
# State of Business 2021

## One year after COVID-19 was declared a national emergency, ILMA members are confident in their ability to persevere and thrive

By M. Diane McCormick

When the pandemic of 2020 struck, business fundamentals held the key to survival. Lubricant manufacturers that already had strong communications practices, sound finances and a leg up on operational technologies found themselves positioned to ride out the storm.

One year later, companies can say that they survived and even found inner strengths to deploy going forward. Although the future remains somewhat cloudy, the state of business in lubricant manufacturing is on the sunny side.

### COMMUNICATIONS

From the beginning, employee safety was priority No. 1, executives agree. All rapidly adopted and enforced protocols to protect the health and safety of workers and all others in their company orbits.

At Master Fluid Solutions, in order to ensure everyone was safe and secure, communications was the next priority in the quest to respond to changing conditions with flexibility and agility, said Erica Denton, director, global supply chain. Reviewing data from reputable national and local sources, partnering with local health departments and hospitals to develop safety protocols, and issuing regular updates to employees, including through a newly created text messaging system, all contributed to a shared knowledge base.

At automotive and specialty lubricants firm Chrysan Industries, near-daily meetings in a “sacred time slot” kept the management team in touch, said Glenn Gerhard, president and chief financial officer. Other team groups communicated back to management as issues arose.

Systemizing the process among scattered people helped capture communications that in the past might have occurred in hallway conversations.

The system proved its value when a Chysan manager learned of an employee's COVID-19 infection — a rarity within the company, caused by an outside contact. The news was shared quickly with the proper people, and response protocols were activated.

"We've averted a full shutdown or line shutdown because we were able to catch those things early," said Gerhard. "Fortunately, because of our ongoing harping on communications, the team members that were affected were kind enough to do the right thing and advise their manager and me that they tested positive, and they weren't going to come into work and put anybody else at risk."

## SUPPLY CHAIN

When the virus outbreak was world news, but before it reached the U.S., leaders at Master Fluid Solutions made a crucial decision — to invest in inventory replenishment, despite uncertainty and the prospect of storing excess materials in case of an industrywide shutdown. They knew that in doing so, they would be the "first ones out of the gate able to supply those customers when they were ready," said Denton.

The decision actually positioned the company to respond quickly to pandemic-driven consumer demands and economic trends. When entire networks pivoted to developing packaging for sanitizers and other pandemic-critical materials, Master Fluid Solutions protected its ability to provide the essential lubricants its customers required.

"We had to secure our supply chain, because a lot of our customers are supporting this pandemic and the safety of others," said Denton. "It was important to ensure our customers had metalworking fluids without disruption to produce critical items."

The pandemic's impact on transportation hampered logistics issues and affected inventory management, said Denton. Delays in moving shipping containers and the products in them, plus COVID-19 outbreaks within transportation groups, caused ripple effects across the globe. Master Fluid Solutions expanded primary and secondary agreements and conducted outreach to expand its sources of carriers.

Chrysan officials prioritized the communications of managing customer supply and demand issues. Key suppliers were surveyed and interviewed for insight into their capabilities and challenges. Customers reached out for — and received — assurances that manufacturing would not shut down. Even when one key supplier shut down for a week in early April, "we had sufficient supply of material on hand, and we were still able to manufacture package products for the aftermarket," said Gerhard.

"This whole pandemic has forced companies to reassess where they are sourcing their products from," he added. "Where are they making them? Where are their own plants? Where is it safest for supply chains to be located?"

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## OFFICE FUNCTIONS, FROM THE HOME

When the pandemic arrived, companies that had already revolutionized their workplaces through technology found it simpler to activate their remote-work policies. Chrysan leveraged its existing cloud-based enterprise resource planning system to manage such operations as production planning, financials and purchasing to extend work-from-home policies to five days a week.

Chrysan also kept a "very, very close eye on expenses," said Gerhard, freezing spending in areas including training, travel and team-building events. A hiring freeze imposed early in the pandemic was lifted after six months.

As many companies discovered, sound pre-pandemic practices created a solid platform for pandemic response. Chrysan's existing practice of sharing company performance and challenges with all team members monthly paid off when that same system was used to share pandemic updates.

"The pandemic effect was more about making sure people were doing the right thing and not putting themselves and others at risk," said Gerhard. "It's pretty much motherhood and apple pie, but we really have a team of dedicated people."

Knowing there would be a light at the end of the tunnel, Master Fluid Solutions seized the downtime to upskill its grounded sales and supply chain teams, Denton said. Strategic decisions were made to provide training in such areas as pipeline management, product applications, negotiation and project management. The downtime also afforded opportunities to perform cleanup on data systems, to help streamline future decision-making.

## CONTINGENCY PLANNING

Lubricant manufacturers are experts at anticipating and managing risk, even when they can't predict the details. No one could have foreseen a yearlong pandemic, but the extended crisis provided time to reflect on the inevitably of the next upheaval — whatever it might be.

"Maybe we've all become a little paranoid, in a good way, that we need to think like that," said Gerhard.

Effective risk planning relies on a quality management system that scrutinizes the full range of resources, including customers, supply base and employees, in the effort to probe for risks. Strategically oriented contingency planning and communications were key to sustaining Chrysan operations and avoiding shutdowns and restarts, said Gerhard. Staff focused on risk-based assessments of suppliers, asking the what-ifs of possible shutdowns.

