IMPACT ANALYTICS

- WHITE PAPER -

Strategic Tariff Management Playbook for Apparel Retailers

Contents

Tariff Hikes in 2025

With the election of Donald Trump as the 47th US President, retailers are gearing up for increased sourcing costs across all product categories. True to his campaign rhetoric of reciprocal tariffs, his administration unveiled—for April 2nd, 2025 ("Liberation Day")—a new tariff policy imposing a minimum 10% tariff on all imports, with significantly higher rates for China (34%), Taiwan (32%), and other South Asian countries like Cambodia and Vietnam (45-50%). These tariff hikes threaten to disrupt supply chains, erode retailers' bottom line with increased COGS, and impact consumer demand.

However, just hours after the new tariff policy was due to come into effect (on April 9th, 2025), the Trump administration announced two major changes: a 90-day pause on tariff hikes (with a 10% minimum tariff still in effect), and an increase in Chinese tariffs to >100%. Such significant tariff hikes, compounded by extreme volatility in tariff policy, make efficient planning under the new tariff regime exceedingly challenging for retailers.

This white paper outlines what retailers need to consider while navigating tariff changes and outlines the steps they can take to optimize pricing, sourcing, and inventory management in the face of such unpredictability.

Impact Analytics offers AI-native pricing programs and services to empower retailers to navigate this turbulent landscape and keep their businesses resilient and competitive.

The Supply & Demand Challenges For Retail

Tariff changes require retailers to manage disruptions to both the supply and demand ends of their supply chain.

Demand Challenges:

Tariff hikes result in structural changes to the demand for products. Hence, retailers need to assess the optimal price point and promotion strategy for their products—driven by multiple factors:

- **Elasticity:** Essentials like household necessities are generally inelastic, while categories like fashion, electronics, etc. may see a sharper demand decline when prices hike.

- **Products and Category Priority:** Price changes in high-visibility items may reduce consumer traffic, and result in declining demand across other categories.

- **Product Assortment:** Demand transference within products/categories may require retailers to rationalize high-COGS SKUs.

- **Competitor Response:** Competitor pricing impacts consumer response to retailers' pricing strategy (especially for KVIs whose prices are closely tracked by consumers).

Supply Challenges

Retailers, in the short run, need to engage with existing suppliers to share tariff burdens. This might include securing temporary discounts, renegotiating contracts, etc.

- The **negotiation power of the retailer** is driven by various factors, including the availability of alternate suppliers and the percentage of business from the supplier, among other considerations.
- An additional important consideration is that **retailers also need to arrive at an optimal inventory mix and ensure that older inventories are cleared out to preserve margin integrity.**

In the long run, retailers need to diversify their supply chains and explore procurement from suppliers less affected by tariff hikes. Retailers must time the transition optimally to minimize sourcing disruptions.

Volatility in Early Tariff Periods

Tariff policy changes take time to stabilize. In the transition period, the policy may undergo several revisions, adding further complexity to retail planning.

Tariff Hikes: Response Planning

Faced with sweeping tariff changes in both scope and magnitude, retailers must strategically address critical decisions impacting both suppliers and consumers.

To navigate this evolving macroeconomic environment, it is essential to develop a focused action plan that encompasses:

Reimagining Pricing & Sourcing Strategies:

Beyond simple price changes, retailers must fundamentally reassess their pricing and sourcing strategies. This includes identifying new demand profiles and purchase patterns, negotiating with existing suppliers, and diversifying supply chains.

Flexible and Agile Pricing Architecture:

Retailers require a pricing strategy capable of rapid adaptation to fluctuating tariff policies and competitor responses. This necessitates an agile pricing framework that can swiftly integrate changing external variables.

Response Planning

Inventory Management:

As pricing actions and sourcing strategies evolve or change, existing inventory across channel partners will need to be liquidated in time for the updated-price inventory to settle in and become the **new** norm.

Centralized Strategy Control:

Traditionally, store managers and unit heads may manage pricing autonomously. However, countering tariff pressures demands strategic pricing and sourcing on key items to aid vendor negotiation and price perception.

The response timeframe for pricing, sourcing, and inventory management actions varies: short-term actions are needed to mitigate immediate margin erosion, while long-term strategies should address fundamental changes in supply chains and consumer behavior.

The following sections highlight key focus areas and a phased response strategy for retailers.

Phase 0

Early Stages (Pre-Tariff Hikes)

T-1 Day
Tariffs not announced

Focus:
- Conduct comprehensive supply chain assessment.
- Identify products or categories with high tariff risk.
- Focus on items with high tariff share in COGS build-up.

Phase 1

Immediate Future

T0 to T+30 Days
Tariffs are implemented, triggering cost structure changes

Focus:
- Prioritize products for pricing and promo actions.
- Assess how much of the tariff hike can be passed to consumers and how demand is impacted.
- Clear older inventory of price-adjusted items to reduce margin disruption.

Phase 2

Near Future

T+30 to T+60/T+90 Days
Tariff policies stabilized, market responses unfolding

Focus:
- Course correct on early pricing action as needed.
- Broaden pricing strategy to wider product assortment.
- Build a holistic framework to drive pricing decisions.

