Are Your Supply Chains Ready for a Trade War?

18 Things You Can Do Now To Prepare for Disruption



As an emerging trade war threatens supply chains in North America, what can manufacturers, wholesalers, and retailers do to prepare?

This ebook shares 18 suggestions from diverse sources.

Next are 18 things you can start doing now.



1 Don’t assume your business is at low risk.

The effects of trade wars, like those of big storms, are unpredictable and fairly random. They may leave one company virtually unscathed and devastate another in the same industry.

They ricochet through the economy. Retaliation may escalate in many forms.

Besides countervailing tariffs, countermeasures may also include selective slowdown of administrative processes such as customs clearances or safety inspections. It may also involve increased regulation and more red tape from trading partners.

U.S. steel producers may not gain the long-term benefits they expect from protective tariffs. China is poised to flood global markets with lower-priced steel.

Manufacturers that use U.S. steel are likely to be at a price disadvantage versus competitors that don’t. Demand for U.S. steel could drop, ultimately hurting U.S. producers.

Here’s how Rosemary Coates, executive director of the Reshoring Institute and president of Blue Silk Consulting, describes the risk:

> *Here we are with the U.S. slapping on tariffs on the import of steel and aluminum, and potentially many other products, which will drive up the sales price of our products and our production here in America.*
>
> *But the rest of the world doesn’t have the same tariff applications. They’re going to enjoy much cheaper prices.*
>
> *The Chinese have been over producing steel for some time and this is driving down raw stock and steel products prices that are sold around the world. While American steel products get more expensive, Chinese products are priced for their advantage. The Chinese do not necessarily need to sell in the US market.*

American products that include American steel are going to be prohibitively expensive in comparison. The result will be that we won’t be able to export our products or compete in world markets.

Despite the obvious risks, some companies will benefit from surprising windfalls. If they offer lower-cost substitutes for items subject to new tariffs, they’ll likely see a surge in demand.

But fast-growing demand disrupts supply chains just as much as fast-declining demand does.

2

Take action now.

Don’t wait until a threat appears inevitable. If you procrastinate, you may limit your options to contain the damage or to take advantage of opportunities.

Speaking figuratively, the fresh water, flashlights, and batteries may be sold out by the time you show up to buy them.

3

Assemble a team for emergency preparedness.

Organize a “tariff impact team.” Make it multifunctional.

The business functions that participate will vary with the kind of business you’re in.

If your company does manufacturing, include Procurement, Manufacturing, Legal (including Compliance), and Finance on the team. We suggest you also add Quality Control, Supply Chain, Logistics, Sales, and Marketing.

If your company does wholesaling, also add someone from your demand forecasting and replenishment teams. They will be able to spot early changes to demand and inventory levels.

If your company has retail operations, add representatives from Sourcing, Merchandising, Buying, Stores, Ecommerce, Merchandising Planning, Forecasting and Replenishment, Assortment Planning, and Price Optimization.

The point is, you want diverse ideas and perspectives. Encourage divergent thinking. Carefully listen to people who disagree with the mainstream view.

Don’t limit involvement to the heads of each business function. Talk to people on the front lines who are likely to see changes first. They are the canaries in your coal mine.

4 Put your team and your company on high alert.

Are you in the direct path of the storm?

What alternative paths appear likely, based on what you can see today?

When might it hit your shore? What early warnings might you look for in your operations?

Is demand for some items falling unexpectedly? Is it increasing unexpectedly for others?

Watch for possible "knock-on effects." If tariffs force you to increase pricing for some items, your customers may switch to alternatives at lower prices. Be prepared to respond quickly to such changes.

Are customers canceling orders? Are some items getting harder to buy? Where are prices increasing? Which lead times are getting longer?

Scan the horizon for possible threats. And opportunities.

Mobilize your information network. Extend your corporate antennae. Tune in to appropriate sources of information.

Scan the general news media, including The *New York Times*, *The Wall Street Journal*, *The Washington Post*, CNN, Fox News, and others.

Read the general business media, including *Bloomberg Business Week*, *Fortune, Forbes*, *Inc.*, and others.

Seek perspectives from outside the United States through publications such as *The Economist* and *Financial Times*.



4 Put your team and your company on high alert.

Monitor your company's vital signs

Carefully watch revenue at the item level, order fill rates, lead times, and inventory levels. Watch for growing overstock at the item level.

Talk to key customers. This is an important time for maintaining trust. Understand how a price increase may affect their business. If your prices must increase, make sure your customers know why. If you can offer them alternative products, be sure they're aware of it.

