Responding to COVID-19
Navigating the impact on the mining and metals industries

June 2020
We’re all in this together

COVID-19 has turned into a global crisis, evolving at unprecedented speed and scale. It is creating a universal imperative for governments and businesses to take immediate action to protect their people.

No industry is immune, and all are grappling with varying degrees of severity and complexity. The financial ramifications are significant. Market capitalization for the biggest 2,000 companies worldwide has declined by 24 percent since the beginning of the outbreak, losing more than $12.4 trillion.¹

For mining and metals companies, COVID-19 is disrupting the entire value chain. In order to protect their people organizations implanted a range of measures from travel bans, access restrictions (offices, mine sites and manufacturing facilities) reacting to the disruption cause by the impact of COVID-19 and migrating to the New Normal on how workplaces operate and how people function.

The length and severity of the impact is still not entirely known. Leaders are preparing for medium to long term strategies while also developing new capabilities and ways of working that will seamlessly enable longer-term changes to how they operate.

This document provides mining and metals leaders with a perspective on the evolving situation and implications for their businesses.
Demand, supply and confidence

Metals and mining indices are showing the same trend as during the global financial crisis.

Current market conditions correlate more closely to the global financial crisis than any of the previous epidemics (Ebola, H1N1 and MERS). The industry as a whole—including gold miners—is seeing strong devaluation of their stocks. Early indicators for commodities pricing and demand projections are exacerbating the situation.

COVID-19 has quickly turned into an epidemic of massive proportions. The economy is facing demand, supply and confidence effects. How long will it last? That depends on the severity of the outbreak and the public health measures undertaken to contain it.

Source: Accenture Research analysis of metals and mining industry index sourced from Capital IQ.
S&P 500 Metals & Mining Industry Index Rebased D0 = 100 (the crisis outbreak date). The outbreak dates (D0) are as follows: COVID-19 = Feb 21, 2020; MERS = May 20, 2015; Ebola = Apr 10, 2014; H1N1 = Apr 17, 2009; Global Financial Crisis = Sep 15, 2008.
Impact on mining and metals companies

There are vulnerabilities across the value chain

**People are the lifeblood**
Safe and economic operations require a healthy and skilled workforce. Without them, the organization will falter. Plus, companies need to ensure their workforce—as well as their extended ecosystem of contractors, suppliers, etc.—is ready for the recovery.

**Continuous risk of exposure**
Mining operations require workers to operate and live in confined spaces (e.g. mining camps, trucks, operator rooms). This increases exposure to and propagation of COVID-19.

**Production flexibility challenges**
Mining and some metal companies do not have the operational flexibility to adjust production as quickly as might be required by this crisis. This can result in unbalanced and non-optimal operations, leading to increased costs in the short term.

**Logistics disruptions**
Transportation and shipping restrictions are increasing. For example, Russia and countries in Africa and the Middle East have stopped accepting metal shipments from China. Trade within Europe will also be disrupted.

**Materials availability**
A shortage of upstream supply (including chemicals, machine components and critical consumables) can significantly affect the ability to operate. Production shortages will be aggravated by the logistics disruptions caused by governments’ COVID-19 precautions.

**Uncertain future demand**
The crisis is causing significant disruptions to the workforce, suppliers, customers and operations. The question is, how long until it is “operations as usual”? Until the global pandemic curve flattens, predicting future demand with any accuracy will be difficult.
What needs to happen now?

Actions to mitigate near-term operational risks and protect your people
Uncertainty forces us to take action quickly. We must continue to operate while considering a range of ever-changing scenarios.

**Response Governance**

Your actions now will define your culture and brand:

- Continue to maintain a response room composed of senior leadership.
- Maintain cross-functional rapid response teams to deal with existing and emerging challenges. Consider participation of external parties, such as suppliers, community leaders and specialized consultants.
- Responses should be localized to communities in which you operate, and include your people, vendors and communities.
- Ensure information security monitoring for work from home.

**People & Workplace**

Ensure people are safe:

- Manage the recently deployed innovative strategies to protect your people. Monitor that your actions are taking care of the physical, mental and relationship needs you can address.
- Leverage Remote Operating Centers and technology/mobile tools to further reduce on-site workforce.
- Provide access to needed technologies and mobile tools to ensure maximum productivity.
- Regardless of initial inefficiencies, do not compromise on the future.