Phase 3

Medium - Long Term Future

T+90 to T+150 Days
Tariff policies finalized—with preparation for a long-term shift

Focus:
- Analyze demand shifts and purchase timing patterns.
- Clear older inventory of price-adjusted items to make room for holiday readiness.
- Advancing supply chain diversification efforts.

Phase 0 Early Stages (Pre-tariff hikes)

This phase is characterized by significant uncertainties in the market. Retailers, aware of the impending tariffs but lacking clarity on their coverage and magnitude, may be hesitant to implement major pricing and sourcing changes. The onset of tariffs will immediately alter cost and margin profiles, while initial pricing and elasticities persist, potentially causing margin erosion in the short run.

The focus in this stage should be a comprehensive assessment of the supply chain to identify products or categories with high exposure to tariff hike risk—essentially, products with a high tariff component in the COGS build-up.

Phase 1 Immediate Future (T0 to T+30 days)

In the first month of tariff hikes, retailers will face a sudden change in their cost structure. Beyond pricing changes, marketing and promotional measures are essential to communicate these changes to consumers. During this period, the older inventory will still be available, and store products will carry the older price tags.

Some of the critical decision points during this period include:

- **Which products should I prioritize for pricing actions/changes?**
- **How much tariff hikes should be passed to consumers? How will the price changes impact demand?**
- **How much tariff hikes can be absorbed by the suppliers?**
- **Can I substitute 'tariff-impacted' items with lower procurement cost alternatives? How much demand can I retain within SKUs?**
- **For items with price changes, how can I quickly clear older inventory and minimize overlap with 'new price' inventory?**
- **For items without any price change, how can I leverage the increased margin value of older inventory?**

Retailers often resort to reactive measures during this stage. However, creating a focused action plan to evaluate and update pricing and sourcing strategies can minimize margin drains.

Critical Products and Categories Identification

The priority in the first month should be optimizing the pricing strategy for the critical products and categories. While revenue/sales and tariff impact are typical filters in identifying critical products, retailers should adopt a more holistic approach and integrate other factors like growth trends, near-term seasonalities, Key Value Categories (KVCs), Key Value Items (KVIs), etc.

Elasticity Assessment

For the critical items and categories identified, robust elasticity models are essential to capture the demand impact of price adjustments. Retailers should distinguish between price elasticity and promotion elasticity, as their impacts on consumer behavior differ. Additionally, other demand drivers (seasonality and more) should be carefully isolated to truly capture underlying elasticity.

Loyalty Programs

Loyal customers exhibit lower price sensitivity. It is essential to customize loyalty programs by categories and customer segments to capture the differences in purchase behaviors. Effective loyalty programs entail optimizing multiple dimensions, such as:

- Membership Design (content and structure, product and channel/store applicability)
- Coupon and Gift Card Design (for improved redemption rates)
- Communication Design (email, SMS, WhatsApp, etc.)
- Customer Feedback Review

SKU Rationalization

Demand transference analysis can help suppliers identify product groups with similar demand profiles. This enables retailers to rationalize their product assortment by substituting high-COGS (post-tariff) items with cheaper alternatives. Here, the retailer type matters significantly:

- **Single-Brand Retailers:** The primary focus needs to be on identifying focus SKUs to prioritize in the future. This is the time to truly rationalize the assortment (overall, cluster, or store level).

- **Multi-Brand Retailers:** While assortment optimization remains a focus, retailers need to identify strategic partner brands to prioritize the 'To-Be' assortment. Brands with high tariff impacts and weak response mechanisms can be optimized.

Inventory Management

Optimal inventory management is driven by the pricing strategy.

- **Item with no price hike:** The older inventory is more valuable due to higher margin realization at no demand impact. Retailers can improve store positioning for these and re-assess selling prices to off-price channels.

- **Items with price hike:** The older inventory is a blocker to the "new normal price". Hence, clearance strategy can be utilized to quickly liquidate the older inventory.

Supplier Negotiations

While supply chain restructuring is a long-term strategy, retailers can negotiate with existing suppliers to partially absorb tariff hikes. Simultaneously, they should start actively exploring and initiating preliminary discussions with potential suppliers in countries unaffected by the tariffs.

