



Ask the Experts:

The Impact of Tariffs and How to Mitigate Risk

About The NPD Group, Inc.

NPD offers data, industry expertise, and prescriptive analytics to help our clients grow their businesses in a changing world. Over 2,000 companies worldwide rely on us to help them measure, predict, and improve performance across all channels, including brick-and-mortar and e-commerce. We have offices in 27 cities worldwide, with operations spanning the Americas, Europe, and APAC. Practice areas include apparel, appliances, automotive, beauty, books, B2B technology, consumer technology, e-commerce, fashion accessories, food consumption, foodservice, footwear, home, juvenile products, media entertainment, mobile, office supplies, retail, sports, toys, travel retail, video games, and watches / jewelry.

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While trade talks are ongoing and it's possible for things to cool down, the current tariff climate is already having an impact on business. The NPD Group's point-of-sale data shows some industries have already passed cost increases through to customers, and we're seeing corresponding unit sales declines. Within the home categories we are seeing mixed impacts, indicating the need for further analyses and deeper insights.

To provide clients with short- and long-term advice on managing the impact of the tariffs imposed on U.S. trading partners, The NPD Group, along with research partner Currnt¹, held a series of online discussions with manufacturing and retail strategists and taxation experts from an array of industries. Beginning in April 2019, we posed a series of questions to these experts. Here is a summary of discussion highlights.

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Q What is your assessment of the tariffs' impact on retailers and manufacturers? Who wins, who loses, and why?

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A **Summary:** The expert panelists agree that if the tariffs are not managed appropriately, there is the potential for everybody to suffer. Manufacturers and retailers may experience increased costs and reduced profits; consumers may pay more for the same product or switch to a non-preferred solution. Many experts also indicate that most companies should consider tariff increases the “new normal,” and failing to prepare for them and seek alternative options could impact business in the short and long term.

From the experts:

Lisa Henderson, Bravado Designs Ltd. Board of Directors: “Few companies have huge profit margins these days; there is too much competition. Well-known brands are competing against generic versions, cheaper brands, or local foreign brands without tariffs. A well-known brand or luxury brand may be able to raise their prices a little to cover some of a tariff's cost, but if they go too high, many consumers will make the choice for a cheaper version.”

Jay Dwivedi, President, xInvest Consultants: “A company that either manufactures a fairly generic product that can be manufactured elsewhere fairly quickly (e.g., leather handbags) or simply imports them may experience a less negative short-term impact, but they may suffer long-term if overall prices increase.”

Although times are uncertain and risks abound, our experts agree that companies can successfully navigate the current tariff climate by developing and implementing strategic and operational tactics.

¹ Currnt is the world's first knowledge network connecting professionals and companies to understand and advance the rapid market and technology trends shaping our world. The embedded KnowledgeStream™ technology is used by thought leaders and brands to connect people by their authentic passions around the globe, host curated and facilitated dialogues, and produce actionable insights that impact change.

They provide some examples:

Patrick Henz, Head of Governance and Compliance, Primetals Technologies: “Tariffs are a pressure to innovate for companies against which the tariffs are aimed. Other companies that may be ‘protected’ by tariffs may feel less pressure to innovate. Innovation not only includes products/services, but also automation of manufacturing, financial models, and slim internal processes.”

Brian Chossek, Purpose, Change Management Consultant: “More and more organizations are understanding that with the pace of change as remarkable as it is, one thing you can control is ensuring an agile culture and having a culture that can adapt to change quickly. Winners will have [already] built this.”

Raoul Gruenberg, President, Green Mountain Consulting Group: “Unless we begin to see diplomacy happening, companies and consumers should prepare for the ‘new normal,’ which will not be pretty or in their best interests over time.”

Q

“**What specific guidance would you provide manufacturers and retailers to help them successfully navigate the current tariff climate?**”

A

Summary: The experts agree that the current world trade situation is unstable and unpredictable and that both retailers and manufacturers must learn to be flexible and nimble. They consistently underscore the need to go back to the basics and consider implementing these tried-and-true actions:

1 | Assess your portfolio mix and profit margins.

