

Why Retailers May Need to Prepare for an Early Holiday Shopping Season (And Some Ideas for How to Do It)

The 2019 peak retail season may begin earlier than usual — and that’s important news for retailers, logistics operators, and shippers across the United States. Two unusual market conditions are colliding to create this unique situation: retailers’ perceptions of overly high inventories (leading to less replenishment) and consumer reaction to news of increasing tariffs.

If consumers rush to beat price increases, they could end up depleting inventories much faster than usual, and at an earlier date. That, in turn, could lead to low inventories right during the heart of the typical peak shopping season. Admittedly, this is a guess — but business owners in the consumer goods supply chain will be better off preparing for an earlier peak than being caught unawares.

How Late 2019 Tariffs Could Affect Consumer Prices During the Holiday Peak



The 15 percent tariffs scheduled for December follow a [similar round of tariffs](#) that went into effect September 1. While early tariffs on Chinese goods avoided targeting consumer products — the drivers behind U.S. consumer spending, especially during the holiday purchasing boom — the September trade penalties require importers to pay an extra 15 percent on consumer goods like clothes, sports equipment, and shoes.

By Sept. 1, the U.S. had imposed tariffs on [two-thirds of Chinese goods](#). After December 15, virtually every trade item entering the U.S. from China will be subject to at least the 15 percent penalty. That includes electronics and, yes, toys.

As of 2018, China was the U.S.’ single largest foreign supplier of goods, accounting for [\\$539.5 billion](#) worth of products that year; rising prices on the consumer-side could have a significant impact on the 2019 shopping season.

To be clear, importers pay the cost of tariffs to their governments. And for many importers with slim profit margins, there’s no option other than passing those costs on to the consumer, reports the nonpartisan [Council on Foreign Relations](#).

“I don’t think there are an awful lot of retailers or businesses out there whose margins are so huge that they can just swallow a 25 percent cost increase,” the Council quoted Philip Levy, an economist who worked in the George W. Bush administration, as saying.

The upshot is that tariffs may indeed lead to higher prices this holiday season. Now, given that the dates on those tariffs have changed several times — the October tariffs were once scheduled to take effect on the first of that month — and that

the average holiday shopper won't be heavily knowledgeable about tariffs — the fear is that consumers will simply buy early, trying to beat the price increases.

And according to at least one recent marker of retail health, this consumer reaction in fear of tariff-based price increases could collide with an overcorrection among retailers themselves.

Inventory Sentiment and the 2019 Holiday Shopping Season

As of this writing, the latest [Non-Manufacturing ISM Report on Business](#) was from September 2019. While this report contained some data that U.S. retailers are likely to interpret as helpful, the Inventory Sentiment could create a situation in which an earlier peak in retail purchases creates an economic problem, at least for the retail industry.

The September 2019 ISM Inventory Sentiment Index was 58, two points higher than the previous month. This suggests that retailers (among other non-manufacturing industries) believe their inventories are *too high*.

When you find yourself holding onto too much inventory, you don't order more. If, as we suspect, tariff news drives earlier holiday purchasing — and retailers, believing their inventories too high, don't plan to replenish inventory in time — we could end up with shortages, with all the empty shelves and lost profits that attend them.

Essentially, the concern is that these two situations (consumer impression based on tariffs and retailer worries about high inventory levels) will collide on, say, Black Friday, leading to a low supply of consumer goods right when sales typically peak.

Maybe these fears are overblown. If not, there are still a few ways retailers can get ahead of the trends and make this as profitable a holiday shopping season as they've ever seen.

Taking Advantage of an Early Retail Peak

So say the 2019 shopping season shapes up more or less as we're suggesting. What can ecommerce and traditional retailers do to take advantage of the conditions? Here are a few ideas:

- **Don't freeze inventories.** Reliable signals are telling retailers that their inventories are too high, as the ISM Inventory Sentiment Index reflects. But what if those signals are — if not quite wrong — perhaps indifferent to the particular market trends taking place here at the end of 2019?
- **Reduce costs of carrying high inventories.** For nonperishable goods, the main reason to avoid high inventory levels is to keep the costs of storage and handling low. With extra space in existing warehouses and more efficient material handling across the supply chain, retailers can afford to carry inventory levels that are much higher than they'd typically be comfortable with.
- **Find extra space in existing warehouses and distribution centers.** In the warehousing world, square footage carries a cost. Finding additional space is like squeezing extra dollars out of existing facilities. Run a cube audit to see if there's additional space for shelving, even unconventional shelving, outside of traditional warehouse aisles.