Illustrative: Outcome by the End of Phase 1

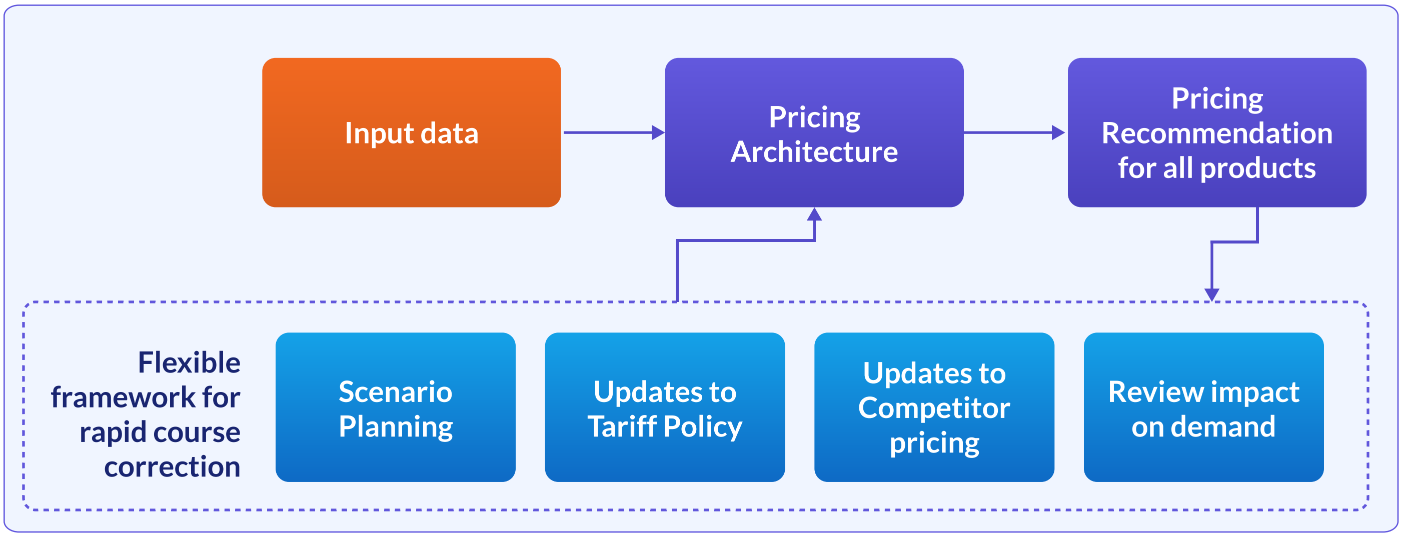
	Current State	Post First Phase
SKU Rationalization	Diverse assortment is typically based on sales velocity, profitability, and # of choices for consumers	Identify a reduction in the number of SKUs by 10-15% (potentially): • Aggressively cut SKUs with low sales and high tariff components in COGS. • Prioritize core, high-demand styles and sizes/widths. • Account for fit considerations (slim, relaxed, etc.), design variety (sleeve length, fabric, etc.), and demand transference between sizes. • Consider the impact of removing a specific item on the sales of coordinating pieces (apparel items often purchased to be worn together).
Elasticity Modeling	Long-term, higher-level elasticity models	Granular elasticity models, with near-season updates for seasonal categories: • Incorporate core vs seasonal mix; apparel generally has a higher share of seasonal items, leading to elasticity variation by season. • Account for impulse purchases (consumers are more exploratory in apparel and willing to try new trends and styles). • Compare pre-tariff elasticity approximations with post-tariff estimates.
Loyalty Program	30% coverage across # of transactions/ consumers	Increase (or plan to) coverage to 35-40%: • Offer tariff-shielded perks (free shipping, exclusive access, longer return window, etc.) to soften price hikes. • Incentivize engagement with new trends and collections, e.g., through early access to new arrivals, exclusive previews of upcoming styles, etc.
Inventory Management	Regular clearance sales and promotional activities	Items without price hike: Updated store layout with these items prominently displayed; discussions initiated with off-price retailers on new supply terms. Items with price hike: Plan for phasing out of 'old stock,' i.e., DC and store-on-hand inventory of SKUs bound to undergo a price change (as per initial plan). • Aim to support liquidation with aggressive and frequent clearances, flash sales, and bundling. • Potentially accept lower margins on existing stock to avoid holding onto expensive, less competitive inventory.
Supplier Trade Terms	Standard terms focused on volume discounts, payment terms, etc.	Set up a vendor negotiation + alternate sourcing plan: • Collaborate with suppliers on potential tariff mitigation strategies (e.g., re-routing shipments if possible). • Build flexibility clauses for future geopolitical/tariff risk-sharing.

Phase 2 Near Future (T+30 to T+60 / T+90 days)

By the end of the initial phase, tariff policies will likely have stabilized, though further modifications remain possible. The retailer's price changes and promotions, along with competitors' response to tariff hikes, would be in effect. Hence, in the second phase, the key considerations include:

- **How have consumers reacted to price changes and promotions? How has my demand been impacted?**
- **Have my price and promo elasticities changed? How can I assess that at speed?**
- **Can I accept margin losses right now to recover margin in the upcoming holiday season?**
- **How have my competitors responded to the tariff hike? What pricing changes and promotions have my competitors launched?**
- **If there are further changes in tariff policy, which of my products will be impacted? How much of my margin is at risk?**
- **Do I need to re-look at my test and learn strategy? Where can I fail fast or measure the impact best?**

The second phase provides an opportunity for retailers to course correct on prior pricing actions and extend the coverage of pricing strategy to a broader product assortment. A holistic pricing framework is essential to arrive at optimal pricing. Salient features for the pricing framework are as follows:



PROACTIVE RESPONSE AREAS	REACTIVE RESPONSE AREAS
Rapid Implementation of Pricing Actions • Early pricing changes are critical. While this may erode margins in the short run, it allows sufficient time for consumers to get accustomed to the new pricing regime, thus minimizing demand impact during the holiday period. • Margins lost during the early periods can be regained during the peak holiday season.	**Incorporating Competitor Response** • Retailers can compare competitors' responses to their pricing changes across critical products and categories. • This is a continuous process, and retailers' pricing strategy should be updated periodically based on competitor price indices.
Flexible and Agile Pricing Architecture • The second phase is anticipated to bring further tariff policy adjustments and competitor responses. • Therefore, the pricing framework must possess significant flexibility to readily integrate these changes and generate updated recommendations.	**Scenario Planning** • Retailers should estimate revenue and margin impact across different tariff hike scenarios, including any follow-up tariff changes. • This allows quick response if any new updates to the tariff policy are implemented by the government.

