

Reaction: Five trends that will shape the 2021 chemical industry

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A look back at 2020

If the chemical and performance technologies industry in the year 2020 was to be summarized in a single word, that word would be “disruption.” Some companies surged, for example, makers of disinfectants and diagnostic reagents, while others struggled—those exposed to automotive, refining, and construction end markets to name but a few. However, whether gearing up to meet sudden spikes in demand or struggling to survive, both outcomes resulted in major disruption.

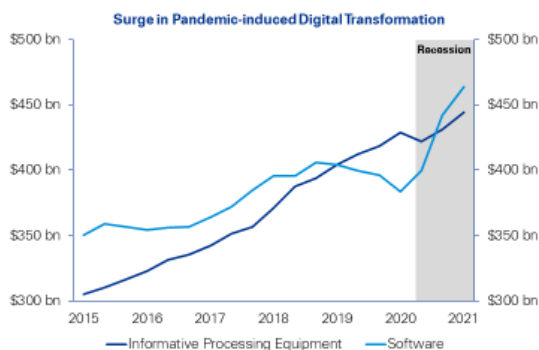
So much has changed in just a year. Established strategies of the past are no longer relevant. The pandemic exposed industry weaknesses and significantly accelerated transformation programs. As businesses navigated uncharted territory, it was digital transformation that proved to be the critical lifeline. Digital will continue to be fast-tracked across every aspect of the chemical industry, as one of five key trends that will shape 2021.

Top five reasons why 2021 will be different

While the challenges of last year are not yet behind us, there is sound evidence supporting the need for the chemical industry to keep a focus on these five areas that will emerge as critical in 2021 and beyond:

1. Expanded digitalization

The pandemic raised everyone’s awareness of the fundamental importance of technology. The unprecedented scale and speed of the crisis brought a colossal surge in technology investments. In fact, rarely can a surge in digital transformation be seen in gross domestic product data, but this past pandemic year was an exception.



While few organizations would have planned for something as momentous as COVID-19, digital

leaders entered the crisis in much better shape than others. Most notably, they had better infrastructure in place to deal with the immediate need to pivot to remote work and remote operations.

The 2021 digital focus will be on modifying structures and processes—connecting across front, middle, and back offices—so that information flows easily between each. This helps ensure access to all appropriate information for decision-making, planning, and support. A connected enterprise will likely require greater adoption of emerging technologies such as robotic automation, artificial intelligence, machine learning, and natural language processing. These investments will pay back in gains in revenue and efficiency—and better service to the customer.

The chemical industry, a slow mover compared to many others, should leverage digital leading practices from industries that have successfully made the transition to a connected enterprise, such as media, telecom, and technology industries.

Action steps

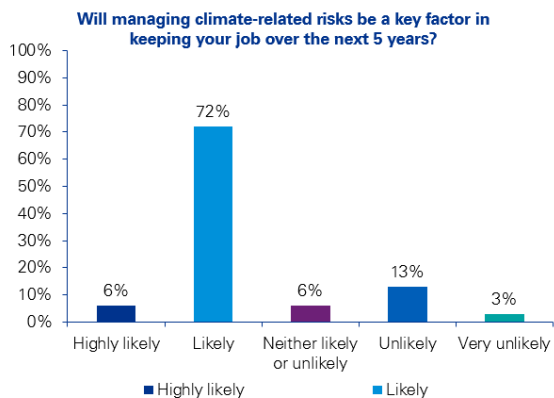
- Understand the full suite of available products and options—digital advancement doesn’t necessarily mean an enterprise resource planning “big bang” upgrade.
- Use technology across the front, middle, and back office. Don’t just settle for predictive maintenance or bots in shared service centers. For example, exploit digital tools for elevating the employee experience; use customer analytics to grow the top and bottom line, etc.
- Link to return on investment: apply the same core chemical industry metrics around product profitability to digital investment.

2. Elevated ESG goals

The chemical industry has been a leader on environmental, social, and governance (ESG) factors, but there is so much more to do. It’s time to double down on ESG strategies.

ESG is becoming more mainstream due to intensifying investor, regulatory, and consumer pressure holding companies accountable for ESG impacts. Some examples: surging demand for responsible investments has large fund managers exiting investments in non-climate-conscious companies; European Union sustainability-related

regulations require ESG impacts on all products to be disclosed; consumers are publicly demanding that businesses move beyond token gestures and into hard action; and C-suite executives will increasingly be measured on, and rewarded for, progress against ESG targets.



A recent KPMG/Eversheds survey identified significant increase in C-suite focus on climate change.

Source: [KPMG Eversheds Sutherland survey, November 2020](#)

The chemical industry holds the key to unlocking climate strategies across the industrial manufacturing value chain. This will be accomplished through the supply of sustainably produced products into downstream industries. Other prominent ESG industry focus areas include decarbonization, renewable energy, CO₂ reduction, and circular plastics.