Look above doorways and between docks — and [choose shelving](#) that most efficiently stores whatever it is you're selling.

- **Reduce your battery room footprint.** Facilities that run electric forklifts might not store their battery fleets as efficiently as possible. That can be a lost opportunity. Choose a [Forklift Battery Handling System](#) that uses vertical space, such as a [Quad-Stack Battery Extractor System](#). This provides storage for large battery collections with the lightest possible footprint — preserving even more space for storage and retrieval.
- **Bring seasonal workers onboard earlier than usual.** If November ends up being the year's peak for retail sales, you'll want your seasonal workforce trained and ready to go well before Black Friday. This year more than ever, sooner is better for hiring and training temporary workers.

Forecasting demand is a tricky business under the best conditions. It's possible that the 2019 holiday shopping season proceeds just like the average over the past five or 10 years. And while inventory sentiments often suggest that retailers feel they should carry fewer goods, this condition has not recently coincided with market-altering tariffs.

Regardless of what happens in the 2019 holiday season, or the years before or after, it's always a good idea to follow the tips outlined above. When things are good, efficient use of warehouses keeps overhead low. When markets throw out challenges, this extra efficiency can make all the difference.

References:

Bartash, Jeffrey. "[Why the U.S.-China trade deficit is so huge: Here's all the stuff America imports.](#)" *MarketWatch*. MarketWatch, Inc., 27 Jun. 2019. Web. 26 Sept. 2019.

Bui, Quoc Trung and Karl Russell. "[How Much Will the Trade War Cost You by the End of the Year?](#)" *NYTimes*. The New York Times Company, 1 Sept. 2019. Web. 26 Sept. 2019.

Chatzky, Andrew. "[The Truth About Tariffs.](#)" *CFR*. Council on Foreign Relations, 16 May 2019. Web. 26 Sept. 2019.

Fitzgerald, Maggie. "[Here's what new tariffs will cost the average American household.](#)" *CNBC*. CNBC LLC, 19 Aug. 2019. Web. 26 Sept. 2019.

Lawder, David and Rajesh Kumar Singh. "[Retailers howl as U.S. trade agency locks in 15% tariffs on September 1.](#)" *Reuters*. Reuters, 28 Aug. 2019. Web. 26 Sept. 2019.

Rugaber, Christopher. "[AP Explains: New China tariffs likely to hit US consumers.](#)" *APNews*. The Associated Press, 10 May 2019. Web. 26 Sept. 2019.

"[September 2019 Non-Manufacturing ISM® Report On Business®.](#)" *InstituteForSupplyManagement*. Institute for Supply Management, 3 Oct. 2019. Web. 7 Oct. 2019.

Singh, Rajesh Kumar. "[Explainer: Trump's China tariffs - Paid by U.S. importers, not by China.](#)" *Reuters*. Reuters, 1 Aug. 2019. Web. 26 Sept. 2019.

Tankersley, Jim. "[How Trump's Tariffs on Chinese Goods Will Hit Your Shopping Cart.](#)" *NYTimes*. New York Times Company, 10 May 2019. Web. 26 Sept. 2019.

"[Trump's 15% tariffs on \\$112 billion in Chinese goods take effect.](#)" *CNBC*. CNBC LLC, 1 Sept. 2019. Web. 26 Sept. 2019.

"[US-China Trade Facts.](#)" *USTR*. Office of the United States Trade Representative, n.d. Web. 26 Sept. 2019.

Van Dam, Andrew. "[Made in China: Most of what you pay goes to U.S. workers and businesses, despite what the label says.](#)" *WashingtonPost*. 11 Jan. 2019. 26 Sept. 2019.

