



Industry Update - August 14, 2021

Dear Valued Customers,

Dating back to September of 2018 when the US government first implemented new List 3 tariffs for products coming in from China, (doesn't 2018 seem like a lifetime ago?), The Gerson Companies made a commitment to understand the impact and challenges facing the Seasonal and Gift Industry, and clearly articulate to our customers the possible effects to their businesses. Since then, all importers, retailers, and consumers have been impacted by continued challenges including covid19, labor shortages, raw material price increasing, and most recently unprecedented supply chain disruption. While it may be difficult to deliver tough news, we will always be transparent and honest so that we can communicate the situation at hand and outline how our company is managing this ever-changing landscape. We anxiously await the day when we can write our customers and share good news on the topics above, but unfortunately, we don't expect to see those dark clouds parting soon. It reminds me of a timely new quote I recently heard, "The sky is not falling, it is already on the ground".

Our new reality is that this is a difficult time for everyone, but we will work through it together.

My Grandparents started The Gerson Company 80 years ago to serve retailers, and we are not going anywhere but forward. We will continue to be here for, and with you.

We're sure you have been inundated with what seems to be daily communications on increasing surcharges, ocean freight charges, and price increases. I apologize because this is another one of those emails. There has been a 610% increase in ocean freight costs, which then in turn is causing us to increase our surcharge to 15%. This 15% surcharge will be effective on all orders shipping from our Olathe Distribution Center **beginning September 7**. This surcharge covers only a portion of the ever-increasing freight costs, and we are sharing a significant part of this increase from the shipping companies.

Bringing additional surcharges to our customers has been discussed and deliberated internally for hundreds of hours, and we understand the only thing worse than sending this message is receiving it. Unfortunately, we see no other alternative. In fact, we know this message to be similar to the communications you're receiving from other suppliers where surcharges and prices has continued to

increase throughout the year. We are confident that even with these additional fees, our cost-plus pricing helps ensure that we remain the most competitively priced supplier in the marketplace.

In the name of transparency, we want to share specific numbers with you; our cost to bring in a 40' container has now risen from \$3,800 a year ago to \$27,000 (with the expectation of seeing \$30,000 in the very near future). With the skyrocketing ocean freight increases, we looked into the potential of shipping by air. A 747 will hold eight 40' containers, and our cost to charter is \$1.1 million. Still a long way from moving to airfreight!

Additionally, shipping companies do not want their containers being taken off their ships and trucked all over the country as this ties the containers up for 2-3 weeks, so we are now **trans-loading** almost all of our shipments. This means that we are taking possession and unloading the containers in Los Angeles and trucking the product to Kansas City. Although this is significantly more expensive, it's the best option to ensure the flow of goods to our customers at this time. We are always working hard to mitigate costs, *and our biggest priority is to receive and ship product to our customers as quickly as possible.*

We anticipate that the current importing supply chain delays and skyrocketing ocean freight costs imposed by the shipping companies will be with us for the next 12 to 18 months. Here are some key takeaways, and reasons why we anticipate these challenges will be with us well into 2022;

- Covid-19 and the delta variant will continue to impact our and your business. Just this week, China partly shut down the third busiest container port in the world after a worker became infected with covid. It is the second recent shutdown of a Chinese port due to a covid outbreak.
- In July 2022, the Longshoreman contract with the Port of Long Beach (the second largest port in the US) will expire. The port is pushing for more automation, but the unions have their priorities. Experts who are watching the situation closely are not predicting a strike, but are anticipating a possible/likely work slowdown. We are watching this closely.
- Since covid hit, and consumer demand never slowed, the shipping companies have been running the boats 24/7, with the same crews. These workers have not had vacations, nor have they been allowed to leave the ship while they are in port (due to covid). The workers need, and are demanding time off and are threatening action if it does not happen soon. This will idle the boats for a period of time further slowing the flow of product between Asia and the US.
- Heading into the busiest shipping time of the year, we see ships continue to stack up in the ports. Just last week, there were 42 ships waiting to be unloaded and 28 that had arrived in just the previous 2 days. This represents 750,000 containers! Some shipping companies are beginning to levy a \$5,000 per container charge they are calling a "port congestion fee".

We have a dedicated team that is working tirelessly to secure container space on ships in order to bring in our seasonal, everyday home decor and gift products. We anticipate shipping to our customers will be complete approximately 30-45 days past our targets (Fall-8/31 and Holiday 9/30). Our daily focus is to secure containers from Asia.

While we are spending the money necessary to bring in our customer orders, it's important to note that we are not canceling any orders with our factories.

Another current challenge is that raw material prices from manufacturers have been steadily increasing over the past year. Although we are passing on a portion of the increases in freight cost, **The Gerson Companies is absorbing 100% of all raw material increases.** See below for details of raw materials heavily used in the gift and seasonal business.

Product	12 month change
Copper	38.4% increase
PET	35% increase
PVC	40.8% increase
Wood Pulp	33.1% increase

The media is now finally paying attention to the supply challenges we are all facing. On NBC National News with Lester Holt and on the Today Show this week, the anchors warned consumers to do their Christmas shopping now! They suggested that store shelves might be very bare this Holiday season, even though they are nowhere close to being full now.

As a reminder, we do have inventory in stock now that is available for immediate shipping. Please check our website, contact your account manager, or call us directly, we're here to help.

For any questions, please call us at 800.444.8172 – and your call will be returned within 24 hours. Messages left on Friday will be returned Monday.

We are grateful for your business and the opportunity to serve your store with amazing product. Truly, we thank you, and apologize, as we work through the challenges together

Jim Gerson