For companies already running on a thin margin, absorbing more costs will be difficult without increasing prices or cutting costs. Understanding where to trim fat or how much of a price hike your customers will tolerate is key to making adjustments if necessary.

Jay Dwivedi: “Every disruption for entrepreneurs is not a tragedy; it is an opportunity for innovation. If tariffs stick, I would expect a surge in innovation. Many entrepreneurs will come up with clever ideas on how to operate in the new environment. Increased tariffs present an opportunity to examine your product line and profitability by forecasting sales and profitability.”

Lisa Hendrickson: “I would focus on carefully curating my assortment whether I was a manufacturer or retailer. Cull the assortment to the best sellers that are making a healthy profit, and drop loss leaders or items with very low margins. Have offerings to suit a wide range of consumers but not ALL consumers.”



2 | Leverage key relationships to negotiate (re-negotiate) rates.

Although it may seem obvious, it's important to continue to develop and maintain positive, solution-based relationships with your suppliers. If you can, leverage your relationships and lock them into a long-term deal while the pricing is still favorable. Such negotiations take time and are probably easier said than done, but if you can guarantee needed goods at current market prices, you'll avoid the worst of price increases if tariffs begin affecting costs.

Raoul Gruenberg: "Conduct a thorough supply chain review and look for opportunities to source suppliers willing to partner through these uncertain times." He adds, "Although the current tariff increases pose numerous threats, they also offer a good time to do a resource optimization review and determine whether you have the right vendor mix and in the right location."

3 | Reevaluate inventory management and consider purchasing now.

While keeping a balanced flow of inventory is always important, the current tariff climate requires an even more critical evaluation of your inventory mix.

Raoul Gruenberg: "Determine what items you might want to stock up on and make some essential purchases now, especially if your products are in high demand. Leverage real-time data about your supply chain to make the best decisions, especially during this time of uncertainty."

4 | Engage and communicate with consumers.

Tariffs essentially translate into increased costs of doing business, and unless you are uniquely positioned to absorb all of these increases, it is likely that costs will be passed down to the end consumer. For this reason, it's now more essential to use data-driven insights to understand what increases your customers are willing to accept.

David Cottrell, Managing Director, Gradient Limited: "It's more important than ever to understand what your customers really value and strip out extraneous elements of the product/service. Competitive intelligence is also crucial. Do they have an edge that you don't? How do you counter that? Choose your suppliers — and if they are really strategic, make sure that you have the "how do we both make money" discussion."

Tom Saxe, Engineering and Operations Executive: "Increasing customer value is a way to improve the product, enable the company to receive a higher price, and give the customer more value."



Q

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 How concerned are you about possible retaliations, and what options would you suggest to prepare for or mitigate against any retaliation?”

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Summary: The experts' collective consensus is that the trade and tariff situation has been escalating. Chinese retaliations in response to the imposed U.S. tariffs are a possible occurrence and could introduce more disruption in manufacturing and retailing operations. Other countries (e.g., those in the European Union, India) might also respond with different types of retaliations to U.S.-imposed tariffs. Any retaliations may have a ripple effect across multiple industries and markets.

Jay Dwivedi: “The Chinese have assumed the position of being bullied and are the injured party in this situation. That means they can justify additional use of retaliations and invoke various tactics that the U.S. might not consider.”

Tom Saxe: “One of the biggest retaliations, which could have a devastating impact on the U.S., is cutting off vital products such as rare earth metals. Previously we faced the same problem with oil, and in the past 10 years or so, we have developed our internal capabilities so that we do not rely nearly as much on foreign oil. [There are] several noteworthy concerns regarding the potential for trading countries to retaliate in response to U.S. tariffs.”

