HOW TARIFFS CAN IMPACT YOUR BUSINESS AND HOW TO PREPARE

WEBINAR PRESENTED BY

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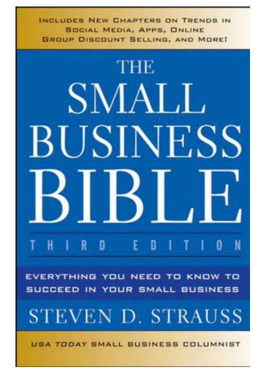

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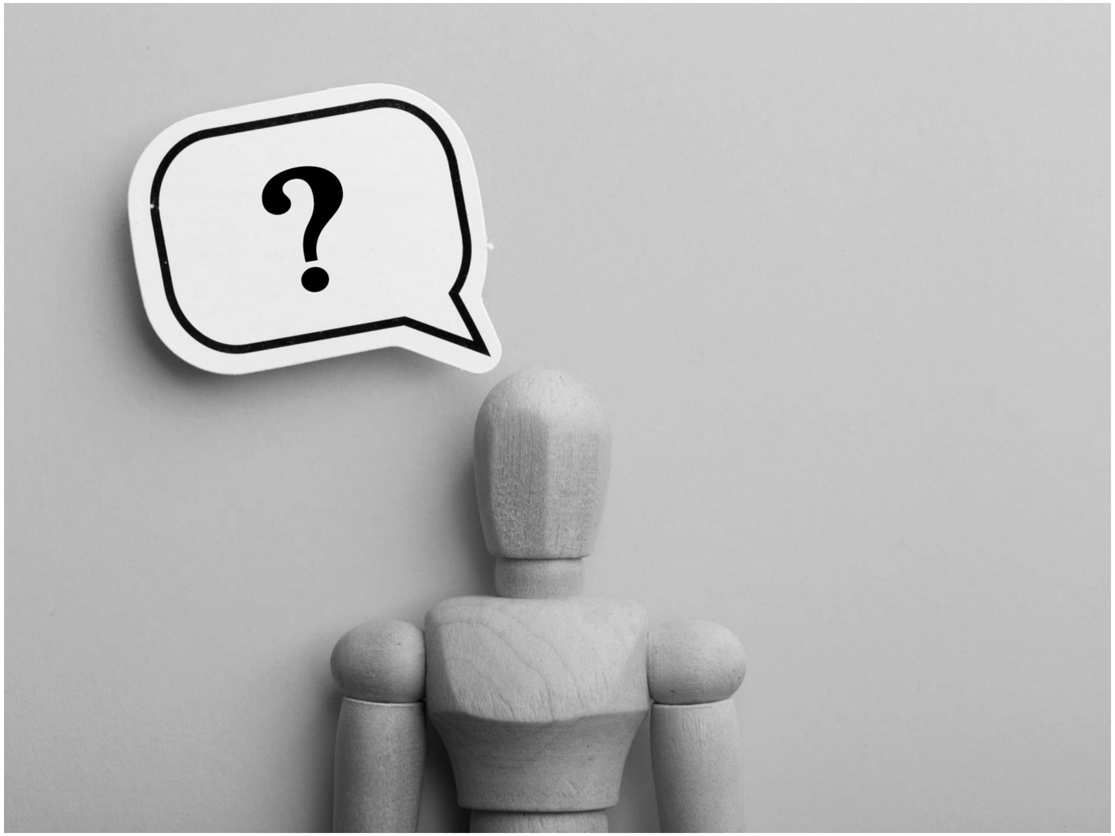
TODAY'S WEBINAR

1. WHAT ARE TARIFFS AND HOW DO THEY WORK?
2. HOW TARIFFS CAN AFFECT YOUR BUSINESS
3. WHAT YOU CAN DO IF YOU ARE SUBJECT TO A TARIFF

1. WHAT ARE TARIFFS?



WHAT ARE TARIFFS?

- A tariff is a tax on imported goods.
- Purpose: To protect domestic industries, raise government revenue, or penalize trade partners.
- Paid by the importer, not the foreign seller.
- Leads to higher prices and makes domestic producers more competitive

HOW TARIFFS WORK IN PRACTICE

1. **A product enters the United States**

   - Any good that crosses the border is subject to inspection and regulation.

2. **U.S. Customs assigns an import classification code**

   - This code determines how much duty or tax will be applied based on product type and country of origin.

3. **The tariff rate is applied**

   - Once the code is assigned, the corresponding tariff is calculated. This could be a flat fee or a percentage of the item's value.

