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Chief Supply Chain Officer Exchange Debrief

Preparing for tariffs and shifting supply chains

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Introduction

As the new US presidential administration reshapes trade dynamics and takes aim at regulatory frameworks, global supply chains face a critical juncture. On January 30, Ernst & Young LLP (EY US) and the Consumer Brands Association (CBA) brought together industry leaders at the CBA's Chief Supply Chain Officer Exchange to discuss the threat of new tariffs on imports from Canada, Mexico and China. With a potential 25% tariff on Canadian and Mexican goods, a new 10% levy on Chinese imports and a new 25% tariff on steel and aluminum, urgent questions are emerging about the future of trade agreements and their implications for long-term investment in the consumer products (CP) sector, as well as the short- and long-term effects on CP supply chains.

This Supply Chain Exchange Debrief distills the key insights and strategies shared during the event, providing a strategic framework for navigating the complexities of an uncertain trade landscape. As we explore these discussions, the imperative for supply chain resilience and adaptability becomes increasingly evident. Notably, as of this writing, the 25% tariffs on Canada and Mexico, set to take effect February 4, were on hold for 30 days while negotiations continued. Meanwhile, the 10% levy on Chinese imports did commence February 4, prompting retaliatory measures, including additional tariffs on US liquefied natural gas, coal and farm machinery effective February 10. Also on February 10, President Trump announced 25% tariffs on imports of steel and aluminum. Those expected to be hit hardest by these duties include Canada, Mexico, Germany, and Asian exporters, with retaliatory measures expected.

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Macroeconomic impact of the tariffs

When President Trump initiated a trade dispute during his first term, the new taxes on US trading partners sparked chaos and drew sharp criticism from free trade advocates. Food and beverage companies encountered higher costs for imported aluminum and faced a slight decline in export opportunities due to retaliatory tariffs. However, the sequel to that trade dispute, as outlined by Trump for his second term, could have significant and far-reaching consequences.

Economists at EY US conducted a scenario analysis predicting the effects of imposing 25% tariffs on all merchandise imports from Mexico and Canada, along with a 10% tariff on products from China, starting in Q1 2025. This analysis assumes reciprocal tariffs, 1% appreciation of the US dollar and steady Federal Reserve policymaking.

The findings suggest significant negative repercussions for the US economy, with real GDP projected to decline 1.5% in 2025 and 2.1% in 2026. Consumer price inflation could rise 0.7 percentage points in Q1 and an average of 0.4 percentage points throughout 2025. While this inflationary pressure may be temporary, factors such as demand destruction and a hawkish Federal Reserve could ultimately lead to disinflation.

For Mexico, where US exports account for about 30% of GDP, the impact would be severe, with real GDP expected to drop 1.6% in 2025 and 4.5% in 2026. Canada would also face significant challenges, with real GDP projected to fall 2.7% in 2025 and 4.3% in 2026.

Overall, the proposed tariffs could trigger a cascade of economic challenges, highlighting the intricate interconnectedness of global economies and raising urgent questions about the future of trade in the region.

Tariffs on Mexico, Canada and China could lead to negative economic impacts and a significant inflationary impulse

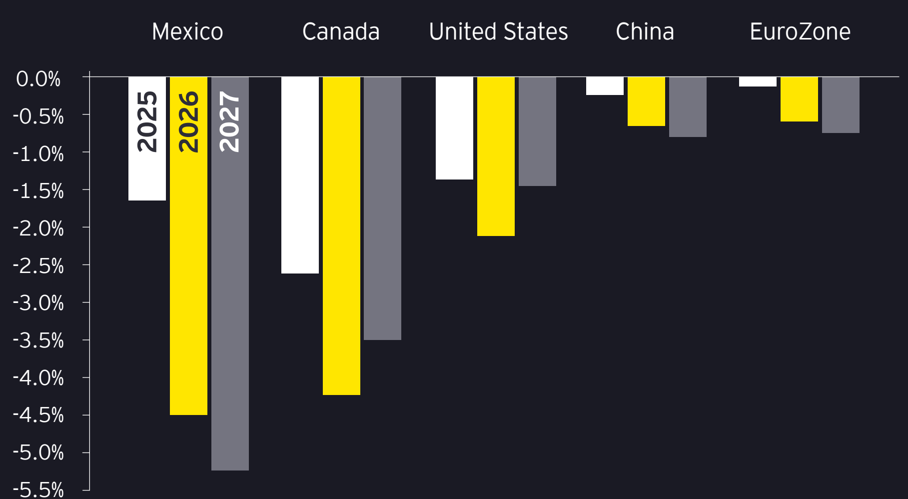

Figure 1. Mexico/Canada/China tariff scenario[1]: Global impact on real GDP level
% difference relative to baseline