Sandy Waters, discussion facilitator: “The level and random retaliations are, in fact, increasing. It appears that China can inflict additional discomfort and economic instability far beyond what anyone believed possible, and it is just starting.”

From My Point of View

Lora Morsovillo
 President, U.S. Home
 The NPD Group



One thing is certain: tariff discussions are adding to the climate of disruption and continued change in the home industry. Therefore, it might be time to re-evaluate your business model and actively evaluate alternative ways of doing business. Both retailers and manufacturers need to innovate in all stages of the process, including product development, execution, and consumer engagement. One best practice approach to innovation is to involve stakeholders from across departments to innovate with regard to mitigation options. [Rosemary Coates](#), a global supply chain consultant and one of our panelists, said,

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 You need to really focus on engineering and on sourcing/
 procurement. Products can be designed or redesigned to
 eliminate parts that are subject to tariffs. Sourcing can assist
 in finding and developing new suppliers in countries where
 we have not (yet?) started a trade war. The key is to try
 alternative strategies ... you always need a Plan B and a Plan C.”



I agree; these plans may be ranked based on success probability, effort, and timeline. **It's more important than ever to innovate and focus your innovation on a few key items.**

It's also necessary to be mindful that your company doesn't operate in a vacuum, so competitors' potential actions should be taken into consideration both in terms of market pricing and their commitments to suppliers. **It will be important to monitor retail pricing fluctuations via retail point-of-sale data and simulate the market's tolerance of price increases.** Likewise, consider suppliers' potential reactions to both your company's and your competitors' actions.

Keep in mind that preparing for this year's holiday shopping season will be critical. Not only is this holiday shopping season shorter by almost a week because of a later Thanksgiving, but should retail prices rise across industries, consumers will be forced to make choices and prioritize their purchases across categories as well as industries. **The home industry needs to consider how tariffs will impact the holiday shopping season across consumer goods and not just within the industry.** This is where it's key to know your consumer and the prices they will bear. Understanding what your consumers are willing to accept in terms of price is a strategic decision. **Increasing your prices too much will drive your customers away and only compound the problem of higher operating expenses.**

This is a challenging time for our industry, but the silver lining is that these challenges have also brought us together to find solutions. **Beyond our point-of-sale data, we can help you with product forecasting, concept testing, and assortment planning, as well as in price elasticity, pricing simulation, and local market measurement.**

Learn More. We're here to support your data-driven growth. If you have questions, or if we can help you navigate what's happening with tariffs, contact your NPD account representative, call 866-444-1411, or email contactnpd@npd.com.

Note: The views outlined in this paper are in response to the questions that had been previously posed to us. New questions are surfacing every day.



Methodology

The NPD Group leveraged Currnt technology and its ecosystem of certified facilitators to find the right experts and engage them in robust dialogue over the course of several weeks.

1 | Finding the Right Experts: Leveraging AI, the Currnt platform conducts semantic search across thousands of sources on the web to any specification in just days. Targeted experts were then invited to apply to participate in an online Taxes and Tariffs Forum. For this discussion, The NPD Group reviewed more than 80 applicant resumes and their answers to screening questions and selected 35 business and academic professionals with documented experience in tariffs. Interested panelists are motivated by their passion for the subject and the opportunity to learn, be recognized, and earn rewards convertible to U.S. dollars.

2 | Online Discussion and Engagement: Currnt's platform provided an easy way to facilitate dialogues on the topic of tariffs. Starting in April and continuing every two weeks until July, NPD provided the facilitator with key questions to initiate an online discussion. The facilitator led the discussion, drilling into topics by asking pointed yet unbiased questions. Panelists were encouraged to support their positions with empirical data, and/or articles from reputable independent sources. Throughout this engagement, NPD monitored the online dialogue on a regular basis to ensure the discussion stayed on topic, was unbiased, and would yield actionable insights. NPD also met regularly with the facilitator to ensure further that the forum would stimulate and provoke insightful discussions.