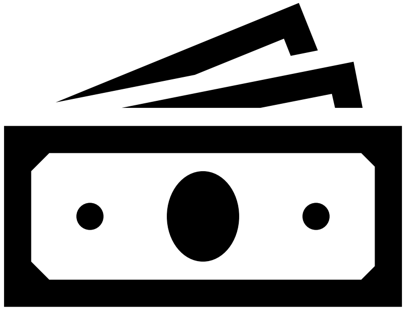
HOW TARIFFS WORK IN PRACTICE

4. **Tariff payment**
   - The tariff is usually paid by the importer of record - either directly by your business or indirectly by your supplier (and included in the price you pay).
5. **The financial impact: The business must decide whether to:**
   1. Absorb the cost, reducing profit margins.
   2. Pass it on to customers by raising prices.
   3. Negotiate with suppliers to share the burden.
6. **Bottom line**
   - Tariffs can raise the true cost of goods. How you respond—adjust pricing, change suppliers, or modify your supply chain—affects your competitiveness.

II. HOW TARIFFS CAN AFFECT YOUR BUSINESS

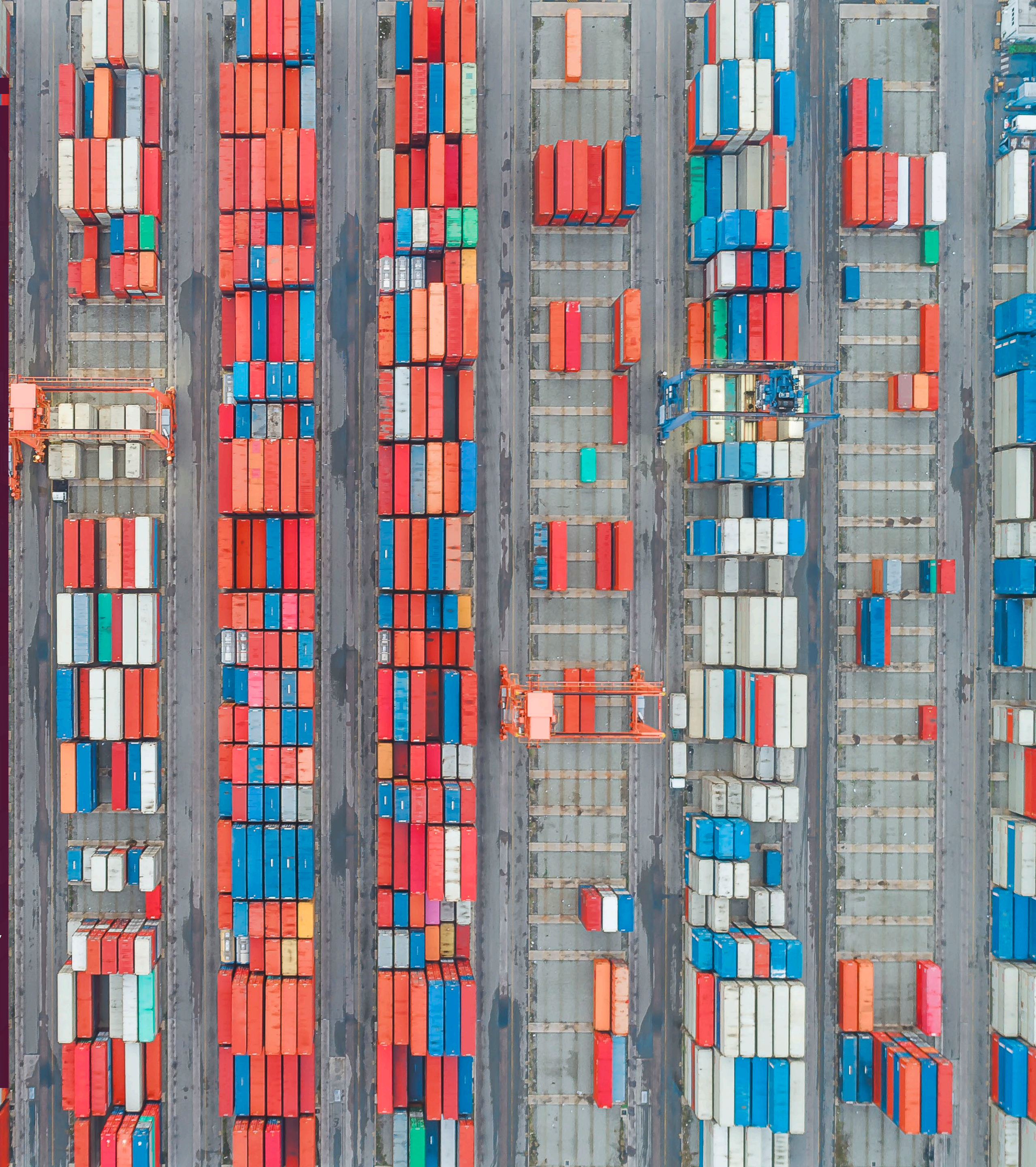
1. HIGHER PRICES ACROSS THE BOARD

- Raw materials and finished goods will cost more
- Tariffs to pay
- Shipping costs will go up too
- Bottom line: There will be smaller margins for you and / or higher prices for customers



