

Reimagining Retail: The Impact of Tariffs on Retailers – What to Expect & How to Prepare

Audio



On today's podcast episode, we discuss what a tariff even is, what might happen when they're implemented, and how best to prepare for them. Listen to the conversation with our Senior

Analyst Sara Lebow as she hosts Principal Analysts Paul Briggs and Matteo Ceurvels, and Analyst Rachel Wolff.

Subscribe to the “Behind the Numbers” podcast on [Apple Podcasts](#), [Spotify](#), [Pandora](#), [Stitcher](#), [YouTube](#), Podbean or wherever you listen to podcasts. [Follow us on Instagram](#).



Episode Transcript:

Sara Lebow (00:01):

Hello, listeners. Today is Wednesday, March 5th. Welcome to Behind the Numbers: Reimagining Retail, an eMarketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sarah Lebow. Today's episode topic is tariffs impact on retail in the US and abroad. Before we jump into that incredibly simple topic, let's meet today's guests. We've got some new ones on the podcast today, at least for the retail podcast. Joining me for this episode, we have retail podcast regular Rachel Wolff. Hey, Rachel.

Rachel Wolff (00:41):

Hey, great to be back.

Sara Lebow (00:43):

Great to have you. And then with us, we have some folks from our international desks. So we have our analyst who covers Latin American retail content, Matteo Ceurvels. Hi Matteo.

Matteo Ceurvels (00:53):

Hey, Sarah. Great to be here for the first time actually on this podcast.

Sara Lebow (00:56):

Yeah, great to have you. And then an analyst who covers content on our Canadian desk. It's Paul Briggs. Hey Paul.

Paul Briggs (01:03):

Hey, Sarah. I think this is actually my second time on the podcast.

Sara Lebow (01:05):

Yeah.

Paul Briggs (01:06):

Yeah, so...

Sara Lebow (01:07):

You, me and Suzy talked Canada a while ago.

Paul Briggs (01:09):

That's right. So it's good to be back.

Sara Lebow (01:11):

Great to have you. Okay. So today we're focused on tariffs. We are recording this on Monday, March 3rd. So tariffs on Mexico and Canada will theoretically go into effect tomorrow. That said, President Trump is speaking to Congress tomorrow, so he may be making some changes to that date. We don't actually know what will happen as a result. Still retailers need to be prepared for tariffs to go into effect. So we'll be discussing some potential outcomes despite or perhaps because of the uncertainty.

(01:42):

With that out of the way, let's get into a quick civics class. Rachel, for the US perspective, can you give us a quick lowdown on what a tariff is and what Trump's proposed tariffs are?

Rachel Wolff (01:53):

Sure. So at the most basic level, a tariff is a tax on imported goods, and it's usually paid by the company that's doing the importing. So at the moment, and as we said, this could change at any time, the proposed tariffs are a 25% tariff on all imports from Mexico and Canada and an additional 10% on Chinese goods. And that's on top of 10% that's already gone into effect last month. And that's sort of, I guess the beginning. You also have a proposed 25% tariff on all EU imports. There is a 25% tariff on steel and aluminum imports, and that's for all countries. So there's a lot happening tariff wise.

Matteo Ceurvels (02:37):

And even with that, just if that wasn't confusing enough, then we also have, Trump is also floating some policy to treat the value-added taxes, so VAT taxes like tariffs. So he's arguing that they act as a sort of indirect barrier on US exports, but that'll have implications for more than 175 countries around the world that actually have that tax. So just to add another layer of complexity to this already complex environment we're in.

Paul Briggs (03:07):

Let me add another layer, folks. So I think one of the other areas of uncertainty is it going to be a sliding scale of percentages over time? So it could start at 25% and if certain conditions

are met by the countries, it might slide lower over time based on increased border security or what have you. So there's a lot potentially at play, and it could change over time. I think it'll be an administrative nightmare for a lot of border agencies in terms of determining what the actual tariff application will be on certain goods and what the reciprocal conditions might be as well.

Sara Lebow (03:45):

Yeah, I think it's my turn to add one more layer there, which is the reciprocal tariffs. That's our UNO reverse of tariffs. So once the US, if the US implements tariffs on goods coming in from these countries, we will likely or perhaps certainly see tariffs on US goods going into other countries as well.

