



COVID-19: Supply Chain Assessment



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Historic heatwaves throughout the Pacific Northwest are straining product availability and underscore the importance of a robust and healthy HVAC supply chain. While the West deals with high temperatures, lighting distributors in the Northeast look toward autumn fast approaching, and the demand for outdoor lighting fixtures it will bring. Prices are going up for both Foodservice and HVAC, and announcements from major HVAC manufacturers about formal price increases have alerted already busy distributors. Distributors and contractors looking to purchase pumps for their customers are remaining vigilant and assessing whether they need to change their quotes as prices and lead times remain uncertain. However, some industries struck by Covid-19 are bouncing back, and so is their demand for high efficiency equipment.

Findings

1. Product Availability

a. HVAC

- i. Manufacturers continue to announce formal price increases from 7-8% to take place in the coming weeks. Some distributors report lead times up to 5 months on all products, though delays change depending on model number and brand.
- ii. Although many distributors report being the busiest that they've ever been, logistical delays due to trucking shortages and delivery people calling out sick due to extreme heat have caused delays in receiving equipment. Controls, including thermostats, are especially delayed.

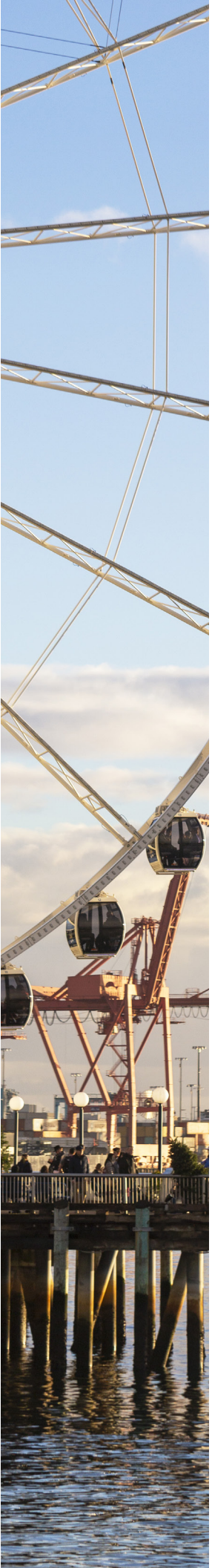
b. Water Heating

- i. Supply chain disruptions have unnerved distributors, causing them to “game the system” by buying excess inventory. This results in exasperating already significant delays and constraints. To push against this, certain manufacturers are limiting the amount of water heaters distributors can purchase but expect this to stabilize in 3-6 months.
- ii. Inflationary steel pricing and a chip factory fire overseas have pushed a lead time of 7 days from pre-pandemic times to over 40 days now. Contractors are pushing for pricing holds as lead times extend, but the fragility of the supply chain as it relates to raw materials makes it difficult for manufacturers to keep prices as they are.

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	28	123
Foodservice	18	120
Water Heating	10	88
Pumps	4	62
Lighting	4	60
Total	66	453

Table 1.



c. Foodservice

- i. Delays on many product types are around 4–6 months, but fryers and convection ovens are especially impacted. Shortages in ENERGY STAR® rated refrigerators are causing dealers to purchase standard efficiency products.
- d. **Lighting** — Raw material shortages and logistical challenges with shipping and trucking are pushing lead times out significantly, especially as it relates to controlled products.

2. Equipment Sales

a. HVAC

- i. As the hospitality industry — which was hit especially hard by Covid-19 — starts to bounce back, demand for equipment replacement is increasing, as much of the equipment was not properly maintained during the prolonged vacancy.
- ii. Product availability for high-efficiency equipment remains impaired due to supply chain issues, and some distributors have shared that it's difficult to promote incentive programs to their customers when they can't ensure that incentivized equipment can be stocked and sold.
- b. **Lighting** — Electrical distributors that work across state lines in multiple program territories have expressed a desire for consistency across rebate offerings — especially as it relates to wattage versus lumen bins, and categories not yet rated by ENERGY STAR or Design Lights Consortium, most notably Edison bulbs.

3. Service Providers / Contractors

- a. **HVAC** — Residential HVAC contractors in the Pacific Northwest are experiencing an influx in calls — as much as thousands per day compared to a typical number of less than one hundred — as the unprecedented heatwaves continue to drive customers to search for solutions.
- b. **Lighting** — A major lighting distributor in the northeast reports having problems securing contractors to install their products. This is causing concern for Autumn, when the shorter days typically lead to an increased demand for exterior lighting and controlled products.

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4. Administrative / Application Submittal

a. HVAC

- i. Many distributors are reporting turnover within their organizations. Signing bonuses in certain parts of the country are becoming commonplace as labor shortages are growing.
- ii. Some distributors are benefitting from additional training on application submissions as it is becoming apparent that having more than one person at an organization familiar with application processing is necessary. A burst of backlogged claims is expected to be submitted when supply chain constraints ease and equipment can be delivered and installed.
- iii. *Editor's note: We anticipate that there will be an influx in claim submittals toward the end of this year or the beginning of 2022.*

b. Foodservice

- i. Product shortages and increased lead times are causing a backlog of applications, some amounting to multiple months. Even when the product has been sold and installed, dealers report being so busy that they cannot find time to submit.

From the Field

With in-person outreach resuming, we asked our outreach team to tell us how it's going.

In-person outreach for the PNW Midstream Water Heat & HVAC+ program resumed in July, with a very productive 2-day trip to the Seattle region. During the trip, the team met with a manufacturer and their distributor together, where we learned the distributor hired a marketing manager specifically for the Midstream program opportunities. We will work closely with this person when they start in August to increase their already very strong residential HVAC participation. We were also able to discuss their commercial HVAC participation and got a future meeting on the books to deepen engagement with their sales team.

We also met with our second largest Commercial HVAC distributor and worked through some claim processing issues to get them caught up on their large VRF and packaged sales. With this support, they were able to submit approximately \$60,000 worth of claims in 2 hours.

Due to the success of these meetings, both distributors requested monthly in-person meetings.

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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