Talk to salespeople

Salespeople are often great conduits of timely information. Consult both your own sales team and those of vendors who call on you. They're likely to be plugged into information from diverse sources. They can provide a good view across many companies, including your competitors.

Talk to your own salespeople or customer service reps. Work on what to say so you don't lose potential business.

Watch your competitors

If they operate a website that shows pricing, see how their prices change for items that compete directly with yours. Also watch for promotions of items that could take sales away from any items whose prices you've increased.

Talk to your suppliers

Your suppliers may not understand their own vulnerabilities. Or they may not want to reveal the challenges they face for fear of losing your business.

Even so, you can read between the lines of the questions they try to avoid answering.

What trends are they seeing with *their suppliers*?

How well could they accommodate a change in your order quantities? Can you negotiate more flexible lead times or commercial terms? Can they ship equivalent items from a plant whose production isn't affected by tariffs?

Talk to partners and allies

They may be able to offer information and perspectives you can't get from any other source.

Stay in touch with trade associations

They can often offer up-to-date, highly specialized information you won't find in the general business media. If they run a lobbying office, they can also provide important political perspectives and advice.

Establish a way to capture and share information efficiently

If your company doesn't already use software for sharing information with an internal team, consider doing so — at least for your tariff impact team. The cost is low, and the benefits can be great.

5 Identify and assess your risks. Plan scenarios and brainstorm alternatives.

Get out your spreadsheets. Develop what-if models. Create contingency plans. Establish decision criteria.

What are your alternatives, and what are their implications?

What raw materials, ingredients, components or finished goods are likely to be most affected? In which items are the tariffed raw materials, ingredients, or components used?

Which customers will be most affected? Which might you lose? What unexpected effects might your decisions have on your customers' buying decisions?

Do you raise prices or let your profit take a hit? If you raise prices, what might be the effects on demand and inventory levels?

How will your various choices likely affect your operations and operating costs? Which operations will be affected, and how?

How might the changes affect your total revenue and profit, cash flow, and balance sheet?

Can you shift sources of supply? If so, how long will it take to activate a new source? How much more demand can the new supplier handle? What would be your new landed cost?

If you see inventory rising for items whose price you've raised, think how you will clear them fast so you're not drowning in overstock.

Be prepared to act fast and decisively.



6 Be alert for possible fraud, waste, abuse, and quality issues.

When tariffs and other government actions disrupt supply chains, companies have to pivot fast.

When you quickly shift sourcing strategies and vendor relationships, you may not vet your new sources thoroughly enough. That can open your company to the risk of fraud and financial loss, including damage to your reputation.

This warning comes from Mark Pearson and Larry Kivett, writing in *Treasury & Risk*. The two are partners in the Risk and Financial Advisory practice at Deloitte.

Their article, "How Disruption Can Trigger Fraud in the the Supply Chain," lists 6 ways to reduce exposure.

Suggestions 7 through 13 come from Frank Debets, managing partner in PwC's Worldtrade Management Services. He wrote about "How to Survive a Trade War" in *The Business Times of Singapore*.

7 Take advantage of existing free trade agreements (or FTAs).

Maybe FTAs weren't worth considering in the past. But in the face of much higher tariffs, it may be worth revisiting the topic. Do your analysis now.

8 Avoid tariffs by shipping or buying product ahead of tariff enactment.

You may be able to beat some increases by getting your goods across borders before new tariffs go into effect. Can you expedite production or shipping? Can you stock up in inventory in advance of price increases?

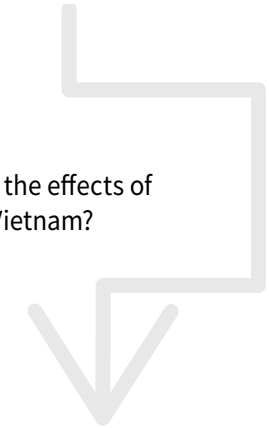
The following idea is not from Frank Debets. It's a method wholesalers and retailers have used for decades to increase profits on price increases and promotions.

If your company is a retailer or a wholesaler, you might view a new tariff as an opportunity for a "forward buy."

In anticipation of your tariff-related cost increase, you purchase more inventory than you normally would. You raise your selling prices immediately on goods you receive before the tariffs apply. That gives you extra gross margin.

This can present a big opportunity for profit if you do the right analysis to buy the optimal amount.

9 Reroute product.



If you can change sourcing or destinations, you may be able to skirt the effects of tariffs. Can you swap production from a factory in China to one in Vietnam?

10

Reclassify.

Countries usually base their import tariffs on customs classifications of goods. Frank Debets notes that many companies can't provide documentation to support the customs classification of one-third to one-half of their goods.

