



***SMITTY'S CANADA INC.***

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**BULLETIN #75/20**

DATE: May 11, 2021  
TO: All Franchisees and Corporate Managers  
FROM: Darryl Vivian and John Arthurs  
RE: **Supply Chain Update**

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Hello Everyone,

We have received several questions about pricing and supply on a few items. COVID-19 has impacted the world, and the supply chain is no different. We would like to provide you with some information to keep you informed as to what our vendor and distribution partners are facing.

Specific info on pricing:

1. Bacon - Pricing is formula-based on the weekly commodity markets. They take the commodity market price from 2 weeks ago and input it into a formula that determines pricing for the week. The pricing you see in Sysco is usually a few weeks behind current market pricing. This is the industry standard for fresh bacon, and unfortunately, we cannot get a locked in price on a fresh bacon contract.

We have been looking into precooked bacon as this is one of the ways to get a locked in price for 3 months at a time, but so far it is appearing to be cost prohibitive. The market does appear to be trending down, but obviously no one will guarantee their forecasts, but if they are right, we should start to see pricing trend down.

2. Take-out Packaging – This is also a formula-based price. Take-out packaging demand has increased significantly since the start of the pandemic, which has caused a supply shortage on the resin used to make take-out packaging. PP resin went from \$0.55/lbs. USD to \$1.33/lbs. USD in a 2-month span. Whole facilities have been forced to shut down due to a lack of resin.

We have tried to get ahead of this as much as possible by working with Sysco to bring in more product up front, so if there is a plant closure at one of the facilities that produces our product, Sysco will have enough product to carry us through a few weeks while the vendor gets caught up.

Overall supply chain challenges:

1. Labor Shortages – All industries involved in the supply chain including logistics, processing and distribution are experiencing labor shortages due to people having to quarantine/sick/take time off. It is estimated in the US that there is a shortage of approximately 50,000 truck drivers.
2. COVID Protocols – Social distancing has been implemented in all warehouse and food processing facilities. This has led to a slowdown in production (increases line time) for most facilities.
3. Lumber Shortage/Increases – Most products are shipped on wood pallets, so the shortage and increased pricing has led to increases in delivery costs.

4. Plant Closures – Some production facilities have had to close entirely for a few weeks due to COVID outbreaks, as stricter rules have come into place.
5. Velocity Forecasting – The changes in local restrictions has created difficulties for suppliers to anticipate inventory levels and demand. These challenges escalate in the commodity markets as many months are required to impact the supply levels available to ship. This applies to producers as well as distributors.
6. Shipping – During 2020, several shipments were cancelled due to the world shutting down. As the world begins to reopen, everyone is trying to ramp up their inventory levels and get product in, which is leading to a shortage in shipping containers and space on ships.
7. Commodity Markets – Most markets are at all time highs. Several factors are in play, such as feed is at an all time high. Shipping and production costs have risen. Several suppliers held back pricing increases at the beginning of COVID and now we are starting to see the increases come through. Commodity Markets we expect to see challenges with over the next few months include Produce, Oils, Sugar, Beef, Pork, Poultry and Grains.

The team is engaged in working with Sysco to solve logistic issues and with our Vendors to produce some medium-term pricing agreements to help stabilize the impact the above issues have on our product availability and prices. We have already had success with Coffee and Smitty's Mix pricing for the remainder of 2021.

Should you have any questions do not hesitate to contact us at [dvivian@smittys.ca](mailto:dvivian@smittys.ca) or 403-930-8747, or [jarthurs@smittys.ca](mailto:jarthurs@smittys.ca) or 403-930-8745.

Yours truly,  
SMITTY'S CANADA INC.

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