2. SUPPLY CHAIN DISRUPTIONS

- Products delayed at ports
- Suppliers may stop shipping to U.S. due to tariff pain
- There is a lot more risk if you rely on just one country or factory



TIGHTER CASH FLOW

- You might need to pay more up front to get product
- Changes in pricing, taxes, and tariffs can add complexity to planning.
- Inventory may cost more to stock

4. EXPORTERS GET HIT TOO

- Retaliatory tariffs from other countries often happen
- If you export goods, they might become too expensive abroad for people to buy

DOMESTIC MANUFACTURING

YOU MIGHT NEED TO PAY MORE UP FRONT TO GET PRODUCT

UNPREDICTABLE PRICING, TAXES, AND TARIFFS MAKE IT HARDER TO PLAN OR INVEST

INVENTORY MAY COST MORE TO STOCK

EXAMPLE: HANDMADE CANDLE BUSINESS

- **Example Tariff:** To protect domestic candle companies the U.S. places a 25% tariff on all candle products coming into the U.S.
- **Business Type:** Small batch candle company based in Georgia
- **Products:** Soy candles in glass jars with custom scents
- **Suppliers:** Sources jars and lids from China, fragrance oils from Europe

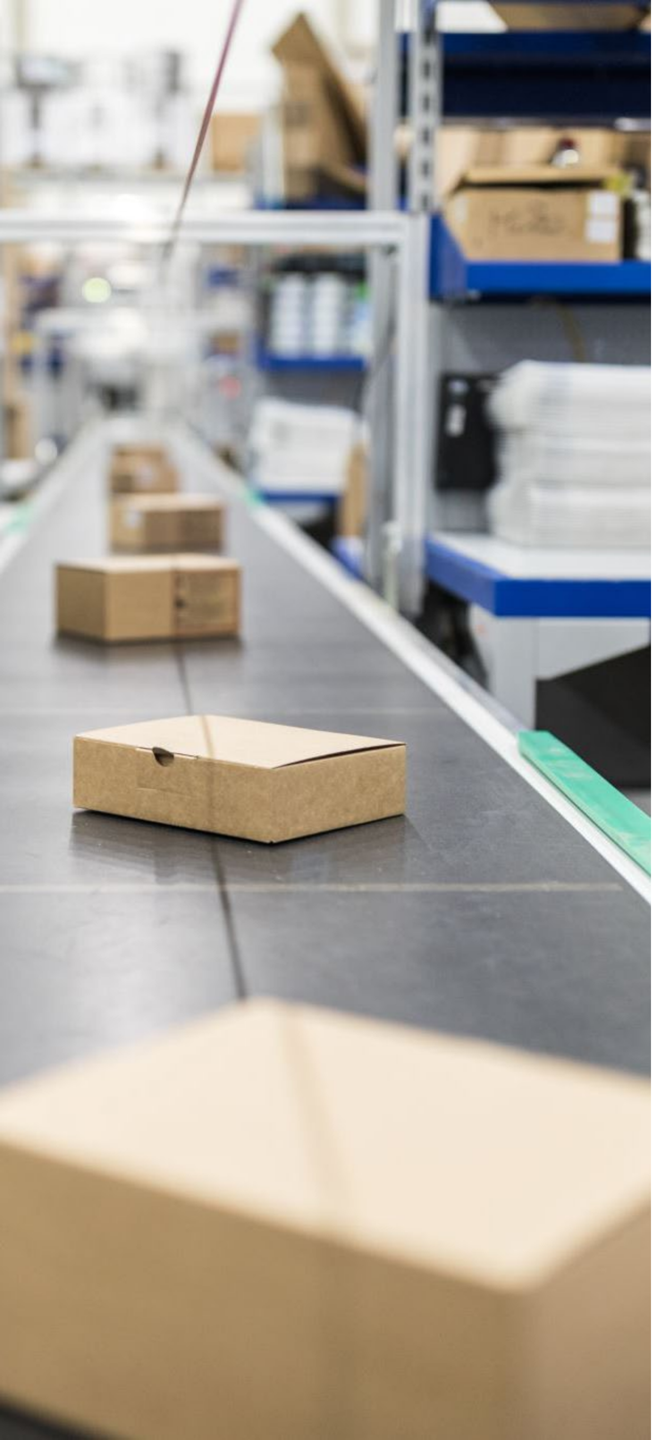
WHAT HAPPENED AFTER THE TARIFF

- **Raw Materials Cost More**: Glass jars that used to cost $0.70 per unit are now $0.94 after a 25% tariff was added.
- **Tariffs to Pay:** Fragrance oils imported from France are now subject to a new 15% tariff - $200 extra per shipment.
- **Shipping Costs Went Up Too:** International shipping rates could climb, let's say 12%, as more suppliers cut back on small-volume exports.

