



THE TRUE IMPACT OF TARIFFS AND HOW TO PROTECT YOUR PROFITS

Marketplace dynamics driven by tariffs will cause demand fluctuations, making it critical to adjust your total cost of ownership to preserve profitability

Tariffs are here to stay, but they are only one element to navigate. While many are scrambling to mitigate immediate cost implications, relying solely on cost concessions and country shifts is like using a garden hose on a wildfire. Tariffs may have sparked the issue, but the real challenge is maintaining profitability amid weakening demand and rising costs.

To address this, focusing only on select cost reductions can obscure demand and revenue shifts. Tariffs will flow through and affect both, so it's crucial to pull the right levers now to mitigate these broader effects.



Tariffs Will Impact Both Demand & Revenue

No business will be immune to the effects of these uncontrollable factors

Uncontrollable Factors:

Competitor Behavior

Competitors may alter prices or re-source, constricting capacity & changing the landscape.

Reduced Share of Wallet

Tariffs and economic uncertainty may reduce disposable income & consumer spending.

Consumer Value Expectations

Consumer behavior will change, prioritizing value & trading down for lower priced options.

Promotional Activity

Promotions & discounts will be adjusted to protect demand.

Levers to Pull to Mitigate Impact:

- 1 Review efficiency of promotions
- 2 Optimize box / store formats to best align to consumer preferences
- 3 Streamline product assortment and SKU offerings
- 4 Explore or expand private label, value brands, and entry price points
- 5 Shift marketing and pricing strategies to product essentials



In the short term it is imperative to address cost and profitability. Focusing solely on these levers isn't enough – true success hinges on balancing topline erosion with sustained profitability. When addressing costs, it's important to recognize this goes beyond a sourcing issue: companies cannot look at this as only a factory negotiation or a price passthrough solution. A Product Total Cost of Ownership (TCO) approach is key to safeguarding profits. This end-to-end perspective addresses multiple cost drivers so businesses can offset tariff impacts, preserve profitability, and build financial resilience for the future.



Adjusting Product Total Cost of Ownership is Key to Maintaining Profitability:

To limit tariff impacts, the following controllable factors must *all* be in play

Design for Value

Eliminate non-value-added cost

Duty & Tax Engineering

Minimize dutiable value & align for tax efficiency

Assortment Curve

Reshape the offering & cut margin dilutive SKUs

Buy Patterns & Inventory Levels

Position commits & adjust flows

Sourcing Matrix & Mix

Optimize vendor & COO footprint for resilience

Logistics Strategies

Maximize transit routes/ modes & drawbacks

Supplier Partnerships

Create longer-term value via collaboration

Distribution Costs

Streamline fulfillment strategies

Buy Model

Adjust incoterms and Direct vs 3rd Party mix

Customer Collaboration

Reevaluate required customer compliance



Cross-Functional Ecosystem Response is Essential

Adopting an integrated, 'no-regrets' mindset is essential when pivoting to TCO

Effectively managing the Product Total Cost of Ownership to drive immediate impact requires collaborative, cross-functional execution. This approach will prove more effective in the longer term than tackling tariffs in a silo.



PRODUCT

Merchandising, Inventory Management, Product Development, Pricing & Promo



SUPPLY CHAIN

Sourcing, Customs, Logistics, Distribution, Partners (Suppliers / Carriers)



FINANCE

FP&A



The Ripple Effect – Tariffs Impact Financial Health Across the Entire Org

Retailers who address Product TCO will be in a better financial position long-term

Tariffs don't just affect cost; they send shockwaves through every aspect of your financial health. Overall profitability will face intense scrutiny – weakened demand, rising costs, and margin compression will impact investor confidence and market perception.

Retailers who seize this opportunity to address broader cost dynamics will both mitigate short-term challenges and be positioned for sustained financial success.

At A&M Consumer & Retail Group, we have the experience and resources to support you during these challenging times. We are passionate about helping companies achieve their maximum potential and be on the right side of disruption. We look forward to connecting.

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