**Financial Due Diligence**

Evaluate risks and opportunities and be ready to take swift action:

- Assess your current and medium-term financial position, looking at liquidity, capitalization strategy, revenue impact of different scenarios, market valuation outlook, competitor positioning and risks.
- Update your strategic assumptions to stay ahead of your competitors.
- Be aggressive in mitigating risk and identifying opportunities to benefit from market volatility.

**Operations**

Reduce your operational exposure:

- Implement/deploy rapid response supply chain task force.
- Assess and address potential supply chain disruptions.
- Validate business continuity plans; engage suppliers, unions, communities and others.
- Prepare to return to normal, but plan for disruptions and delays.
- Challenge your workforce to identify opportunities to reduce operational impacts.

**Monitoring & Reporting**

Manage the situation with the same passion and discipline that you bring to managing your operations:

- Keep track of the health of your workforce.
- Monitor the sentiment of all your stakeholders—including your suppliers and contractors.
- Continually assess internal and external indicators and have a mechanism in place to act swiftly.
- Develop a ramp-up plan and update it on a regular basis.
- Develop a risk assessment and monitor it daily.
- Use Applied Intelligence to accelerate your response.
What needs to happen next?

Actions to capitalize on mid-term and near future opportunities
What needs to happen next?

In the current climate, your decisions will determine how your organization fares in the near term—which is critical. But they will also have a significant impact on how well you operate in the future.

That means that smart leaders will seize this opportunity to take swift action to avoid business disruption and potential revenue loss—and at the same time, forge new levels of trust with their workforce and position their businesses for greater resiliency and productivity in the future.

Each company, industry and region will have different needs and requirements for managing people, the workplace, customer service, data management and business continuity. But there are six major foundations that all organizations should consider as they move forward.

Empower People, Operate with Purpose
Assess Liquidity
Assure Supply and Delivery
Secure Operational Continuity
Uncover Opportunities
Replatform for a Digital World
Empower People, Operate with Purpose

How you protect and empower your people, adapt workplace approaches and expand connections to partners and local communities not only determines how you operate in the near term, but also how you will operate in the future.

For its part, BHP has announced COVID-19 response measures that are expected to accelerate the delivery of about $100 million to its small business partners, many of whom are struggling with the pandemic. The company’s chief executive, Mike Henry, said that looking after the well-being and safety of BHP’s people, communities and partners was the highest priority.²

Through it all, let’s not forget that this is first and foremost a health crisis, and that our primary responsibility is to safeguard the health of our families, our colleagues and, indeed, ourselves.

Key actions

- Rethink the way you operate, and how you build trust with your people, partners and communities.
- Honor your company values—your actions now will define how the market, the community and your stakeholders think of you—today and tomorrow.
- Out of difficult times comes an astonishing amount of innovation and creativity. Begin to harness it. It brings hope.

Key strategic questions

1. Do we have redundancy in positions? Are there restrictions on who can do a given job due to certifications or union rules?
2. Should we rethink how we operate, or even where? What can we do remotely?
3. How prepared has our ecosystem of partners, employees and communities been? Should we re-evaluate that model?
4. How can we help fulfill our social purpose by redeploying excess labor? Can we temporarily reassign people into high-demand sectors or to partners across the value chain that need additional capacity?
5. How can we financially support our local communities and partners (with infrastructure, if needed) as we start recovering from the crisis?
Assess Liquidity

Mining and metals companies should conduct scenario modeling (for cash flow, P&L and balance sheet), looking at controllable uncertainties for demand and supply and the triggers affecting revenue and cost.

They can then formulate action plans to respond—while considering the capital expenditures that would be required from a supply/labor/resource perspective, and whether they can actually execute those projects.

Many companies should consider deploying a mechanism that lets them dynamically adjust production capacity in line with market conditions in real time. They should determine the financial impact of changing production—looking at current cash and future expected cashflows—and then reforecast for the year and incorporate those insights into future expectations.

