communities, governments, and the media. At the same time, mining companies would need to adapt to new realities by investing more heavily in areas such as wearables, virtual reality, AI, and 3D printing to combat significant supply chain shifts and workforce social distancing requirements.

FIGURE 3

Scenario 2: Good company

Source: Deloitte, *Thriving post COVID-19: Scenarios for resilient leaders in Mining & Metals and Construction & Base Materials*, April 6, 2020.

Signposts that may indicate progression toward this scenario include:

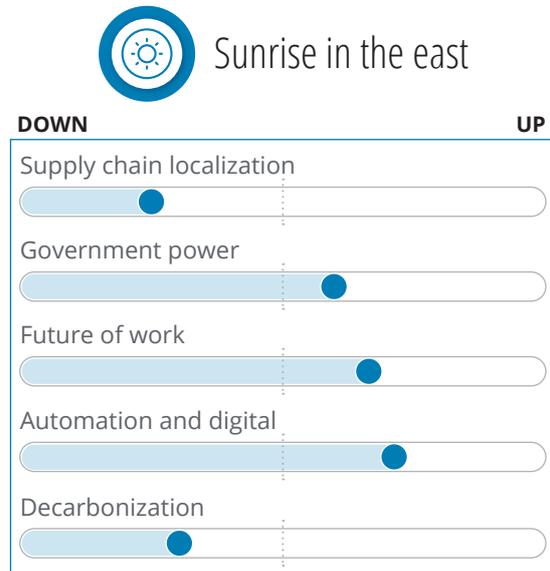
- Companies are increasingly looked at as partners in solving this crisis; solutions start arriving from the private sector.
- Government measures face limitations, which have to be addressed by private sector innovation.
- Governments run out of resources (e.g., human capital, money) to effectively combat the virus and must look elsewhere to fill the gap.

Should this scenario come to pass, miners with good community and government relations could build on their license to operate. Conversely, those with poor reputations might not be seen as strategic partners and could be left behind.

SCENARIO 3: SUNRISE IN THE EAST

The severe and long-lasting impacts of the crisis would see mining companies prioritize and accelerate the implementation of digital technologies (see figure 4). Particularly in remote

FIGURE 4

Scenario 3: Sunrise in the east

Source: Deloitte, *Thriving post COVID-19: Scenarios for resilient leaders in Mining & Metals and Construction & Base Materials*, April 6, 2020.

areas and developing countries, companies could develop programs in and around their operations to provide public services that highly indebted governments cannot afford. East Asian countries could take a central role in acquisitions and consolidating some sectors. Some governments may turn to nationalization to help their finances. Mining companies could shift away from decarbonization efforts and toward business models lighter in assets.

Signposts that may indicate progression toward this scenario include:

- East Asian countries see their peaks end soon, while Western countries struggle to contain their outbreaks or see repeated waves.
- China and other East Asian nations lift restrictions and their economies return to normal at a quicker pace than in Western nations.
- Western governments strike partnerships with East Asian nations to share best practices around reducing infections.

Should this scenario come to pass, mining companies based in East Asian countries will likely rebound quickly, and those with demand based in Asia could see stronger results than others. All other jurisdictions could be at a productivity disadvantage given local restrictions and social distancing measures, and would see softer demand as a result.