Illustrative: Outcomes by the End of Phase 2

	Current State	Post Second Phase
SKU Rationalization	Diverse assortment is typically based on sales velocity, profitability, and # of choices for consumers	The number of SKUs was reduced by 10-15% by phasing out SKUs identified in the first phase.
Pricing Architecture	Higher-level price models based on historic sales	Granular and agile model, with a price increase to pass on a ~20% tariff-linked cost hike to consumers: • Prepare for follow-up pricing actions by SKU cluster based on response observation and competitor pricing. • Strategic price increases on inelastic or iconic products. • Explore variable market pricing based on region-specific factors such as local demand, regional events, competitor footprint, demographic indicators, etc.
Inventory Management	Regular clearance sales and promotional activities	**Items without price hike:** New terms agreed with off-price retailers, potentially adjusting both supply quantity and price. **Items with price hike:** 50-60% of old stock cleared in preparation for the holiday season; implement second and deeper markdowns for remaining tail items.
Supplier Trade Terms	Standard terms focused on volume discounts, payment terms, etc.	Negotiations finalized for 40-50% suppliers, catering to high volume/revenue items; target 30-40% cost absorption by the supplier: • Greater potential for cost absorption for items with many alternate suppliers. • Collaborate with suppliers on expected demand forecasts/merchandise plans; early and accurate assortment estimates can help suppliers optimize their manufacturing plan, raw material sourcing, etc. • Updated MOQ terms to allow flexible buying based on demand variations.

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Supply Chain Diversification	Reliance on a few countries	Explore suppliers from alternative countries and close preliminary discussions with new suppliers: • Identify regions with established apparel manufacturing expertise and capacity for the specific types of items being produced. • Assess the quality, lead times, and volume capabilities of new suppliers.

Efficient and proactive tariff responsiveness in the first two phases (~90 days) serves as a "canary in the coal mine" for the retail industry aiming to mitigate short-term impact while setting up a strong rebound in the mid-to-long term. It also equips retailers with essential data on consumer response to tariff hikes.

Retail sales are thumping during this period, and consumers are likely to pull forward sales in anticipation of the tariff impact.

The key questions that retailers should have strong analyses and viewpoints on after the 2nd phase are:

- **What products or categories saw reduced sales? Are these priority categories for the business? Have consumers purchased any alternatives to the categories?**
- **Have consumers advanced their purchases in anticipation of further tariff hikes? Which products and categories have been most impacted, and how much is the extent of this a pull-forward purchase?**
- **Is there a difference between e-com, and brick and brick-and-mortar sales trends?**
- **Has the sales trend varied by geography?**

Phase 3 Medium - Long Term Future (T+90 to T+150 days)

By the end of the second phase, tariff policy would be largely finalized, with minimal future changes anticipated. The new prices will have been in the market long enough to drive structural shifts in consumer behavior. Supply-side negotiations with existing vendors will be in their final stages, and the retailer will have identified suppliers from new geographies.

These early changes in consumer trends must be reviewed thoroughly for any course correction in the pricing strategy. Additionally, the pricing actions are taken in the April–June 2025 quarter, which means Christmas is around the corner.

Critical considerations for the third phase include:

- **How can I maximize margin during the holiday season to recoup margin erosion during earlier phases?**
- **For items with price hike, has my older inventory been cleared to ensure sufficient store and DC capacity for the holiday season?**
- **Can I set up contracts with new suppliers? How soon can I start procurement from these new contracts?**
- **Are they, thus, in a position where new price and promo elasticities are stable enough for holiday discount planning?**

Therefore, the third phase should see retailers focusing on optimizing holiday promotions and clearance initiatives, and advancing supply chain diversification efforts.

Illustrative: Outcomes by the End of Phase 3

	Current State	Post Third Phase
Elasticity Modeling	Long-term, higher-level elasticity models	New elasticity models are in place for all SKUs. An agile response mechanism is ready with a pricing war room. Secondary effects under assessment for pricing tweaks (eg, pull-forward estimations in place, cannibalization of new SKUs, etc.). Follow-up pricing strategy ready for a new round of pricing actions on a need basis.
Promotion Strategy	Regular seasonal promotions, typically ~40%	Reduce promotional discount by ~5-10%: • Avoid deep discounts for luxury apparel. • Use bundling, member-only pricing, and limited-time events to maintain perceived value. • Plan inventory to support promotions in a more price-sensitive but margin-squeezed environment.
Supplier Trade Terms	Standard terms focused on volume discounts, payment terms, etc.	Negotiations finalized for all existing suppliers; target 30-40% cost absorption by the supplier: • For suppliers unwilling to absorb, assess early closure/termination if alternate suppliers are available.
Supply Chain Diversification	Reliance on a few countries	Finalize contract with new suppliers; target increasing supplier count by 10% (especially in high-volume categories).
Merchandising Plan	Top-down and high-level	Collaborative and granular. • Incorporate changes in pricing, promotions, markdowns and inventory. • Well-connected to the long-range sourcing plan, rough-cut capacity plan, raw materials plans (supporting pre-buy and pre-build activities to smooth peaks).