Some companies have been considering such adjustments. For example, Marie Inkster, president and CEO of Lundin Mining, recently offered some balanced reassurance during the crisis: “Lundin Mining is in a strong financial position with an excellent balance sheet and high-quality operations. We are well positioned to maintain stability and will continue to work proactively to protect the health of our company, our local stakeholders and our communities as we navigate through this time of uncertainty.”

Key actions

- Secure access to free cash flow.
- Evaluate hedging opportunities, strategic purchases and other pricing strategies.
- Seek out strategic alliances to help accelerate the eventual ramp up of production.
- Work together with suppliers to build long-term partnerships.

Key strategic questions

1. Have we identified all the potential triggers that could significantly impair liquidity?
2. Have we modeled various future scenarios? If so, is our organization ready to shift?
3. With an understanding of our customer’s required demand, what does a model of the future look like? Best case? Worst case? What sensitivity to demand do we need to consider?
Companies can reforecast their demand plans for the remainder of the production year by working collaboratively with their largest end customers, and those with long-term supply contracts.

Understanding their needs through the crisis and beyond can help you identify the correct production profile for your situation and avoid the excess use of working capital.

It may be useful to look to China to see how its economy continues to react following the peak of COVID-19 there and as more nations come out of lockdown to see if a trend emerges. Speed of recovery will depend, of course, on the specific government actions taken. For example, COVID-19 is expected to impact global construction industry growth significantly this year, with growth returning over the next two years. All geographies are reporting slowed construction industry growth in 2020.

Key actions

- Strengthen collaboration with your customers and distributors to better understand end customer demand.
- Find a balance between capturing growth and avoiding unprofitable growth: How demand will increase after the crisis is unclear.
- Integrate automated risk mitigation workflows, scenarios and protocols into business-as-usual playbooks to quickly switch from normal operations to disruption response, as needed.
- Establish an intelligence-based capability allowing an automated identification and evaluation of risks and disruptions (e.g. new geographies affected, trade limitations, workforce/travel restrictions), and proactively recommend mitigating actions.

Key strategic questions

1. Are we collaborating with our customers to understand their specific demand and current operating constraints?
2. Are we able to supply your customers as and when needed?
3. Do we have visibility into the supply chain of our direct suppliers?
4. Do we understand the extent and duration of supply exposure for our most critical and/or long lead-time items?
5. Are we transparent with our customers about our situation, so that they can plan for potential disruptions?
Secure Operational Continuity

For the short term, companies may need to operate their assets at a suboptimal point, leading to lower OEE, reduced service levels and so forth. But beyond that, they should consider rebalancing production.

On a tactical level, that means operating at a predictable production output capacity to match reforecasted demand, and to avoid WIP inventory stockpiling and rehandling costs.

Barrick Gold recently recognized such issues, announcing it will limit all non-essential projects in response to the pandemic. The company has also identified alternative suppliers and shipping routes and put contingency plans into place for other parts of its operations.  

On a strategic level, rebalancing production means reviewing your footprint and assessing the flexibility of your workforce, the depth and capacity of your suppliers and broadening your customer base to diversify demand.

Altogether, we should consider this crisis as a wake-up call and recognize that the way we have operated up to this point may not be the way we operate in the near future.

Key actions

- Reassess your production capabilities and resiliency to minimize future disruption.
- Consider all operational activities holistically—both direct production and enabling site projects.
- Secure access to critical supplies, and form strategic alliances with and across suppliers.

Key strategic questions

1. When do we scale operations and what demand levels do we scale to? What are the 6-, 12- and 24-month expected norms? Which enabling projects need to continue?
2. Can we redistribute production to plants in geographies that are no longer significantly affected by COVID-19?
Uncover Opportunities

As companies rethink operations and rebalance production capacity, they should be alert to opportunities where necessity opens the door for strategic improvements that can support future growth.

For example, a plant shutdown could provide a window for asset upgrades and modernization. Remote training or applied technologies could be used to upskill an idled workforce that is staying home. And in a changing landscape, it might make sense to integrate a key supplier into your operations, or a competitor might be a target for acquisition—or for a strategic partnership.

Key actions

1. Zero-base all costs across the enterprise. Strategically decide what capabilities you maintain in-house, and which you buy-in.
2. Leverage this new reality to evaluate updates to your organizational policies and/or union agreements.
3. React now, but plan for what is coming next. Ensure that your actions are sustainable.
4. Consider partnership, merger or acquisition potential across your value chain.

