BEATING RETAIL TARIFFS WITH TECHNOLOGY

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With the holiday retail season upon us, some brands are executing strategies to counter the effects of tariffs on certain Chinese imports, including price increases and the relocation of offshore production operations to tariff-free countries. These strategies may not be an ideal or sustainable response to the tariff increases, however, as the price increases may diminish shopper buying power, and relocating production can be a costly and intensive endeavor that can take a very long time to implement.

Instead, retailers can look to technology as possibly a smarter and more effective solution. By utilizing technologies that may improve efficiency and reduce operating costs, retailers can not only minimize any potential tariff effects, they can also achieve significant return on investment.

The Challenge of Tariffs in Retail

In May, the U.S. government increased the import tariff from 10 percent to 25 percent on $200 billion in Chinese goods. In addition to food and raw materials for manufacturing, the tariff applies to a variety of retail categories, including electronics, appliances, watches, furniture, and jewelry. As of Sept. 1, most clothing and shoes imported from China became subject to a 10 percent tariff. In 2018, 42 percent ($23.5 billion) of women's and girl's clothing and shoe imports came from China. For men and boys, Chinese products account for 26 percent ($10.9 billion) of imports.

Industry experts, including the Retail Industry Leaders Association (RILA), predict tariffs will lead to additional price increases on clothing and shoes as well as other retail products. Higher prices can cause consumers to purchase fewer items or reduce cart size by purchasing lower-quality items. Either way, that can translate to less revenue for retailers.

As a countermeasure, some retail brands are contemplating the relocation of offshore production centers to countries not currently being considered for tariff increases. However, the relocation of offshore production isn't a panacea for retailers. By nature, relocations are costly and complex, and few countries offer the same infrastructure and labor market as China or Mexico, which can make offshore relocation risky, at best.

As a financially conscious retail leader, you need a better strategy.

Closing the Gap With Technology

Tariffs represent an added — and unavoidable — cost to your business. Since eating the cost of a tariff by itself isn't an appealing or financially realistic option, you need to reduce costs in other areas. If your strategy delivers additional benefits to the business, even better.

In the current retail environment, technology improvements can mitigate the impact of tariffs and create additional long-term benefits for your brand. Instead of raising prices or relocating offshore production centers, you can use targeted technology investments to achieve efficiency improvements and actual cost savings.

Technologies and tactics to consider include the following:

Enterprise resource planning (ERP) software: ERP solutions reduce costs through the optimization of inventory. Whether you're implementing ERP for the first time or upgrading your existing solution, an ERP investment can improve your ability to stock the right amount of inventory at the right time. Smart purchasing tools, warehouse management features, analytics, mobile computing, and direct international shipping capabilities can sweeten the pot and help offset the financial impact of tariffs.

Cloud migration: The migration of data and software to the cloud can deliver permanent savings by reducing or eliminating the costs of on-premise hosting and staff requirements for in-house servers. Across industries, today's cloud has proven itself as a reliable and secure computing environment. When combined with a state-of-the-art ERP solution, cloud migration delivers a powerful one-two punch in the form of cost savings and operational efficiency.

Enhanced automation: Most retail brands already leverage automation to some degree, however, the tariff increases present an ideal opportunity to identify additional automation targets. Barcode scanners, automated warehouse conveyors, robotics, blockchain, Internet of Things, and other innovations can deliver efficiencies and reduced operating costs that lead to significant growth for your brand.

In times of trade instability, doing nothing isn't the best option. Instead of raising prices or relocating offshore production centers, consider the opportunities technology offers your business. By investing in the right technologies, you can soften the impact of tariffs, outpace your competitors, and set your business up for sustained improvement over the long term.