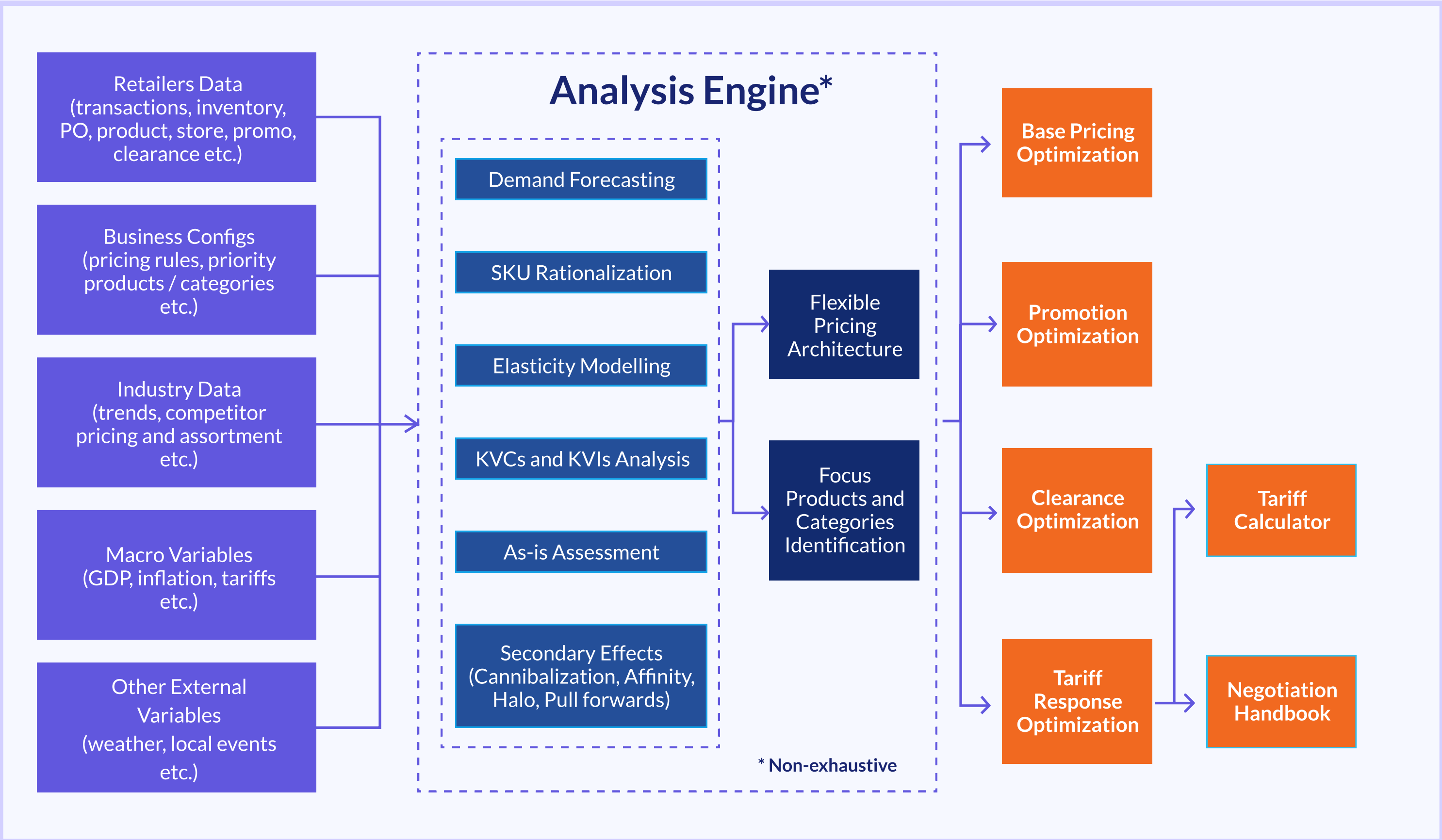
Pricing Architecture

Impact Analytics has vast experience with retailers across industries and can help define a **flexible pricing architecture for those navigating the changing tariff scenario, ensuring both reactive and proactive pricing management at speed.**

Approach

Impact Analytics follows a multi-pronged approach and leverages advanced AI/ML modeling techniques to recommend optimal pricing responses. The recommendations are continually tested and monitored to identify improvement areas.