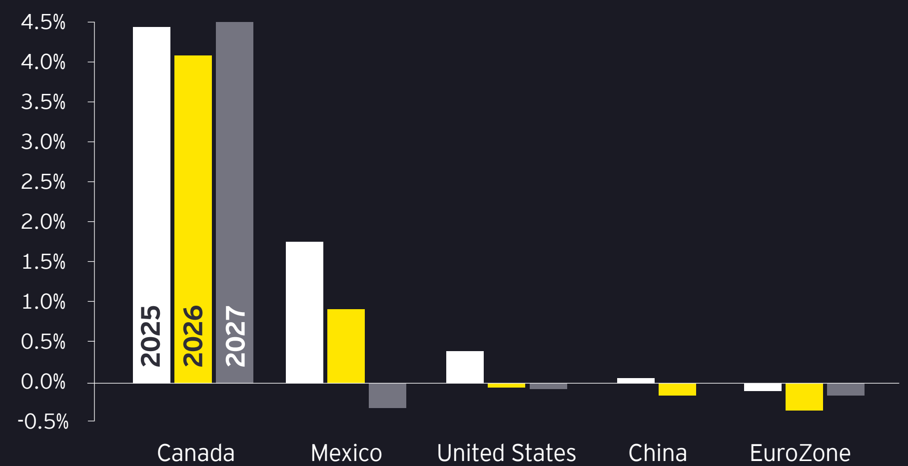

Figure 2. Mexico/Canada/China tariff scenario[1]: Global impact of CPI level
% difference relative to baseline

1. This scenario reflects the Imposition of 25% tariffs on all merchandise Imports from Mexico and Canada and 10% tariffs on imports from China starting in Q1 2025. We assume that all three respond with in-kind tariffs while the US dollar appreciates 1% and the Fed doesn't ease policy faster than in the baseline.

Navigating trade uncertainty

In this climate of global trade uncertainty, CP businesses are compelled to reassess their supply chain strategies. At the Chief Supply Chain Officer Exchange, CP leaders engaged in critical discussions about risk exposure, focusing on immediate actions while also exploring medium- and long-term strategies.

Participants underscored the need to differentiate between "strategic tariffs," such as the postponed 25% levies on imports from Canada and Mexico, and less impactful "one-off" tariffs, like those portended against Colombia over its then-refusal to accept deportees. Attendees are now delving deeper into their supply chains, with one leader highlighting a shift toward analyzing "two or three layers upstream" to understand the sourcing not only of key ingredients but also of the materials used to produce them.

Drawing on lessons learned from the previous Trump administration, these leaders are integrating risk assessments into their forecasts and employing holistic scenario modeling. This expanded focus now includes considerations of domestic supply availability and pricing, as many manufacturers may pivot to local sourcing. Overall, the strategies discussed at the Exchange included implementing robust supplier risk management protocols, leveraging technology to enhance resilience and developing comprehensive contingency plans to effectively navigate the complexities of a changeable trade landscape.

Exchange insights

During the Exchange, CP companies explored several strategic actions to navigate the challenges posed by tariffs. These insights reflect a proactive approach among CP leaders as they navigate the complexities of an evolving trade landscape:

1. **Cost mitigation:** Companies are looking to mitigate cost increases by accelerating productivity initiatives and collaborating with strategic partners to share the financial burden.
2. **Supply chain continuity:** To protect uninterrupted supply, particularly for growth sectors, firms are taking proactive measures to secure materials and avoid stockouts. This includes assessing longer-term supply assurance, especially for materials sourced from single countries.
3. **Product formulation evaluation:** While considering reformulation options, companies are cautious about immediate changes. They are examining flexible ingredient formulations, recognizing the potential impact on consumers and brand integrity.
4. **Revisiting long-term plans:** Discussions around medium- and long-term strategies are being accelerated, but major decisions regarding domestic production are on hold due to ongoing uncertainty.
5. **Policy influence:** Companies are collaborating with the CBA to advocate for targeted tariffs and exemptions, aiming to shape favorable trade policies.

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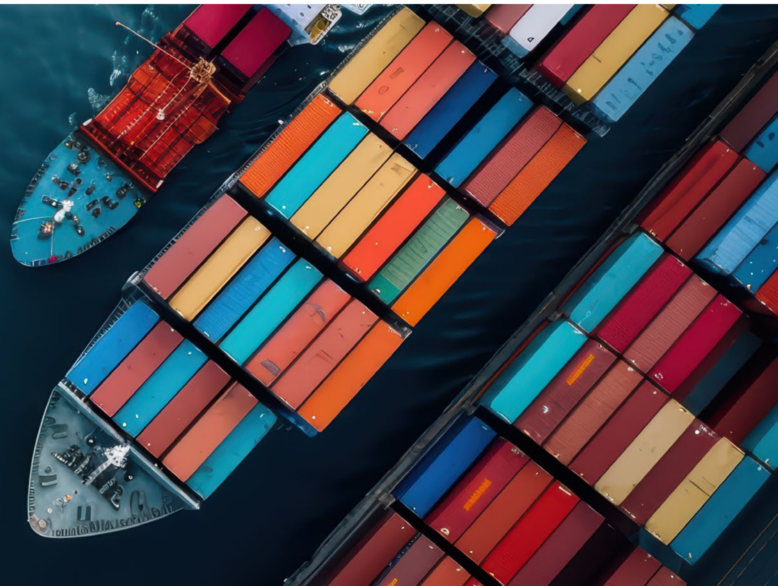

