

Chemicals Practice

Resilience in chemicals: How to prepare for the next downturn

Economic downturns take their toll—and chemical companies are no exception. Here's what resilient companies did to outperform their peers.

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The global economic outlook has become decidedly more volatile. And while no one knows exactly when the next economic downturn will occur, such events tend to be cyclical.

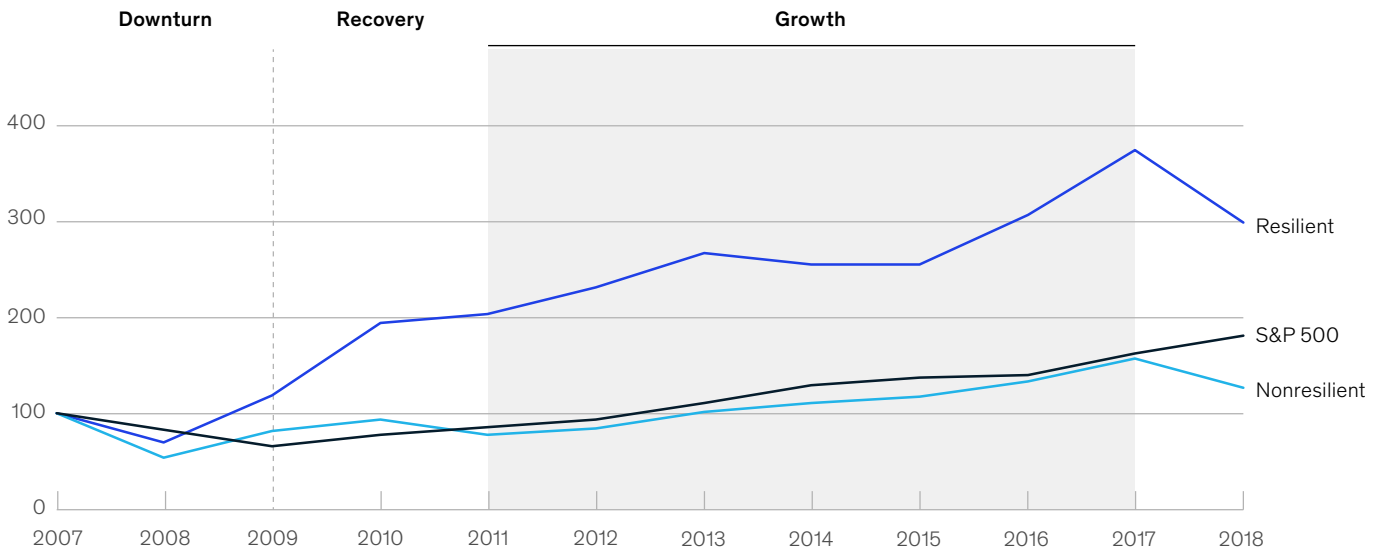
Chemicals is often referred to as the industry of industries, as its products flow into nearly every category of business. This means that chemical companies are significantly affected by economic slowdowns. We analyzed the paths of the 264 largest publicly listed chemicals companies worldwide and found that during the last downturn, about 20 percent of those companies performed materially better than the rest. We refer to these companies as “resilients”—industry leaders that can weather conditions that weaken their competitors.

Generally speaking, resilient companies took action in areas where their competitors did not. As part of our research, we compared the total shareholder returns performance of resilient chemical companies to the median S&P 500 companies and nonresilient players from 2007 to 2018 (exhibit). Not only did the resilients perform better in the downturn and during recovery, but they were also able to maintain this advantage and outperform their peers in the growth phase.

Exhibit

While the last economic downturn was severe, some companies flourished.

Total shareholders return, indexed to 100 (FY 2007)



Source: CPAAnalytics; McKinsey analysis

Resilient companies distinguished themselves by taking five actions:

- ① **Preparing the balance sheet ahead of time.** Resilients reduced leverage before and during the downturn and used the increased headroom for investments during the recovery.
- ② **Staying focused on economic profit—even in a downturn.** Despite the economic downturn, resilients increased their share of profits by approximately two percentage points faster than their peers.
- ③ **Cutting costs quickly and keeping them under control.** Resilients were prepared earlier and made moves faster to reduce costs during the downturn, and they were also able to keep costs low entering the recovery.
- ④ **Restructuring proactively and decisively.** Resilients made quicker and more impactful restructuring decisions during the downturn, helping them adjust to the new economic landscape.
- ⑤ **Divesting in the downturn, then acquiring at lower rates early in the recovery.** Resilients increased their acquisition activity during the recovery when prices were cheaper than at the peak.

Increasing resilience for a downturn does not need to be a doomsday scenario. Rather, it should be seen as a preemptive effort to raise awareness among leaders on the benefits afforded to the organization. The actions taken by resilient chemical companies will require alignment across the organization, as well as focused and rigorous execution.

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