An overview of the Impact Analytics pricing approach is shown below. **Different levers can be utilized by retailers to inform, enrich, or support their tariff mitigation strategies.**



1. Demand Forecasting & Elasticity Modelling

Objective: Understand the headroom for price change actions and predict the impact on demand levels.

Utility: As retailers plan out pricing actions, it is critical to understand the price & promo elasticities of each Style/SKU to ensure informed decision-making that maximizes revenue (or other target metrics) while minimizing the risk of volume loss or customer churn. AI-led demand forecasting strengthens the demand impact.

2. KVC, KVI Analyses & SKU Rationalization

Objective: Identify top, critical SKUs and identify the scope for assortment optimization through rationalization.

Utility: By identifying Key Value Categories (KVCs) and Key Value Items (KVIs), businesses can prioritize high-impact SKUs that drive margins or traffic, price perception, and sales. Subsequently, SKU rationalization helps streamline the assortment by removing low-performing or redundant items, improving inventory efficiency, reducing operational complexity, and allowing retailers to deploy a focused pricing architecture.

3. Competitive Benchmarking

Objective: Assess competitive price response and tweak pricing strategies to stay within the target pricing index.

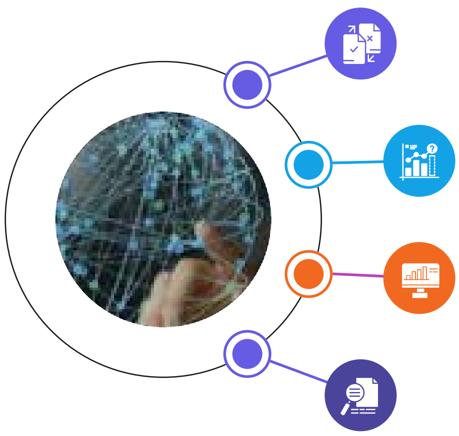
Utility: As retailers take action, competitors will figure out their respective pricing strategies and potentially update prices soon. Web scraping, syndicated data, and other market intelligence platforms can enable retailers to define guardrails for competitive price indices and change/revert pricing actions to maintain parity.

Test & Learn - A Crucial Lever in Successful Flexible Pricing Architecture

Impact Analytics can support the validation of pricing recommendations through a structured test and learn framework. We will conduct and analyze robust experiments and course-correct pricing actions if required.

The Impact Analytics Test and Learn Approach

Four critical components need to be designed and executed for a successful test exercise:



Test and Control Set
- Test the idea in a small subset of the business versus control.
- Identification of test and control sets for pilots.
- Both sets should be similar on key attributes that matter.

Parameters of Test
- Right choice of critical parameters like sample size, purchase history, demography etc.
- Historic data and statistical methods utilized.

Monitoring
- Continuous data gathering and analytics on performance.
- Thresholds for instant roll-back to cut short any negative effects.

Infer and Act
- Draw out inferences from sample set for whole population.
- Dive into results to identify tailoring and targeting opportunities.
- Estimate potential gain / loss and future course of action determined based on results.

Coverage of Impact Analytics Test and Learn Solution & Approach

Impact Analytics can analyze both pricing and promotion actions to validate and course-correct recommendations.

Marketing and Promotions

Some of the tests supported by Impact Analytics are as follows (non-exhaustive):

- Offer design applicability, structure, and depth (Buy 1 Get 1 vs 50% discount, All Products vs Clearance Only).
- Channel-specific offers and promotions vs cross-channel (Web Only vs Offline).
- Bundling and tiering (Buy 1, Get $30 off, Buy 2, Get $50 off).
- Promotion-specific customer segmentation (which promotions work best to induce purchase).
- Promotion execution (email and messaging content, in-store placement, e.g., entry vs payment desk, marketing collateral design and placement, etc.).

Pricing

Some of the tests supported by IA are as follows (non-exhaustive):

- New product launch pricing (optimal pricing for the new item - $34.99 vs $30).
- Competition benchmark pricing (response to competition: no change in price vs price decrease).
- Cross-channel effect (price increase in one channel and sales impact on the other).
- Sales volume and velocity (price decrease vs discount on slow-moving items).
- Affinity and cannibalization (how pricing affects related products).
- Subscription, membership, and gift card pricing.

Impact Analytics also supports tests around merchandising and product recommendations, CRM, and store layout management.

Impact Analytics Tariff Management Program

Impact Analytics tariff management program is designed to help retailers with an end-to-end tariff response program aimed at arresting potential revenue and margin erosion from tariff-linked input cost pressure.

Key Deliverables

Final Pricing Recommendation

Pricing action is recommended at the category or SKU level. Expected sales, revenue, and margins are compared across three price points:

- Optimal price point
- Tariff hikes are fully passed to the consumer
- Tariff hikes are fully absorbed by the retailer

Tariff Calculator

In addition to the SKU-level optimal pricing strategy, Impact Analytics also provides a calculator to estimate metrics at different tariff changes and price points. The tool enables merchants to create different scenarios and update the pricing strategy accordingly. Additionally, the tool has a "Simulator" section that allows users to drill down calculator output and estimate metrics at different price and cost points.