Key strategic questions

1. How do you best take advantage of external expertise and scale efficiencies to derisk operational exposure?
2. How can we make the best use of our highly skilled and geographically dispersed workforce?
3. Which competitors or suppliers have become good candidates for partnerships and M&A? How does that extend to other stakeholders and local communities?

Uncover Opportunities

Source: Accenture Research analysis of Capital IQ Industry transaction statistics.

Note: For reference, previous crises occurred as follows: MERS = May 2015; Ebola = Apr 2014; H1N1 = Apr 2009; Global Financial Crisis = Sep 2008

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Replatform for a Digital World

Assessing how digital technologies and analytics can be used to increase resilience and efficiency is paramount: remote operations, data science-based optimization, automation, robotics and more.

First, understanding the tangible business applications is crucial. Some of the typical examples in operational and industrial settings include:

- Remote work enablement to access specialists and alternative staff resources. Leverage augmented reality and remote collaboration technology.
- Remote work enablement to access global specialists irrespective of where they are geographically located.
- Remote operation monitoring to provide visualization of critical operational data, and decision support alerts and proposed next-best action.
- Real-time, analytics-driven operations planning tools to respond to changing operating conditions as they arise.
- Automation and robotics to remove workers from the field where possible.

Second, replatforming core technologies to support a digital future does not require a wholesale change. Many existing systems are critical to daily operations, and replatforming all at once introduces an unacceptable level of operational risk.

What is required is not only a replacement of the technology, but also the interwoven business processes and policies. And a pivot of skill sets across the workforce to be adept at using new technologies, platforms and services.

Additionally, more remote working requires a shift in information security focus from enterprise infrastructure to cloud and virtualized infrastructure as employees rely on home Wi-Fi routers and VPN connections.

**Key actions**

- Decide the north star, and identify the quick wins to take you there. You need to keep in mind your starting point—current operations, infrastructure and processes.
- Define future architecture and identify the steps to get there. Some changes could take years to complete. Know your current limitations and build from there.
- Identify where you have weaknesses in data collection. You need the right data with the right quality as the foundation for your digital strategy. Accurate historical data is a strategic asset.
- Consider current workforce capabilities. Create a talent management strategy to meet future needs.

**Key strategic questions**

1. Do you have the right technology architecture to enable a digital transformation? Is it flexible and scalable?
2. Is the correct infrastructure and cybersecurity protections in place? What effort and time is required to make it work?
3. How do you maximize use and value from already installed technologies? Or, apply new technologies to leverage new opportunities such as remote operations, autonomous operations and worker safety?
4. Can you source the right talent and digital native skills to thrive in a digital world?
New normal

Considerations to revisit your ways of working and develop future strategies
Defining the new normal

The crisis has created an opportunity to reset for the future—to strategically re-evaluate business models and be better prepared for the next “black swan” event.

1. **Create supply chain resiliency**
   Source from multiple suppliers and regions to eliminate single points of failure in distribution and reduce risk; secure tier-one suppliers; determine where to store your inventory.

2. **Protect your production capacity**
   Adjust capacity and geographic sourcing in response to evolving conditions; treat operations as a global “total system” of production capacity; diversify production output capabilities; determine how to leverage global operations to respond to global customer requirements.

3. **Pursue automation as a strategic opportunity**
   Automate facilities and embrace virtual remote operating centers; use virtual reality to reduce dependence on the physical workplace.

4. **Increase organizational effectiveness**
   Explore new business and intelligent operating models such as the flexible workforce, shared service capabilities, matrix structures and the values-based organization, rather than the typical siloed “all built here” organization.
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To learn more about the Accenture Natural Resources industry group, visit www.accenture.com/naturalresources.
To help our clients navigate both the human and business impact of COVID-19, we’ve created a hub of all of our latest thinking on a variety of topics.

Each topic highlights specific actions which can be taken now, and what to consider next as industries move towards a new normal.

From leadership essentials to ensuring productivity for your employees and customer service groups to building supply chain resilience and much more, our hub will be constantly updated. Check back regularly for more insights.

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