The pandemic "certainly highlighted" the importance of agility in crisis-response planning, said Denton. As she focused on a strategic initiative to globally integrate Master Fluid Solutions' teams, the effort included a review of risks — whether in raw materials, supplies or secondary sources — on a weekly and, at times, daily basis.

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**Ben Scharff**, managing director, Grace Matthews

Master Fluid Solutions' culture of collaboration and fair dealings also played a role in crisis management. The company leveraged its longstanding relationships with suppliers and customers to source materials and combat the impact of the virus, said Denton.

## M&A

The pandemic forced companies to reorder traditional business priorities. That included the due diligence demanded in mergers and acquisitions (M&A), said Ben Scharff, managing director of M&A advising firm Grace Matthews. With information scattered across systems, 21st century due diligence takes longer than ever, and in 2020, merger deals fell through in multiple sectors because the companies involved simply didn't have time to complete them. They were, instead, forced to pivot to survival mode to protect people, balances and supply chains.

In M&A, COVID-19 also added a new layer of uncertainty to a process that hates uncertainty. Unprecedented circumstances challenged traditional norms of gauging year-over-year underperformance and overperformance. Companies that dipped but quickly returned to pre-COVID-19 levels of benchmarks aren't likely to be devalued by potential buyers, but companies that have been slow to recover — perhaps because, like lubricants, their fates are sometimes knotted with struggling industries such as automotive and aerospace — could face devaluation pressures.

Small to mid-sized businesses also saw increases in regulatory and operational costs that were difficult to absorb, Scharff said. Even old-fashioned face-to-face meetings, where buyers and sellers size each other up and forge the relationships needed to successfully merge cultures, suffered during the pandemic.

"Tough decisions have to be made, and if you trust the person you're transacting with, it's always easier to come to alignment," said Scharff.

Lubricant manufacturers proved their essential nature — and thus, their power to keep operating — during the pandemic, which removes one possible hurdle for M&A in a post-pandemic world, said Scharff. But the next area of scrutiny is the supply chain, as buyers ask how acquisition targets managed to acquire raw materials and maintain dual sourcing.

The pandemic halted Denton's ability to travel in support of Master Fluid Solutions' October 2019 acquisition of German-based lubricants producer Wilhelm Dietz GmbH & Co. KG. But lockdowns and travel bans couldn't be allowed to sideline the work of integrating the businesses and acclimating teams to corporate policies in sales and operations, she said. Virtual communications and information-sharing capabilities were upgraded "very, very quickly." The IT department focused first on setting up employees to work at home and then, when it became clear that pandemic conditions would linger, on keeping large projects moving forward.

The pandemic-driven economic downturn hasn't caused the kind of economic distress that prompts opportunistic companies and equity funds to snap up undervalued firms, noted Gerhard. Valuation multiples remain high, but lubricant manufacturers are feeling an economic pinch due to "the Amazon effect," as skyrocketing deliveries of consumer goods and carryout food drive up material costs in plastic, cardboard and steel.

## TEMPORARY DISRUPTION, PERMANENT IMPROVEMENTS

At many companies, pandemic-era survival tactics proved their usefulness as permanent practices. Remote-work policies are likely to become more lenient. Virtual meetings have worked so well that travel requests will face heightened scrutiny to prove their return on investment.

As people adapted in "amazing" fashion to remote dealings, Chrysan actually increased its strategic alliances in new product development, marketing agreements and contract manufacturing agreements, said Gerhard.

"We've been able to improve or expand some of those strategic partnerships during 2020, which is incredible," said Gerhard. "It was not only with people we knew and were doing business with. We also forged some new relationships, including with new customers, in cases where everything was done virtually, without being able to shake hands in person and meet face to face," said Gerhard.

The key to embracing new practices is being open-minded to change, analyzing data and regularly soliciting the views of employees, partners and customers.

"We'll have to do some reflecting," said Denton. "Determine what worked really well along with identifying improvements. My expectation is our business processes will be more robust going forward."

On the M&A side, Scharff is "guardedly optimistic" for 2021. Although deals declined early in the pandemic, when "people pumped the brakes hard," activity returned in mid-2020. Now, private equity has pent-up money to spend, while industry players had time to look inward, scrutinize operations and plan for strategic acquisitions that can shore up weaknesses.

"From the buyers' perspective, all the pressures are still there," said Scharff. "By pretty much every account, global industrial production is projected to be fairly robust and bounce back, which drives activity. Banks have significant capital to deploy."

The selling companies coming to market in 2021 are largely "self-selecting," he added. High-performing businesses are seizing the opportunity to spotlight their strengths during crisis. Those that struggled "are waiting to recover. Ideally, you want to show solid upward performance, with a believable story on how you're going to continue to grow your business."

## RENEWED CONFIDENCE

The pandemic underscored the pivotal role of lubricants, as states and regions kept the industry on their essential-business lists.

"When other organizations were being forced into shutdown, we recognized our obligation to keep this industry moving because we're supplying critical materials, not just to resolve this pandemic, but to keep our economy running," said Denton.

Although 2020 will live in infamy as a wearying and excruciating year, leaders in lubricants feel confident in a 2021 recovery because they endured and even succeeded during a trial by fire.

"We have a great group of talented people working for us, focused on continuous improvement regardless of the pandemic," Denton said. "Seeing how we reacted during all of this and being an essential industry, I'm confident in the business. Now, do I know what 2021 holds and beyond? No, but I sure hope it's better than 2020."

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