

# COVID-19: Supply Chain Assessment



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In the past month, the Delta variant has taken over the news as well as the concerns of many trade allies and supply chain actors. The North American Association of Food Equipment Manufacturers (NAFEM) has canceled their annual trade show in Florida due to rising virus concerns. Meanwhile, New York City has become the first major city in the United States to mandate vaccines for indoor dining, garnering attention from foodservice equipment dealers, who are hoping to avoid the complete indoor dining shutdowns some parts of the country experienced in 2020.

## Findings

### 1. Product Availability

#### a. HVAC

- i. Supply chain complications have hit commercial equipment the hardest, with one manufacturer reporting a 10 to 12 week lead time compared to their residential equipment, which only has a lead time of 4 to 5 weeks. Another manufacturer reduced the number of production models they offer to optimize sourcing and lead times.

#### b. Water Heating

- i. Stocking and allocation issues for distributors seem to be coming to a head as one manufacturer reported that their factory has stopped producing heat pump water heaters due to an inability to source and obtain chips. This is expected to be resolved by September, but there is likely to be a significant reduction of available units through the end of the year as all major manufacturers are having similar trouble with chip supplies. Currently manufacturers are dealing with this issue by using a sophisticated inventory management system and reallocating equipment based on regional demand.

#### c. Foodservice

- i. Dealers are getting creative to relieve supply chain worries. This includes offering customers a different manufacturer or equipment that uses different fuel types depending on what is available (e.g., electric convection ovens instead of gas convection ovens, that are experiencing longer delays).

#### d. Lighting

- i. Lead times continue to increase, with a minimum of 2 weeks for some manufacturers, while others have lead times of up to 8 weeks. Like other technology areas, the logistical delays are only compounded by both raw material and component shortages.

**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	17	140
Foodservice	19	139
Water Heating	10	98
Pumps	5	67
Lighting	7	67
<b>Total</b>	<b>58</b>	<b>511</b>

Table 1.

## 2. Equipment Sales

### a. HVAC

- i. An HVAC manufacturer announced a formal 8-12% price increase on all products as a result of commodity and component prices, although modifications on custom products could easily push that higher. Distributors continue to look to utility rebates and incentives to help absorb some of the cost increase.

### b. Water Heating

- i. Some distributors are not only trying to stock up on equipment further in advance, but are also seeing their customers follow the lead by ordering larger quantities of equipment earlier. Larger customers who have the cash and space are placing significant stocking orders for equipment to hedge against supply disruptions.

### c. Foodservice

- i. There has been a noticeable increase in equipment sales from online dealers.
- ii. Dealers are seeing growing customer hesitancy around equipment purchases, as pandemic-weary businesses wonder if the rise in the Delta variant will force more restaurants to shut down.

### d. Pumps

- i. Distributors have reported slower pump sales, in line with expected seasonality. Sales are expected to pick up with the heating season fast approaching, especially in the Northeast.
- ii. A manufacturer representative noted that split case pumps and pumps with 1,200 RPMs are a savings-rich opportunity to include as a measure through PEI pump programs, although the Department of Energy rule would need to be adjusted to allow for those parameters.

### e. Life Sciences

- i. Sales for ultra-low temperature freezers continue to rise and there is demand for high efficiency models where incentives are available.



Energy Solutions' upcoming Commercial Market Roundtable will be all about pumps. Save the date: October 13<sup>th</sup> at 10am PST/1pm EST

## 3. Service Providers / Contractors

### a. Across Technologies

- i. Demand for skilled trade jobs is far outpacing the supply of qualified workers. The increased demand, in addition to the broken supply chain, means longer waits for projects. The average wait time for the overall construction industry to start a project was up by almost four weeks in Q2 2021 compared within the same period last year.

### b. HVAC

- i. The home remodeling market, particularly for residential HVAC, is booming and is stronger than pre-pandemic levels. New construction is gaining steam again as well.

## 4. Administrative / Application Submittal

### a. Across Technologies

- i. While distributors continue to use incentive programs to win bids and close sales, product availability and shipping delays remain, impacting the claims submission process, as required information, e.g., installation dates and sites, often take weeks or months to obtain.

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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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