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Hotel Supply Chain Challenges: A Look Back at 2021 and What 2023 Might Bring

Higher Shipping Costs, Prolonged Timelines Expected To Continue

By Darlene Henke
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Supply chain challenges became a hot topic in 2021 and as the year progressed, industry professionals and regular consumers found it front page news on a daily basis. In 2021, port congestion, manufacturing delays, shortage of goods and significant increases in container costs from Asia to the U.S. were the supply chain's biggest challenges.

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Port congestion in the U.S. hit an all-time high in late 2021; in some cases, more than 90 container ships were stalled outside of Long Beach/Los Angeles ports waiting to unload. Congestion began to ease in March 2022, and currently the backlog of container ships hovers around 15 to 20 ships per day. The delay in transit for goods from Asia still remains at eight to 11 additional days compared to pre-COVID timelines.

Factory shutdowns due to the COVID-19 delta variant were also common and still very much an issue in late 2021 to early 2022. Vietnam, for instance, experienced multiple instances where manufacturers closed as a result of outbreaks of largely unvaccinated workers. Other challenges included shortages or delays in raw materials, with items ranging from foam and cotton to hardware and other components.

Container shipping costs from Asia to the U.S. hit record highs in 2021. The average cost increased from a range of $2,500 to $3,000 to as high as $29,000 for a 40-foot container to U.S. West Coast ports. Container rates started to stabilize to about $12,000 in June 2022, still significantly higher than before COVID-19 but most likely the new normal through the remainder of the year.

Additional factors driving costs and shortage of raw materials in the supply chain include the current conflict between Russia and Ukraine. Although oil prices were on the rise prior to the conflict because of increased demand, some three million barrels of Russian oil have been removed from the global supply chain. By late March 2022, oil prices increased to over $110 per barrel and continue to rise. This increase not only hit consumer’s wallets at the gas pump, but transportation companies have implemented fuel surcharges to cover the increase.

Warehouse Capacity Challenges

E-commerce has been growing for the past decade, but as a result of the COVID-19 pandemic, consumers took to the internet in record numbers to make purchases and take advantage of last-mile delivery/home delivery of goods. Amazon and other online retailers have posted huge growth since 2019, and the trend still continues today.

The changing landscape of online ordering with home delivery and less dependency on big box department stores has created a high demand for warehouse space across the country. The warehouse industry has always experienced high turnover, but in 2021 the industry also experienced a significant increase in labor cost as well as a huge labor shortage. Large E-commerce facilities for companies such as Amazon, Wayfair and Walmart have had large impacts on the labor pool — driving up costs for wages and creating a significant challenge for privately held warehouse companies. In addition, the industry has had a large percentage of older employees retiring and very small percentage of young workers applying for the labor-intensive positions available.

So, what does this mean for hotels planning to receive new furniture, fixtures and equipment the next 18 months?

Similar to 2021, project teams should continue to anticipate, at a minimum, an additional two to four weeks for case goods, lighting, stone, etc., coming from Asia.

The increased costs of containers continue to be passed along to hotel owners and are, for the most part, not being absorbed by the manufacturers. In 2021, these charges were typically carried as an additional line item in the FF&E budget. Case goods will typically fit eight to 10 rooms per container for full-service hotels and 15 rooms for limited-service hotels.

Although container rates have stabilized at around $12,000 per container as of June, experts are not clear on what will occur the next 18 months. A looming recession, rising inflation, risk of future COVID-19 shutdowns, and holiday shopping in the fourth quarter make it unclear if container prices will spike again in the next six months. A 150-room, limited-service hotel with 10 containers of case goods coming from Asia should be budgeted with $120,000 to $250,000 in additional container costs depending on how much contingency is desired.

The price of shipping via truck in the U.S. is trending down but still significantly higher on average than pre-COVID-19. In 2019, the average cost per mile was $1.83, and as of June 2022 it is $2.71. The rising cost of fuel will continue to be a concern and will offset any downward trend in the rate per mile. Owners should continue to budget an addition 2% to 3% for freight cost and consider adding 1% to 2% on top in anticipation of prolonged rising fuel prices — something that could be made worse with a heavy hurricane season in the Gulf.

Supply chain snags, rising transportation costs and labor shortages will continue into 2023, with costs and lead times not likely to return to pre-COVID-19 levels, although there will continue to be small improvements over where the industry stood in 2021.

Darlene Henke is president and CEO of Audit Logistics.