

COVID-19: Supply Chain Assessment

May 15, 2020 | Vol. 1, Issue 5

For 25 years, Energy Solutions has provided cost-effective, market-driven solutions that deliver reliable, large-scale impacts. We currently implement more than 100 upstream and midstream programs across 22 states and Canada for HVAC, foodservice, water heating, pumps, and lighting technologies. During this pandemic, we have been in frequent contact with our global, national, and regional networks of distributors and manufacturers. We are surveying our trade allies to get a current snapshot of the market to bring you developments and updates to supply chain and market conditions that affect our clients' programs.

Method Review

The team gathered information across various technology areas and market actors to provide data on the following:

1. **Product Availability** — provides insight on observed and/or anticipated impacts related to product sourcing, assembling, and/or delivery.
2. **Equipment Sales** — provides insight on observed and/or anticipated impacts or company directives put in place regarding inside sales, indirect sales, counter sales, and availability of online sales.
3. **Service Providers / Contractors** — provides insight on company directives regarding delivering service to customers, e.g. are jobs suspended or are services deemed 'essential' and business as usual with social distancing in mind? If suspended or changed in any way, what are the impacts to the pipeline?
4. **Administrative / Application Submittal** — provides insight on company directives regarding staff resources that may impact operations as well as participation in our clients' programs.

Findings

1. Product Availability

Across technology areas, factory operations and inventory remain strong. A North American manufacturer reported they are operating at 90% due to social distancing requirements, and are looking for ways to get back to 100%.

2. Equipment Sales

- a. **HVAC** — Reduced demand is driving down prices. A national distributor with 270+ locations reported all branches are opened and sales representatives are back on the road.
- b. **Foodservice** — Cold call sales have slowed. There is an upward trend in sales quoting through the AutoQuotes platform which coincides with the lifting of shelter-in-place restrictions.
- c. **Water Heating and Pumps** — Equipment sales are declining in the proactive replacement sector and holding steady in the emergency replacement sector.
- d. **Lighting** — Sales are ramping back up as large construction projects resume and massive orders of lamps are made, as shown in Table 2.

3. Service Providers / Contractors





- a. **HVAC** — Jobs are increasing as summer is peak season for commercial and residential repairs and emergency replacement.
- b. **Foodservice** — Contract work has been extremely active though it is regional and subject to state and local shelter-in-place mandates.
- c. **HVAC / Water Heating** — Where projects are resuming, additional safety measures are being added to some sites. On-site capacity limits have been applied, and nurses are on site to conduct randomized temperature tests on workers. Due to these added precautions, project completion times are extended.

For these updates, the Trade Ally Team has communicated with the following number of market actors per technology area:

	This Issue	Communications To Date
HVAC	8	44
Foodservice	8	48
Water Heating	7	26
Pumps	0	7
Lighting	1	24
Grand Total	24	149

Table 1

Currently, all upstream and midstream programs implemented by Energy Solutions are active.

   	Rebates paid in the last four weeks vs. prior year-to-date weekly averages:	Units submitted to programs comparing two weeks ago to now:
HVAC	UP by 37%	UP by 20%
Foodservice	DOWN by 44%	DOWN by 41%
Water Heating/Pumps	UP by 13%	UP by 24%
Lighting	DOWN by 58%	UP by 2000%*

*Lighting submissions have rebounded in the past 2 weeks after low activity in April.

Table 2

4. Administrative / Application Submittal

Across technology areas, staffing has been widely affected. Some distributors have adjusted staffing resources based on sales. Some distributors have reported benefiting from the Payroll Protection Program and are planning to end furloughs. Limited or normal operations are resuming to support businesses reopening (e.g. taking inventory, clearing out warehouses, and catching up on maintenance items).

5. General

As of May 15, 2020, we still estimate the sales volume impact at END OF YEAR to be:

HVAC: down 15%, **Foodservice:** down 30%

Water Heating/Pumps: down 15% **Lighting:** down 20%

6. Market Insight

We have heard interest from clients in potentially increasing incentives and/or adding measures, so we asked the market for their feedback on what would have the largest impact. Here is what we heard these past two weeks:

HVAC — A distributor stated, “Do not reduce or eliminate programs as it guarantees reduced high efficiency inventory. High efficiency sales in the private sector do not occur without incentives.”

HVAC — Manufacturers and ASHRAE have advised there is “impending and tremendous demand” for equipment that delivers air quality and filtration. These additional components will comprise an ever-increasing amount of project budgets, increasing the likelihood of high efficiency getting costed out. Incentives can help overcome this challenge.

Water Heating — A manufacturer stated, “Programs should earmark funds for co-funded consumer advertising. Most importantly, keep programs simple for market actors (e.g. minimize and digitize data collection and eliminate or minimize customer validation).”

This is an ongoing effort. Please let us know if you have specific requests for measures in your program where you would like market feedback.

Disclaimer: The COVID-19 pandemic is a rapidly evolving situation, and this is our best estimate of impacts to forecast, at this time, with the information available. We will be continuously updating this forecast and adding details as more information becomes available and the actual impacts of the pandemic on the markets are felt. These updates will be versioned and dated so you can know at what time they apply.

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