SCENARIO 4: LONE WOLVES

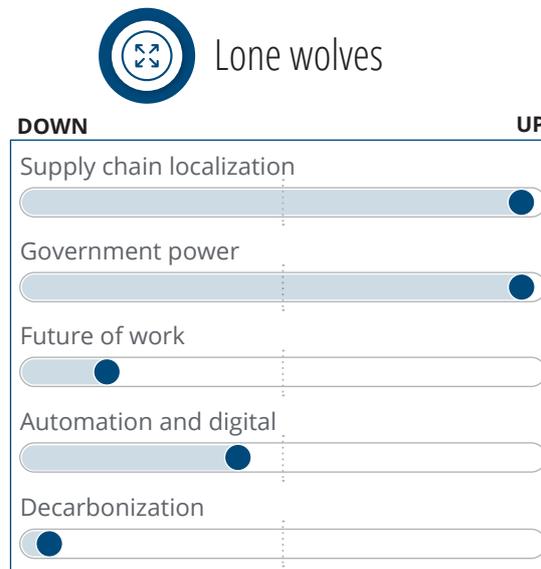
In response to the impacts of the crisis, mining companies could see drastic disruptions to their production and supply chains. With strict social distancing and tracking measures, companies could be forced to halt production or to suffer large productivity declines. If countries adopt isolationist policies and global supply chains are cut, companies would likely seek local suppliers and customers (figure 5). The strength of local supply chains could determine who will survive. In regions with strong local demand, companies could thrive; in regions where metals are heavily exported, companies could struggle.

Signposts that may indicate progression toward this scenario include:

- Vaccines or other medical developments face setbacks.
- Multiple waves of infection occur.
- Countries deploy intrusive monitoring programs to track individuals in the name of safety.
- Countries begin investment programs to build local industries to supply important resources.

FIGURE 5

Scenario 4: Lone wolves



Source: Deloitte, *Thriving post COVID-19: Scenarios for resilient leaders in Mining & Metals and Construction & Base Materials*, April 6, 2020.

- Countries deemphasize working together and enter into trade wars.

Should this scenario come to pass, mining companies with their own integrated processing operations could be better positioned to weather the storm. Those with largely global supply chains could have to navigate a complicated international landscape in order to continue operating.

In order for companies to navigate the next few years, they will likely require dynamic strategies, resilient leadership, and a constant reevaluation of the environment around them. Scenario planning could be an invaluable tool for leaders as they embark on the next few years.

Stress testing your strategy against the scenarios

The four scenarios set out here suggest a range of possible impacts as the COVID-19 crisis evolves. To build resilience, leaders should take several key steps:

- **Understand the implicit assumption in your current strategy.** Spend time as an executive team exploring each of the four divergent scenarios and determine which future best describes your current plan. In many cases, different members of the team will have different futures in mind. That insight alone is valuable in surfacing areas of alignment and misalignment.
- **Understand what you might do differently should a different scenario come to pass.** There may be scenarios to which your organization has not given thought. Consider what it would take to succeed should they come to pass. This will oblige you to think about new capabilities, partnerships, or strategic shifts that may be needed. Equally, some of the biggest threats to the business under this scenario will become clear, such as exposure to certain geographies or commodities, or vulnerability to competitive moves.
- **Monitor the news for clues about how the world might be shifting or unfolding.** In any uncertain environment, the key to success is agility and the ability to shift your strategy accordingly. To this end, monitoring the geopolitical and economic environment for early warning signs could be essential. Understanding what your future moves might be and what you might need to do differently in each scenario should be built into your strategic planning process.

ENDNOTE

1. Deloitte and Salesforce, *The world remade by COVID-19: Scenarios for resilient leaders*, April 6, 2020.

Tracking the trends 2021

Closing the trust deficit

TREND 1
Building resilience amid volatility
Scenarios for strategic leaders

TREND 2
M&A in an altered world
Winning back investor trust

TREND 3
ESG: Getting serious about decarbonization
From strategy to execution

TREND 4
E.G: Working to overcome the social trust deficit
Linking social investments to sustainable outcomes

TREND 5
ESG: Corporate governance adding to competitive advantage
Emerging risks mandate greater oversight

TREND 6
Creating an agile supply chain
Overcoming the vulnerabilities exposed by global shocks

TREND 7
The path towards integrated operations
Positioning miners to pivot in the face of change

TREND 8
Advancing the future of work
Redefining leadership and adapting the workplace culture

TREND 9
On the road to zero harm
Creating the next generation of integrated predictive safety systems

TREND 10
Meeting demand for green and critical minerals
Mining's role in the transition to a clean energy future