Key features of the tool include:

- **Scenario Analysis:** Facilitates "what-if" simulations with multiple scenarios, allowing users to explore various combinations of tariff changes, sourcing locations, and pricing responses.
- **Minimal Input Requirements:** Baseline metrics, product-channel elasticities, and other supporting variables are auto-calculated by the tool.
- **Flexible Granularity:** Analysis supported at multiple product hierarchy levels, making the tool suitable for CXO reports as well as merchant working team.

For each product hierarchy selection, the calculator outputs:

- Change in unit cost and price
- Expected sales, revenue, and margins for all scenarios
- Deep-dive simulations across different price and unit costs

Sample Output:

Cost hike absorption			AUR and AUC Impact		Quantity Impact		Revenue Impact		Margin $ and GM% Impact			
Cost change passed to Vendor	Cost change passed to consumer	Cost change absorbed	New AUR	New Cost per Unit	Weekly Quantity at new AUR (expected)	Percent Change in Weekly Quantity	Weekly Revenue at new AUR	Percent Change in Weekly Revenue	Weekly GM$ at new AUR and Cost	Percent Change in Weekly GM$	GM% at New AUR and Cost	Change in GM%
0%	0%	100%	$55.28	$24.70	713.60	0.00%	$39,448	0.00%	$21,824	-1.24%	55.32%	-0.70%
0%	5%	95%	$55.30	$24.70	713.32	-0.04%	$39,445	-0.01%	$21,829	-1.22%	55.34%	-0.68%
0%	10%	95%	$55.32	$24.70	713.03	-0.08%	$39,443	-0.01%	$21,834	-1.20%	55.36%	-0.67%
0%	15%	85%	$55.34	$24.70	712.75	-0.12%	$39,441	-0.02%	$21,839	-1.18%	55.37%	-0.65%
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All combinations of consumer and vendor cost absorption covered

Calculated from share of cost absorbed by vendor and consumer

Expected sales, revenue and margin metrics at each price point

Simulator linked to Calculator tool – deep-dive for the scenario user has selected

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Negotiation Handbook

To support cost pricing negotiations with suppliers, we created an Excel-based handbook for merchants. The handbook recommends pricing action for each vendor and quantifies the impact of vendor negotiation.

Below are the key features of the handbook:

- **Style level Granularity:** Pricing recommendation (retain price, increase price, or negotiate purchase price) provided for each vendor-style combination.
- **Negotiation Leverage:** Supporting discussion points provided for supplier negotiations.
- **Standardized Decision Framework:** Incorporates vendor and style priority, margin erosion, and other factors into a comprehensive framework, ensuring consistent decision-making across all vendors.
- **Scenario Analysis:** Recommendations based on user-input values for tariff hikes & vendor negotiation effectiveness; multiple scenarios can be simulated.

For each style and supplier combination, the handbook details:

- Pricing Action (as per user input tariff hike)
  - Absorb Cost Hike (retain current selling price)
  - Pass Cost Hike to Consumer (increase selling price)
  - Pass Cost Hike to Vendor (negotiate purchase price)
- Expected Margin Erosion (as per user input tariff hike)
- Discussion Points for Vendor Negotiations

Sample Output (Summary View)

Tariff Increase	Vendor Cost absorption	Pricing Action	# Vendor Styles	Revenue $	Gross Margin %			
					Current GM %	Margin % (no vendor cost absorption)	Margin % (with vendor cost absorption)	GM $ decline arrested
Scenario 1: 15% for all countries	30%	Negotiate with Vendor	446	$201.3 M	59.7%	54.7%	56.2%	$3.1M
		Increase Selling Price	702	$39.7 M	58.7%	53.7%	-	-
		Retain Selling Price	740	$17.2 M	62.5%	59.6%	-	-
Scenario 2: 30%: China 30%: Taiwan 30%: HK 20%: Mexico	20%	Negotiate with Vendor	545	$201 M	60.1%	53.1%	54.5%	$2.8M
		Increase Selling Price	796	$22.0 M	57.5%	49.8%	-	-
		Retain Selling Price	547	$35.1 M	59.1%	59.0%	-	-

User can input different scenarios for (a) tariff hike (overall or split by country) and (b) cost hikes absorbed by vendor (overall or split by product)

Sample Output (Vendor and Style View)

Vendor ID and Name	Vendor Country	Total Units Procured	Total Procurement Cost ($M)	# Products Procured	# Products requiring sourcing cost negotiation	# Products where cost hike absorbed by Retailer	# Products where cost hike passed to consumer
Vendor A	China	14,891	3.3	197	66	45	86
Vendor B	China	9,129	1.7	165	57	36	72
Vendor C	Hong Kong	7,056	1.1	141	56	28	57
...							

Product ID and Descript ion	Vendor ID and Description	Total Units Procured	Total Procurement Cost	Elasticity	KVC / KVI Classification	Expected Tariff Hike	...	Pricing Action
Product 1	Vendor A	1,256	$247K	High	Traffic Driver	5%		Retain Selling Price
Product 2	Vendor B	979	$242K	Medium	Basket Builder	10%		Negotiate with vendor
Product 3	Vendor C	847	$141K	Low	Not a KVI	10%		Increase Selling Price
...								