Proactive risk assessment

CP companies must proactively assess their risk exposure to shifting trade policies. Key strategies include diversifying supply sources, mitigating cost increases and reimagining supply chain structures. This comprehensive, multidisciplinary approach requires careful consideration of various factors, including risk management, tax and trade implications, operating models and overall supply chain dynamics.

Navigating trade complexities

To effectively navigate these complexities, companies must address immediate priorities while simultaneously planning for medium-term optimizations. Some may also need to consider bold strategic shifts. Key actions for companies to prioritize now, plan concurrently and strategize for the future are detailed in the chart below.

Companies need to execute against near-term imperatives and plan optimizations for the medium-term, while some may need to consider bold strategic moves

	EXECUTE NOW	PLAN IN PARALLEL	STRATEGIZE NEXT
Diversifying supply	▪ Build inventory buffers where appropriate to mitigate disruptions. ▪ Identify alternative suppliers and locations within your network, reallocating order volumes as needed. ▪ Secure supply assurances from key suppliers to enhance reliability.	▪ Evaluate alternate suppliers and locations outside your network and shift sourcing and manufacturing. ▪ Adjust warehousing and transportation networks to optimize revised inbound and outbound flows.	▪ Assess your make-vs.-buy strategy and explore asset-light options to enhance flexibility.
Mitigating cost increases	▪ Engage with industry coalitions to lobby for exemptions. ▪ Assess your leverage with suppliers. ▪ Evaluate the necessity and potential for price increases, and prepare customer communications. ▪ Accelerate existing productivity initiatives to offset rising costs.	▪ Renegotiate supplier contracts to share the financial impact. ▪ Raise prices on products where you have pricing power. ▪ Reset cost reduction targets and initiate more ambitious cost-saving initiatives.	▪ Review the bill of materials (BOM) to identify opportunities for re-engineering or reformulation. ▪ Assess the potential benefits of increased investment in automation and digitization.
Gaining an advantage	▪ Assess your supply footprint against competitors to identify current cost advantages. ▪ Develop a strategy to leverage these advantages and enhance your value proposition to customers and consumers.	▪ Recalibrate share and margin targets while implementing targeted go-to-market actions. ▪ Assess medium-term cost advantages, factoring in the potential impact of policy changes.	▪ Reassess brand positioning to enhance market competitiveness. ▪ Evaluate your business portfolio and consider exiting unsustainable markets.
Reimagining the supply chain	▪ Re-evaluate strategic and capital investments in light of current uncertainties, with a focus on the impact of strategic tariffs.	▪ Evaluate the feasibility of regional supply chains, including near-shoring options. ▪ Consider reshoring initiatives, factoring in the potential effects of deregulation, tax cuts, energy policy and immigration. ▪ Explore opportunities for strategic partnerships. ▪ Assess potential changes to your operating model.	

Conclusion

In today's volatile trade environment, companies must act decisively to address immediate challenges while planning for the future. By diversifying supply sources, controlling costs and reimagining supply chain structures, consumer products companies can enhance resilience and maintain competitiveness. Key immediate actions include building inventory buffers and collaborating with industry coalitions while also assessing alternative suppliers and refining operational strategies for efficiency. For sustained success, reassessing brand positioning and exploring reshoring initiatives are essential. The time to act is now. Implement these strategies to navigate trade complexities and position your company for success.

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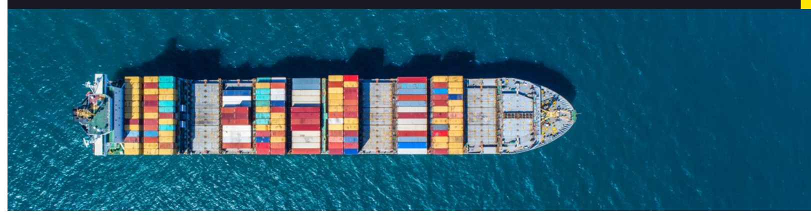

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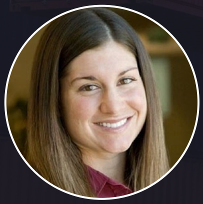

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