Paul Briggs (04:02):

And Canada has announced that it will match those reciprocal tariffs or enact reciprocal tariffs at the same level and across many of the same goods and services. So that just becomes a trade war and it probably puts a lot of pressure on economic performance.

Sara Lebow (04:19):

All of this is to say the globalized supply chain we've got right now is about to get a lot more expensive, but we don't actually know when it's going to get more expensive. Maybe at the time of this podcast we'll have some idea, but why is it so hard to plan for these tariffs right now?

Rachel Wolff (04:34):

I think it's just that nobody knows what's going to happen and when. I mean we've already had a 30 day reprieve on Mexico and Canadian tariffs, and I think everybody's just waiting until the last possible minute to figure out, will these actually go into effect? Will they be as broad as the administration has promised, or will there be carve-outs for certain industries like the auto industry, which desperately needs them? So there's just a lot of questions that companies have.

Matteo Ceurvels (05:01):

And even that and just the general nature of the uncertainty. I mean, one minute, even if we zoom back to earlier this month, I think it was a Saturday, tariffs were announced on Mexico

maybe like two hours later, "Oh, never mind. They're paused." So I think it's also, even if the tariffs do go into effect, what's to stop them say a day, a week later from them rolling back or changing again? So it's very hard to plan when you're in such a volatile environment where you don't actually know what will be the final, final end result of it.

Sara Lebow (05:34):

Yeah, I think the auto industry is a great microcosm of that. Well, macrocosm, I guess. Even though we don't cover the auto industry all that often on this podcast, I think it sums up what could happen, which is that you have a supply chain that goes back and forth between countries several times before the final product, the car, actually comes onto the market, which means that tariffs could be potentially taxing these production multiple times. And then you also have huge, massive lobbies at play. So even if the tariffs go into effect, likely the lobbyists will have something to say about it, some power over it. And in particular, one of these, maybe not lobbyists, but people involved, Elon Musk is also advising the President, is that what we're going to call it? So all of that to say is the tariff policy won't be the final action on tariffs. There will be more to come after they're announced.

Rachel Wolff (06:32):

Right. And there's also the fact that the administration is using these tariffs as a negotiating tactic to get what they want out of other countries. And so for that reason, again, it's difficult to know exactly how it's going to play out. What is it that the US wants to extract and how are they going to apply the tariffs to get that?

(06:51):

But on the auto note, I saw this study that said auto prices could rise as much as \$12,000 as a result of the tariffs. And if you think about how expensive it already is to buy a car, I mean, that just sounds pretty remarkable.

Sara Lebow (07:04):

Yeah, I mean that's the price of a car depending on who you're asking or it's the price of several cars or it's the price of a fraction of a car depending on who you're asking.

Paul Briggs (07:13):

Yeah, the auto industry is a great example. I think the North American auto industry was basically built on free trade between Canada and Mexico and the US. So how they build cars is predicated on the fact that there's no tariffs across borders. So they build supply chains that allow, I think there's estimates that say an average part crosses the US Canadian border or Mexico, crosses a border seven or eight times before it's actually put into final assembly in a car. So that is a supply chain that is completely integrated without a border in place, and I think it would be very crippling if these tariffs came into effect for the auto industry.

Sara Lebow (07:50):

Yeah, I mean, let's jump into that supply chain conversation a bit more. We talked about the auto industry, but this is the case across the board. We have a lot of industries where parts or products are crossing borders between the US and Canada and Mexico right now. So how will the supply chain be impacted and how will this weigh on US retailers?

Rachel Wolff (08:09):

Well, one thing I think just talking about, I guess the Canada and Mexico piece is that a lot of retailers were in the process of nearshoring their supply chains in part to get around tariffs on China. But if imports from Mexico are now going to be taxed, what does that mean for those plants? Does it just become a sunk cost for these companies? And do you now have to shift out of Mexico again and go either back to China or to Vietnam or find another more cost-effective solution?

