

COVID-19: Supply Chain Assessment



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Product availability is becoming a widespread issue as the disruptions caused by the pandemic have been compounded by the Texas winter storm. Manufacturers face raw material shortages and ongoing staffing restrictions, impacting production output and introducing delays. Delays are not only happening more frequently; they are getting longer. The demand for shipping has surpassed the availability of shipping containers, posing international and domestic challenges for fulfillment as well as increased costs from demand. Six months ago, one company paid roughly \$2,500 to ship a 40-ft container. Most recently, they paid more than \$6,000. The reduced availability of dockworkers and truck drivers have caused delays in handling cargo, translating to floating traffic jams and marooned goods. Packing material, such as corrugated cardboard, is also in high demand and short supply. These challenges are altering purchasing behaviors and patterns, prompting some distributors with capital to buy six months of supply at a time now, rather than buying weeks at a time.

Findings

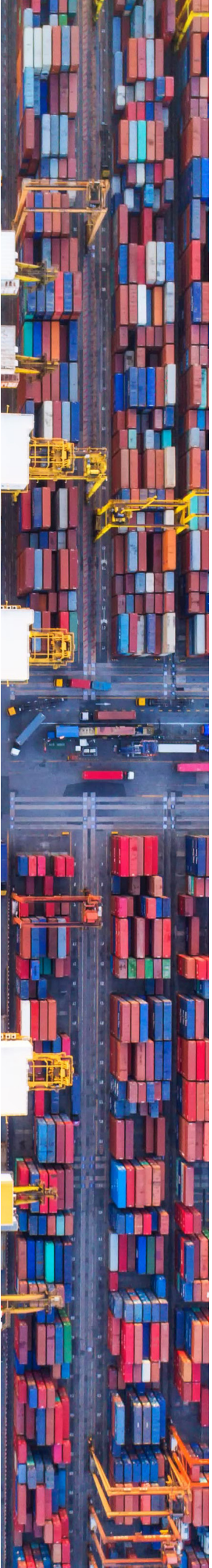
1. Product Availability

- a. **HVAC** — Some manufacturers have increased equipment prices by up to 8% and announced further hikes ranging 3–9%, citing additional costs for safety related measures, raw materials, labor rates, and transportation rates. One manufacturer experienced two one-week shutdowns as they navigated a staff COVID outbreak and impacts from the Texas winter storm.
- b. **Foodservice** — A distributor noted that lead times for convection ovens, freezers, and refrigerators are up to four to six weeks. Another distributor noted that the Texas winter storm impacted foam production manufacturers and caused delays in refrigeration equipment manufacturing.
- c. **Water Heating** — A major manufacturer reported procurement issues for parts in Mexico due to the travel restrictions. A manufacturer representative noted that a chemical manufacturer was impacted by the Texas winter storm, affecting production of resin used as insulation in water heaters. This manufacturer’s production was down for two to three weeks and shipment timelines are pushed back respectively. Rising commodity prices for steel and now copper, foam, and industry specific glazes continue to drive product prices upward. Many distributors report that product availability is down and many items are backordered. One exception is heat pump water heaters. Manufacturers note that inventories for heat pump water heating products are healthy.

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

	This Issue	Communications to Date – Vol. 2
HVAC	11	27
Foodservice	20	46
Water Heating	15	28
Pumps	7	15
Lighting	13	26
Total	66	142

Table 1.



- d. **Life Sciences** — Manufacturers have confirmed that lead times from quote to shipment are shorter, now averaging four to eight weeks. A distributor noted that their wait time from sales order to shipment is currently down to two to eight weeks, depending on the unit specification. The base is the same, but cold storage equipment, and ultra-low temperature freezers in particular, are highly customized to fit the customer's needs as it pertains to shelves, monitoring and alarms, refrigerant, backup power, and other variables.

2. Equipment Sales

- a. **HVAC** — Distributors and contractors reported purchasing equipment for their projects earlier than they may have otherwise, trying to lock in prices before it goes higher.
- b. **Foodservice** — Manufacturer representatives have forecasted that the top market segments for 2021 will be: Healthcare, Education, Retail Food, and Chains (quick service and takeout). Some distributors have noted that business is picking up where regional restaurant restrictions have relaxed.
- c. **Water Heating** — A distributor noted that customers are having difficulty comparing project bids as price increases keep changing. Residential water heater sales are thriving, as homeowners continue to pursue home improvement projects during the pandemic. One distributor noted that 80% of their current water heating sales are residential. These planned replacements, bolstered by incentive programs, have translated to increased sales of high efficiency products.
- d. **Lighting** — Multiple distributors reported that high bays continue to sell effectively. Growth in demand for the next six months is expected in infrastructure, healthcare, and school sectors. One distributor noted an uptick in residential sales, as homeowners take on this home improvement project as well.

3. Service Providers / Contractors

- a. **HVAC and Water Heating** — Service Providers and Contractors have noted project delays, as impacts from production and distribution impair product availability.
- b. **Lighting** — A manufacturer representative noted growing lag times between order placement and installation.

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Disclaimer: The COVID-19 pandemic is an evolving situation, and this report reflects our best estimate of market impacts at this time with the information available. We will be continually 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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