Incorporating ESG builds competitive advantage. Strong ESG practices are becoming an essential prerequisite for employee recruitment, brand enhancement, and investor funding. In short, ESG creates a virtuous circle for all—employees, customers, and investors.

Action steps:

- Get specific: articulate priority ESG initiatives that best map to your mission.
- Develop disciplined methodology to measure and report your ESG metrics journey.
- Transition energy supplies to renewable sources.
- Implement more effective reporting to publicize ESG efforts that are already going on in your company—to your employees, stockholders, and community.

3. Increased diversity in leadership

Although there has been some progress recently, participation of women and minorities in chemical leadership remains stubbornly low. Leadership has typically followed a very traditional model: most have a chemical engineering degree and comparable business experience and share similar backgrounds—these commonalities potentially leading to a lack of diversity of thought. In the

current dynamic environment, greater diversity is needed to bring fresh perspectives and ideas to deliver greater agility in response to new challenges. Diversity boosts innovation, aids in talent acquisition and retention, and improves customer connections with an increasingly diverse consumer base.

Diversity needs to be reflected throughout the organization. The chemical companies that will be the most successful in the coming years will be those that can win the war for diverse and digitally-savvy talent—and that is a war that will be fought across multiple industries.

Action steps:

- Set challenging diversity goals with delivery tied to executive compensation.
- Invest in leadership development and establish a mentorship program to encourage diversity on all rungs of the corporate ladder.
- Recruit outside the standard pool to draw talent from nontraditional schools/majors and from other digitally strong sectors.

4. Increased mergers and acquisitions activity

COVID-19 didn't stop deal activity. Even in a challenged market, there were multiple billion-dollar and multibillion-dollar deals. To name a few: Trinseo acquired Arkema's PMMA business; BP sold its petrochemical business to INEOS; PPG acquired the global coatings manufacturer Ennis-Flint and has since announced its intention to acquire Tikkurila Oyj; and a consortium of Cinven and Bain Capital has announced its intention to acquire Lonza's Specialty Ingredients business in a \$4.7 billion deal.

In fact, right now is the most active mergers and acquisitions (M&A) market ever seen in chemicals. There are sponsor-owned assets in process of sale, large-scale corporate carve-outs (e.g., Clariant pigments business and Eastman's tire additives and adhesives resins business units), as well as smaller corporate carve-outs comprising product lines, and even single manufacturing plants.

There are a multitude of factors driving M&A activity, among them cheap and plentiful debt, burgeoning private equity interest in the industry, liquidity pressures on distressed companies due to the pandemic impact, and a desire by some corporates to divest underperforming or noncore businesses.

There are promising possibilities on either side of the buy/sell equation. Portfolios should be strategically assessed to determine where to focus finite resources in order to meet business objectives. If there are assets in the market that would make a good fit, now might be a good time to reach out to the owner as they may be considering selling. Conversely, if a part of your business doesn't align with your organization's strategy, start thinking

of ways to maximize value in preparation for sale—to private equity investors, corporations, or both.

Action steps

- Assess noncore assets for possible spin off—are you the best owner for each individual asset/group of assets?
- Target acquisitions and think like an activist: (1) diversified portfolio and underperforming business units; (2) underperformance compared to peers; (3) value erosion due to unsuccessful M&A.
- Plan and execute better separation and integration by avoiding the three areas that tend to destroy more than 50 percent of deal value: (1) lack of execution; (2) organizational confusion/disruption; and (3) information technology systems disruption/issues.

5. Diversified portfolios

Historically, many of the biggest chemical companies have been diversified—typically as a result of past M&As, although over the past 10 years, there has been pressure to restructure portfolios to focus on fewer, core businesses—much of this exerted by activist investor pressure in the U.S. However, during the pandemic, those companies that were focused on the “wrong” segments of the market were those that suffered the worst during the crisis

Learning from the lessons of 2020, it’s a strategic imperative for all chemical companies to actively assess their portfolios and determine whether a change in direction is required. Diversification should no longer be a dirty word in the industry—as long as diversification doesn’t become an excuse for lack of focus.

Action steps

- Assess whether COVID-19 showed you to be under- or over-exposed to certain segments.
- Determine whether you would benefit from an increase in portfolio diversification to protect you from potential future external shocks and become more resilient.
- Continue to improve operational performance via cost reduction, a better understanding of customer and product profitability, efficiencies captured through automation, restructured executive compensation, reconsidered pricing, the exploration of new markets, etc.

A look ahead

The global chemicals and performance technologies industry has its work cut out if it’s to rebound from the most disruptive year in memory. The encouraging news is that there is a defined path forward. By keeping these five trends at the forefront of your strategy, your company will be well positioned to promptly evaluate and respond to new opportunities...and help make the world a better place in the process.

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