Sara Lebow (08:35):

Nearshoring meaning moving that production to North America, not necessarily to the US, but to North America, exactly,

Matteo Ceurvels (08:42):

Or closer to North America. But that also begs the even broader question. Then you have what we have nearshoring, and then you have reshoring where it's okay now Trump wants to lower the corporate tax rate from 21% to 15% as part of this whole lure to bring manufacturing and bring those manufacturing jobs back into the US. But again, then it becomes a bit of accounting to say, is it more cost-effective to pay the higher labor costs in the US by reshoring, or do we as a retailer eat the costs or eat the higher costs of nearshoring on say on Mexico or another less tariff impacted country in this hemisphere? Or does it still,

despite all the tariffs, does it still make sense with the China tariff, with the logistics cost to ship it, is it still more cost effective to manufacture in China or Asia?

(09:34):

So there's a lot of variables. Retailers are going to have to weigh and consider to see really what is the most cost-effective solution for their operations in this tariff, in this basically global trade war, really.

Rachel Wolff (09:47):

Yeah. And on that note, it is cheaper for a lot of retailers to just swallow the cost of China tariffs and continue to manufacture in China. And that's also because Chinese manufacturing has dominated the world for a reason. They have capabilities that manufacturers in other countries, including the US just don't have. And so for some retailers, you don't have a choice. You're stuck with China or maybe Vietnam, but you still have to swallow that cost in some way. And then the question becomes, how much of it do you pass on to the consumer?

Sara Lebow (10:18):

Yeah, I mean, so let's talk a little bit about what will happen if tariffs are implemented in the countries across the North America and let's go north to south here. How will tariffs impact Canada if they're implemented, Paul?

Paul Briggs (10:32):

Yeah, I think it's going to trigger, if it's a 25% tariff starting this week and that doesn't come down, it's going to trigger a recession almost immediately. Obviously, it takes time for a recession to be declared, but two quarters of negative growth. But the Bank of Canada expected before the tariff statements from President Trump, the Bank of Canada expected Canadian GDP to grow 1.8% in 2025. Their estimates, if these tariffs come in as they're presently stipulated, it will lower that by 2.5%. So effectively, what is that 0.7% negative growth in the Canadian economy based on the tariffs alone and that's year one. Year two, it's slightly less, but still we're looking at two years of really, really hard economic times. Canada's an exporting country, 75 to 80% of what Canada exports goes to the US. So that relationship is critical to the economy of Canada, and I think it's going to be very substantially felt across the board in Canada if these tariffs go in as presently stipulated.

Sara Lebow (11:42):

And Rachel, I'll have you speak to this, but is that a recession that could spread to the US as well? I know I heard a New York Times columnist, Jamelle Bouie say that feels like the Trump administration is doing all it can to trigger a recession in the US.

Rachel Wolff (11:57):

Yeah, I mean, I don't know that I would go so far to say that it would cause a recession in the US, but certainly it's going to create a very difficult environment speaking specifically about consumer spending, right? Consumers have been hammered by inflation over the past couple of years, and now you have the prospect of even higher prices on grocery items, your avocados, your fruit, your wheat products, all of those things are going to get more expensive and consumers have already been pulling back spending in anticipation of that happening. So I think it's definitely going to be a very difficult landscape for retailers to navigate. I guess as one stat, the 25% tariffs on Canadian, Mexican imports and this is not taking into account an additional 10% tariff on Chinese imports, but that would add an extra \$3,300 or so to annual expenses for a family of four.

Sara Lebow (12:48):

Wow.

Rachel Wolff (12:50):

That's a hefty sum. And when you're faced with that, that means you cut back in other ways, you cut back on discretionary spending, on travel on all of those things. So it could be a pretty big hit.

Sara Lebow (12:59):

Yeah, I mean that figure you just said like \$3,000, that's like 10% of the median family income in the US, so that's a lot of money. Yeah, I guess it's probably a little less than 10% if the median income around 40K, but it's still significant for sure. And well, we don't have time to get into it right now, but if at the same time you're seeing mass deportation in the US, then you also have a potential labor shortage that is also impacting a lot of the prices on those goods, especially the agricultural ones like you just mentioned. Matteo, that brings us down to Mexico. What will we see happen there?