Bottom Line Impact

- Their total cost per candle rose from **$2.30 to $2.78**.
- With a retail price of $9.99, the profit margin shrank by 20%.
- The owner is now:
  - Testing U.S.-made jars (more expensive, but tariff-free)
  - Offering bundle deals to move inventory faster
  - Raising prices by $1 but adding free shipping to soften the blow

III. WHAT YOU CAN DO



RETHINK YOUR SUPPLIERS

1. First, look at where you get your products and parts come from
2. Next, look at which ones are now affected by these new tariffs
3. Finally, research domestic or other suppliers less affected by the tariffs
   - Local may cost more but protect you from future tariffs
   - Consider hybrid supply chains for flexibility

BUY SMART AND EARLY

When a tariff is announced that affects your business, **lock in current rates before they change.**

- Bulk-buy to offset rising costs
- Consider ordering larger shipments now to help you avoid future price hikes
- Talk to your suppliers about what is next. Ask:
  - "Are you expecting further increases?"
  - "Can I pre-order or secure current rates?"
  - "What should I stock up on before it gets worse?"

SHOULD YOU RAISE PRICES?

- Many businesses are **passing costs** on to customers, so you would be in good company and likely not stand out
- **Test**, test, test small increases or bundles first
- **Communicate**: "Due to rising costs, we're adjusting pricing…"

CASE STUDY: MIDWESTERN FURNITURE COMPANY AVOIDS COLLAPSE BY RETHINKING SUPPLY CHAIN

Business:

- Smith Leonard Home Furnishings – a small custom furniture manufacturer in Ohio

Challenge:

- U.S. tariffs on imported goods hit hard Smith Leonard - 25% on the imported wood and hardware Smith Leonard relied on. **Their costs spiked nearly overnight.**

Initial impact:

- Their overseas supplier passed the full cost increase onto them.
- Margins dropped 30%.
- Customers pushed back on higher prices.

SMART RESPONSE

1. **They diversified suppliers**
   - Smith Leonard quickly **sourced alternative suppliers** in Mexico, which were not subject to the same overseas tariffs.
2. **They redesigned some products**
   - Shifted designs to use more **domestically sourced materials** and simplified product lines to reduce parts affected by tariffs.
3. **They educated customers**
   - Sent out **a transparent email campaign** explaining the tariff impact and why modest price increases were necessary.
4. **They renegotiated freight and shipping terms**
   - Shaved 5-10% off logistics costs to partially offset tariff pressure.

RESULT

- Within 6 months, they restored margins close to pre-tariff levels.
- Customer retention remained strong due to open communication and product consistency.
- They emerged leaner, with a more resilient and diversified supply chain.

LOOK TO AVOID SOME TARIFFS (1)

Ask your supplier or customs broker about exemptions

Sometimes, certain items or materials are exempt from new tariffs - even if most similar products are not. The only way to know is to ask your importer, shipping agent, or customs broker. T

Think of this like asking your accountant

if there are legal tax deductions you are not using.

LOOK TO AVOID SOME TARIFFS (II)

Some products are classified in ways that reduce or avoid tariffs:

Every product that crosses a border gets a code (called an HS code) that determines its tariff rate. But some products can fall under more than one category depending on how you describe them. Changing the code **legally** (not deceptively) can often reduce your rate.

For example, importing "metal furniture parts" vs. "metal machinery parts" might have different tariffs.

Again, just ask your broker or freight forwarder if there is a better classification.

LOOK TO AVOID SOME TARIFFS (III)

If your product is made in Mexico or Canada, or if your supplier is **you might be able to import it without paying tariffs at all**, under the USMCA (the trade deal that replaced NAFTA). But your supplier has to provide you with the right paperwork for you to claim the exemption.

- *Ask your supplier: "Is this product USMCA-eligible?"*
- *If they say yes, ask for the proper certificate or documentation.*

FINAL TAKEAWAYS

1. Talk to your suppliers. If you might be subject to a tariff sometime, do not assume they have passed on all the costs yet. Some may absorb the first wave but raise prices later.
2. Be proactive, not reactive: Waiting could cost more than adjusting early.
3. Even small changes in sourcing or pricing can make a big difference. This is about managing margins, not overhauling your entire business.
4. Keep customers informed and engaged - a well-worded price increase message can retain loyalty and protect revenue. Think Smith Leonard Furniture.
5. Do not go it alone - Join a trade group, or consult your freight broker. Knowledge = leverage.

QUESTIONS + FREE HANDOUT!

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