By reviewing your customs classifications, you may be able to avoid some tariffs.

11

Reduce the valuation of goods subject to tariffs.

Import duties generally apply "ad valorem," to a designated percentage of an item's stated value. Some companies weren't careful about stating the value of goods when duties were low. But when tariffs are high, it's important to declare an accurate value.

You may be able to legally reduce the valuation of goods that cross borders. Check your options. They vary by country.

12

Document your compliance.

With new tariffs in place, customs agents are likely to expect more thorough verification of compliance. If you claim that affected products didn't originate in China, be prepared with documentation to prove it.

13 Seek tariff exemptions.

If your company is in the United States, you can apply to the U.S. Department of Commerce for a tariff exclusion.

But be forewarned. The rules for eligibility are hazy, and you're likely to face a long and frustrating process with little or no explanation of the outcome.

14 Take political action.

Although the trade war is already here and appears to be escalating, politicians are always open to hearing from their constituents. So make your case known to them.

Be prepared with specifics. How will the tariffs and countermeasures affect your company? Your employees?

If you have no budget for your own lobbying in Washington or Ottawa, work through your trade associations.

15 Take your case to the public.

As your company feels the squeeze of tariffs, share your story through traditional media and social media.

Tell how trade policy affects your employees, your investment plans, and your product pricing.

Help consumers understand how tariffs and countermeasures are likely to affect their pocketbook.

16

Look for opportunities among the threats.

Don’t let yourself get locked in a mindset that’s purely defensive.

Every great threat to the status quo also brings great opportunity for someone. How can you benefit?

17

Keep your website and product catalogs up to date.

If you have an online business, be ready to make changes to your website.

Adjust prices as may be appropriate. Offer alternative products, if you can, for items whose prices are increasing.

18 Update your technology and information systems.

Many new technologies enable greater agility and flexibility. If you haven't already implemented them, they may not help you much with the current round of tariffs. But they can help you prepare for future uncertainty.

As the proverb goes, the best time to plant a tree was 20 years ago. The next-best time is today.

Generix Group does not offer software in all the categories listed below.

Systems for manufacturers

Supply chain risk planning and assessment

New software applications can help you map the supply chains for all the items in your inventory. They can also alert you when events such as storms or new tariffs are likely to disrupt your supply chains. Some can do so even for your suppliers' suppliers.

Warehouse management systems (or WMS)

Every change to product sourcing, demand levels, or product assortment will ripple through your logistics operations.

To accommodate such changes efficiently, deploy a warehouse management system (or WMS) that offers the flexibility you'll need to navigate uncertain times.

Generix Group offers warehouse management systems built with newer technologies that enable faster implementations and easier configuration.

Manufacturing execution systems (or MES)

This software works in conjunction with your enterprise resource planning (ERP) system, your manufacturing resource planning (MRP) system, and your warehouse management system.

It's especially useful for managing light manufacturing, assembly, or kitting. Generix Group North America offers an MES that's built on the same flexible technology as the Generix Group WMS. The two systems need no integration to each other, and they are easy to configure or reconfigure.

Manufacturing planning systems

These systems enable you to plan demand for your manufactured products. They are normally linked to MRP systems. They help you buy the right ingredients or components in the right quantities for your manufacturing processes. They also help you schedule production.

Accurate forecasting will become even more important when tariffs disrupt established demand patterns.

18 Update your technology and information systems.

Systems for retailers and wholesalers

If your company is in the wholesale or retail business, also consider these software applications:

Demand forecasting and replenishment

These systems largely automate the process of buying the right amount of inventory to fulfill changing levels of demand. The best of such systems offer lead-time forecasting capabilities. They adjust safety stock levels when lead times become more variable.

Price optimization

This software helps you set optimal prices for finished goods sold at retail. It models the price elasticity of demand based on historical sales data.

Such systems accumulate data that helps retailers understand the effects on revenue and profit when retail prices change. Retailers can perform that analysis at the item level, store by store.

Assortment optimization

This software helps retailers determine the most profitable mix of items in a merchandise assortment.

If the cost goes up for items in an assortment, should the retailer pass the price increase on to customers? Or is it ultimately more profitable to take the hit on gross margin? Or to find substitute items? This software can help make these decisions.

About Generix Group

Generix Group is a global provider of software that helps our customers keep the commitments they've made to their customers. We do so by supporting companies in the digital transformation of their supply chains.

The Generix Supply Chain Hub is a collaborative platform. It enables companies to execute the physical flow of goods. They can also digitize the flow of information and easily connect to their partners in real time. The hub brings together all the players in the supply chain – manufacturers, distributors, third-party logistics providers (3PLs), and retailers.

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