April 6, 2022

UPDATE:

Never has the issue of supply chain management been as front and center as it is in today’s business environment. Products reach consumers through a chain of companies involved, which typically includes manufacturers, logistics, distribution, and transport. The system is highly complicated. As supply chain challenges continue worldwide it is causing longer lead-times, severe product shortages and much frustration. Demand continues to spike with an enormous amount of orders being placed domestically and from Asia to restock distributor and retail shelves.

Below are bullet points touching upon some of the key challenges as well as potential long-term positive consequences. Additionally, included at the bottom of this letter are charts illustrating raw material cost increases as well as links to articles describing situations in further detail. There is no clear time line to normalcy, however, most economists expect the current economic situation to last thru the remainder of 2022.

- **US Domestic challenges**
  - **Overall Inflation**: Fuel price increases leading the way. Most products in the Foodservice and Jan/San industry have experienced price increase throughout 2021 and again in 2022.
  - **Truck Driver shortages** are resulting in longer lead times and increased wages to hire drivers.
  - **Vehicle shortages**, specifically **domestic Chassis** which deliver containers are in short supply resulting in longer lead times for delivery from US ports to distribution warehouses.
  - **Labor shortages as well as labor turnover** continue at unprecedented levels, resulting in factories unable to run full shifts, thus reducing product output. Additionally, labor issues lead to lack of workers in warehouses.
  - **Most domestic manufacturer fill rates** continue to be considerably below pre-COVID levels.

- **Import Challenges**
  - **Recent COVID outbreak in Shanghai forcing lock-downs the past few weeks**. The result is back up of manufacturing and shipping which economists expect to result in delays for the foreseeable future.
  - **Container shortages** are causing delays to ship products.
  - **Continued surcharges at the Asian ports** are adding increased costs (freight surcharges typically resulting in container rates of $18,000 to $25,000 per 40’ container).
  - **ILWA contract will expire July 1, 2022** and is pending negotiation (International Longshore & Warehouse Union). ILWA is the larger of the two Unions which work the Ports for the United States (ILA is the East Coast Union and is under contract). ILWA is responsible for loading and unloading of containers, transport within the terminal, storage of containers in the large container yards and all administrative duties including all paper work processing necessary for dispatch. Nothing moves out of a US port without ILWA involvement.

- **Raw Material Shortages**
  - **Paper (Towel & Tissue)**: Parent Rolls to make paper towels (such as folded and roll towels) and tissue products (bath tissue, facial tissue) are in great shortage. It is estimated that North America is 350,000 tons below previous year capacity. In addition, Recycled paper stock supply is below previous levels and with more people working from home that trend is expected to continue. Further, importing parent rolls has become more expensive as well as requiring longer lead-times.
- **Paper board demand far exceeds supply.** Growing legislation throughout the United States banning foam and plastics adds to demand for paper-based products as replacements. Key items effected are paper hot cups, food trays and paper bags.
- **Resin Price increases** primarily climbing over the past 18-24 months. Among high volume Items effected include, liners, PET cups, portion cups and disposable cutlery.
- **Aluminum Foil shortages and increasing costs.** Prior to the Russian invasion of Ukraine, foil products were in deep shortage, however, supply is expected to tighten further as Russia was a key supplier of raw materials used to make Aluminum foil worldwide. Please note that RJ Schinner exclusively branded foil products (Empress) are not manufactured from Russian raw materials.

**The Positives of Today’s Economic Situation:**

- Large numbers of Distributors in the Foodservice and Jan/San industry are experiencing tremendous growth in sales and cases moved.
- Despite high inflation demand remains very high for industry products and is expected to remain that way.
- RJ Schinner continues to invest in infrastructure both domestically as well growing our importing division. Among areas of investment include adding sales people, adding trucks to our private fleet, two new warehouse facilities on both US Coasts in the past 15 months and investment in our technology platform.
- RJ Schinner Sales continue to grow at double-digit rates annually as we expand our product offering.
- RJ Schinner Branded products continue to grow by double-digit rates annually.
- RJ Schinner continues to strengthen our partnerships with top tier vendors who are committed to long-term success.
- Responsiveness and flexibility continue to be our cornerstone to success for our customers.


*Resin Material Market Shortages and Rising Prices: Q1 2021 (ntotank.com)*

*Aluminum, Nickel Prices Soar on Russia's Move Into Ukraine - TheStreet*

The Category Management and Purchasing teams will continue to work to combat today’s challenges. If you should have any questions or need any additional information, please do not hesitate to reach out to the category department or myself.

Sincerely,

*Tim Scott*

Tim Scott
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RJ Schinner Company

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