Matteo Ceurvels (13:36):

Yeah, so I mean I think earlier this year I read a stat that if the tariffs went into effect, it would basically shrink the Mexican economy by 1.9%. So there is that definite economic concern on that end. But I'll flip it, the discussion more for more likely our listener base right now by those US retailers, US brands.

(13:58):

So, the flip side of all of this is if you have more expensive, all the governments, Mexico and the like, you put a tariff on us, we're going to clap right back and put a tariff right on you. So that's just political game theory 101, here we go. But that means then US brands are going to be inherently more expensive and consumers in Mexico, consumers in the rest of Latin America, they have options. China's still an option. Europe is still an option, and then you're going to be coming into this, what do you, the consumer, value more? Your quality, your value, or the like? And I think it's an interesting thing we're going to start seeing playing out where at least in the data that, surveys we have done, we see that Latin American consumers, when they think of value, how do they view products they purchase from, say, China or the US? Consumers really do value products from China, but Latin American consumers perceive US products that be a bit higher quality.

(14:58):

So, it all goes into that, what is that balance of how much are you going to pass on to the consumer in terms of these costs to make sure that they don't necessarily trade down to a cheaper alternative? And then how do you underscore that brand loyalty to them keep consumers in the fold despite these higher costs?

(15:15):

So overall, it's definitely going to create a new... Definitely a more challenging environment for US brands to remain competitive, especially in Mexico. And we're also seeing in Mexico specifically the boycott on US products where buy Mexican, buy locally. If you look at Google search, that was Google search trends, I mean, we did see a massive spike in buying locally, local products and this buy Mexican concept.

Sara Lebow **(15:43):**

Yeah, that's been across the headlines for Canada as well, right? We're seeing this uptick in patriotism and in anti-US sentiments in Canada, right Paul?

Paul Briggs (15:51):

Yeah, for sure. I think there's an app for being able to identify Canadian goods, so sometimes it's hard to tell where something's from. So there's been a few apps that have been launched for that. Retailers are using in-store signage to highlight what's from Canada and what's not from Canada. So there's definitely a big sentiment and it's anti-US sentiment, quite frankly. We talked earlier about or on a preparatory call about the fact that there was a big hockey game between Canada and the USA a couple of weeks ago in Montreal. And the US Anthem was booed pretty loudly by the crowd, which is unheard of, but is a reflection of anti-US sentiment in Canada right now as a result of these tariffs.

Sara Lebow (16:34):

What's so important about these sentiments to me is that these are the impacts that are happening before tariffs are even in place. So we're talking so speculatively right now. We don't know what's going to happen. We don't know when it's going to happen, but the impacts are already happening. We're seeing the anti-US or buy local sentiments in other countries. And then in the US we're seeing a ton of anxiety around tariffs. I would guess the average American doesn't necessarily know if, or when tariffs have gone into place, but they know that they are being talked about and they're starting to know more and more, I think, that they're going to increase prices.

Rachel Wolff (17:08):

Yeah, I mean there was a stat, I think 43% of people are already seeing tariff related price increases, which is pretty remarkable. Again, it just shows that tariffs are top of mind for all consumers at this point, regardless of your political affiliation.

Sara Lebow (17:22):

Yeah. Matteo, you said something that really resonated with themes that we've been talking about on this podcast for months now, which is that I think as a brand you can no longer rely on undercutting your competition and tariffs only underscore that. You need to make sure that you have a loyal customer base or you're trying to have a loyal customer base because you're not going to be able to slash prices forever. And especially as you're eating costs of these taxes, you need to make sure that you have customers that are going to be willing to spend a little bit of money with you because can't undercut forever.

(17:55):

I guess that's my question to you. How urgently should brands and retailers be preparing for tariffs and what are some steps they should be considering?

