

Supply Chain Disruptions And Cost Increases

We are providing the following information so that you, our customers (importers, distributors, wholesalers and retailers) can plan ahead to address issues currently impacting your business so that your customers do not go without, and so that you, our customers, do not appear to be the "bad guy" when it comes to serving your public.

As you know, the supply chain within countries and on a global basis has been severely disrupted over the past year because of various reasons such as the pandemic, Brexit, and changing trade agreements, and others.

In addition to supply chain disruptions, the supply chain is also being impacted by cost increases, some caused by the above disruption issues, but also because of increased demand, weather issues, disease, and lack of key components.

The issues listed below are impacting costs, delivery time, order lead time and many other parts of our customers' businesses.

Here are some of the complicated issues we currently have and see impacting the supply chain, and some that may become issues in the near future. Most of the items listed below impact products coming from the USA, but many may be also happening in other countries. If you are importing products, then you will likely face some or all of the following problems.

) Materials

- Wood - wood prices have exploded which would seem not to be something we should have to be bothered about, but most pallets are made from wood and pallets are beginning to be in short supply, impacting delivery times and increasing production costs, all of which will impact cost of goods.
- Cardboard for Boxes
 - As the demand for more products delivered to the home through e-commerce, the demand for cardboard went well beyond what anyone could have predicted. At this point there is a "squeeze" on inventory but it could be heading towards a shortage.
 - Amazon's demand has further put a squeeze on smaller manufacturers and suppliers as cardboard box producers work to make sure Amazon is taken care of first, at the expense of other users. This is not just a US issue. It is an issue wherever Amazon and similar large suppliers are located, such as in the UK.
- Aluminum cans - With the purchase of soft drinks and beer moving from restaurants and bars during the Covid shutdowns and restrictions, to more retail purchase for in-home drinking, beverage and can manufacturers were caught off-guard, resulting in not enough inventory.
 - This issue has been additionally impacted by many beverage manufacturers moving from plastic to aluminum.
 - The problem is not with raw material for can manufacturing, it is with production capacity, which will take time to rectify.
- Meat
 - Chicken in the USA is in short supply because many poultry production facilities were shut down for various periods during 2020 because of Covid issues causing shortages in supply throughout 2020, which was then exasperated by the heavy freeze in Texas resulting in the loss of hundreds of thousands of chickens.
 - B This shortage will take time to overcome, so chicken prices are expected to remain high for at least the remainder of 2021 in the USA and around the world.

- Beef and Lamb prices have risen because of the largest meat packer being hacked in late May/early June 2021. While production seems to have gotten back on track, there was a backlog of demand that caused the prices to rise and will likely cause prices to remain high for some time.
- Pork availability was hit hard in 2020 as 40 pork processing plants in the US were forced to shut down at various times throughout the pandemic. On top of that, a higher incidence of disease in the hog community during this past winter has resulted in a much lower supply of pork (impacting bacon, hot dogs, and other pork related products) for 2021. Prices are expected to go higher and remain there for the foreseeable future.
- Other Foods such as peanut butter, ketchup (especially in the individual serving size), microwave popcorn, for some examples, have been in much greater demand as more people ate at home over the past year, and as the cost of other foods increased beyond the consumer's budget. Peanut butter, is a great and inexpensive source of protein so the US producers were met with far greater demand than they had capacity. This shortage will continue for at least the remainder of 2021, as it will for many other common foods. So, please check with us to make sure products you regularly purchase will be available along the same timeline as they were in the past so that your orders do not lag inventory.

) Shipping

o Containers

- According to Bloomberg, "Container shipping rates from Asia to the U.S. and to Europe increased to new record levels over the past week, ensuring transportation costs will stay elevated for companies heading into a peak season for rebuilding inventories."
 - B With Asia experiencing the first effects of the virus in 2020, exports from Asia to other parts of the world, and exports to Asia, slowed or halted, resulting in containers remaining where they last landed, many of them inland in the US and Europe.
 - B With Asia, particularly China, recovering before Europe and the US, as well as other regions, Asian exports picked up faster than importing ports could handle. Many of the ports were short of manpower to offload products/containers, so vessels sat anchored off shore. At one point, there were 40 ocean vessels anchored outside Long Beach, California, one of the busiest ports in the US, waiting to be offloaded. As of a few days ago, that number is down to 18 vessels, which is still much higher than normal.
 - B Containers coming into the US are 5 times greater than those leaving, which could cause a container shortage in other parts of the world, especially along the East Asian corridor.
 - B Refrigerated containers (reefers), which were always fewer than standard containers, are even more so right now. This is causing reefer costs to go sky high and delays in getting refrigerated products onto ocean vessels delayed by weeks. We recently had one reefer shipment knocked out of the queue 5 times before we were able to get an ocean carrier to pick up and ship the load.
- In-land Shipping (Truck loads)
 - B Covid caused trucking within the USA and most other countries to come to a near halt for several months in 2020 resulting in delays of goods reaching ports or going from ports to customers.
 - B Shortage of truck drivers, as a result of many training schools shutting down for several months in 2020, along with truck drivers not reporting to work because of Covid issues, has resulted in fewer trucks on the road to carry goods, causing delays in goods reaching their final destination.

B In the US (we cannot speak for other countries) there has been a slow reduction, over the past few years, in the number of available truck drivers as older drivers are retiring and fewer younger drivers wanting to get into the industry. This is particularly the case for long-haul drivers that take goods from coastal ports to inland locations thousands of miles and many days driving from the drivers' home.

▪ Cost

B All the above issues impacting shipping have caused a sharp rise in costs.

- Demurrage and Detention charges were increasing before the pandemic as ports and truckers tried to motivate customers to more quickly move containers.
- These charges increase even more in 2021 but the motivation factor had little impact on the movement of containers since the lack of movement was more a cause of congestion at the ports than customers not wanting to move the containers.
- Many countries have seen increases of over 100% in the past one and one half years.

B Shipping costs for containers have gone up between 40% and 60% in the past year, and these costs do not appear to be coming down.

There are many other issues impacting business today that need to be taken into account when managing inventory, planning on ordering timing and pricing.

We do our best to keep our cost under control so we can take the slimmest of margins while also remaining in business to take care of customers.

We look forward to hearing back from you about issues others, like yourself, should consider when planning inventory controls and maintaining customer service.