Validation of Pricing Recommendation

Impact Analytics works closely with category leadership, store sales teams, and other relevant stakeholders to align and update (if required) the pricing recommendation. Furthermore, Impact Analytics creates a test roll-out plan and closely monitors the performance of test and control stores to assess the impact of pricing action.

Category Leadership Feedback

- Alignment on priority for impacted categories
- Handover of key pricing objectives, guardrails by category
- Playbook generation & handover, reporting metrics alignment
- Alignment on 'To-Be' Margin projections & pricing actions

Continuous Monitoring

Test and Learn Plan setup

- KPI alignment
- Store-level execution plan
- Success criteria definition

Store sales and operations inputs

- Top selling products
- Shopper mission / Competitive intensity-based overrides

Delivery Modality

A dedicated team will be set up to manage the tariff program. A typical team structure consists of a Director, Project Leads, Data Science Leads, Pricing SMEs, Analysts, Technology support, etc.

Business discovery workshops are conducted early in the program, to gain a better understanding of existing business. A regular meeting cadence is set up to align program direction and outcomes.

Case Study

We recently supported a leading US-based fashion and accessories retailer, to plan for expected tariff hikes after the US presidential elections.

Context and Objective

The client has annual revenue of ~$2 Bn USD and is spread across 130+ stores in the US. A significant share of the client's procurement is from Chinese suppliers. Hence, the client is at high risk from tariff hikes. The client wants to (a) develop a comprehensive pricing strategy to minimize revenue and margin erosion and (b) manage negotiations with vendors across all impacted products.

Program Delivery

Analysis and Insights

The below analysis and insights have been generated. Please note that further engagement with the client to refine and sign off on the analysis is ongoing. Hence, the below findings may undergo a few updates.

Term	Potential Variables	Implications
Revenue Pareto	• Revenue contribution by category and style • Focus on 2024 data to capture latest trend	Highly skewed revenue contribution: ~30% of styles contribute to ~80% of total revenue in 2024
Elasticity Spread	• Model demand sensitivity to change in price • Delineate impact of stock-outs or high sell throughs	Retailer's business primarily has medium-high elasticity: ~70% styles have more than unit elasticity
Tariff Contribution	By each style and category, check: • Country of sourcing and tariff rate • Share of tariff cost to total landed cost"	- While imports are a significant contribution to total procurement, tariff costs contribute a small share to total landed cost - China and Hong Kong contribute the highest volume of imported goods
Supplier Concentration	• Check number of supplier by each style and category	- The procurement is highly concentrated: only ~5% of styles have >1 supplier - However, multiple suppliers are available for a subclass/class/category; these can serve as alternate suppliers for the style
Style Priority for Negotiation	• Assess priority styles for supplier negotiation based on above analysis	- While the total number of styles procured in 2024 was ~18K, <10% requires negotiation with supplier - For the remaining styles, the sourcing cost can be held constant, thus allowing negotiation leverage to the retailer

Recommendations

The recommendations for pricing action are generated based on style characteristics, as derived in the above analysis. One of the following three pricing actions is recommended:

- **Retain Current Selling Price:** Minimal changes in the current selling price; hence, the majority of the tariff hike is absorbed by the client (retailer).

- **Increase Current Selling Price:** Pass on a significant share of the increased cost from tariff hike to the consumer.

Negotiate Purchase Price with Supplier: Reduce purchase price to pass on a significant share of increased cost to the supplier.

The coverage (by style count) of the above pricing actions is as below:

Increase Current Price

Style Characteristic:

- High revenue contribution AND
- Low elasticity AND
- High share of tariff to total landed cost

Minimal impact on demand with price rise – tariff hike can be absorbed by consumer

Negotiate Purchase Price with Supplier

Style Characteristic:

- High revenue contribution AND
- High elasticity AND
- High share of tariff to total landed cost

Negotiation Support:

- Overall, very few styles require negotiation
- Selling price hike will reduce demand, impacting both retailer and supplier

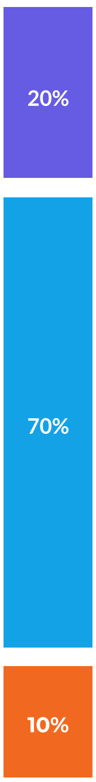
Increase Current Price

Style Characteristic:

- Low revenue contribution OR
- Low share of tariff cost to total landed cost

Negotiation Support:

- Overall, very few styles require negotiation
- Selling price hike will reduce demand, impacting both retailer and supplier



Coverage by Style Count

Negotiate Purchase Price with Supplier

Style Characteristic: High revenue contribution and High elasticity and High share of tariff to total cost.
Negotiation Support:

- Overall, very few styles require negotiation.
- Selling price hike will reduce demand, impacting both retailer and supplier.

Retain Current Price

Style Characteristic: Low revenue contribution OR Low share of tariff cost to total cost

Retaining the current price for these styles has limited revenue impact on retailer, while signalling to the consumer that prices have not changed

Increase Current Price

Style Characteristic: High revenue contribution AND Low elasticity AND High share of tariff to total cost.

Minimal impact on demand with price rise – tariff hike can be absorbed by consumer

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