Matteo Ceurvels (18:03):

I mean, definitely it has to be very top of mind, especially in these markets that are... I look at the urgent markets, the Canada, US, I mean, that's right now this week. But Europe is on the table as well in the imminent near future. I think the ones with the VAT, that's for early April, so next month. I mean, these are all on the horizon and such. So I think for a brand, for a retailer, it's really understanding some little bit of introspection and really understanding what is your brand value and how do you highlight those key differentiators that make your brand unique? Essentially to prevent your loyal and price-sensitive consumers from finding out a lower cost or alternative. Because again, in this globalized world, every product has an equal or cheaper alternative, whether it's your smartphone, your computer, the clothing you wear, no matter where you buy it from, there is another alternative, be it more expensive or cheaper. So, it's understanding that and understanding on the supply side, the planning side, really understand where you as a retailer and a brand are able to optimize those key operational portions, whether it's nearshoring, whether it's reshoring, or whether it's just keeping your operations as it is, as they are.

(19:19):

And I think also lastly, from navigating the landscape, it's also being aware of what's happening not just in the US but all the main markets that you're in and trying to identify where are some key markets that you can still get into because let's just say hypothetically, let's just say Mexico gets hit with tariffs, but maybe Argentina, I'll use Argentina. Their president and Trump are a bit more ideologically the same in terms of that and the Argentine president's trying to open up the economy. So if you, US brand aren't able to sell necessarily a Mexico, maybe you'll be able to find a market in Argentina.

(19:58):

And that goes really with any of these markets. And we do see those dynamics playing out at the government level at the presidential level, really where we see Mexico and the European Union restarting or fast-tracking talks to help get some free trade. We see the Mercosur

trading block in South America, they finalized a trade accord with the EU as well. So there is that possibility.

(20:20):

Canada as well, I've been seeing some news floating around. Will Canada join the EU apparently, or how is Canada looking to Europe or and Europe looking to Canada as a way to kind of just sidestep the US altogether since Canada and the EU do share several political ideologies and alignment on many things.

(20:40):

So, it's a very shifting landscape, but I think paying attention to the news, understanding your brand value and evaluating those supply chain flows are really three key areas to hone in on, just to really navigate these uncertain times.

Sara Lebow (20:57):

Anything to add there on what brands can be doing to prepare right now from Paul or Rachel?

Paul Briggs (21:02):

Yeah, I think in Canada what I'm seeing is marketing campaigns and messaging from retailers that it's really aimed at that sentiment in the consumer base right now. So really highlighting Canadian-made goods and services. So I think that is smart for retailers is to kind of understand how the consumer base is feeling and designing marketing programs that really speaks to that sentiment. So I think that's one big area, and it's already starting, frankly. But I think if this is a prolonged situation, I think that'll be a go to strategy.

Rachel Wolff (21:38):

Yeah, I agree. I think in the US, I think a lot of it is going to be dusting off the inflation playbook for these companies. If prices are going up, then how do you convince people to buy something? How do you convince them of the value? And I think for example, Chipotle is taking an interesting tack by saying, "We're not going to raise prices. We're going to hold firm on avocados as long as we can." And that's a great way to get people to stay loyal to your brand if they feel like, "Yeah, this company is doing all they can to shield me from potential tariffs."

Sara Lebow (22:08):

Yeah. I just want to underscore everything you guys just said because I think you just created a great playbook, which we have introspection on brand value, highlighting, differentiators, and preventing down trading. Understanding where you as a retailer can optimize your supply chain. Being aware of what's happening in key markets and where you can still grow, paying attention to consumer sentiments and marketing that way. And looking to previous inflationary plans and being ready to be agile. That's so helpful.

(22:36):

Okay, well, that is all we have time for today, but we covered so much. Thank you all for being here. Thank you, Rachel.

Rachel Wolff (22:41):

Thank you.

Sara Lebow (22:42):

Thanks Paul.

Paul Briggs (22:43):

Thanks Sarah.

Sara Lebow (22:44):

And thank you Matteo.

Matteo Ceurvels (22:46):

Thank you Sarah.

Sara Lebow (22:46):

Thank you to our listeners and to our team that edits the podcast, they are tarrific. That's my only tariff pun. I held off for most of the episode.

Matteo Ceurvels (22:58):

Wow.

Sara Lebow (22:58):

We'll be back next Wednesday with another episode of Reimagining Retail an eMarketer podcast. And on Friday, join Marcus for another episode of The Behind the Numbers podcast.