

How Tariffs Will Affect the Top 10 US Ecommerce Companies

Article

The latest round of tariffs imposed by the Trump administration could come as soon as this week. It's not certain whether the proposed tariffs on \$200 billion worth of China imports will be 10% or as high as 25%.

Manufacturers and retailers have already felt some pressure from the May 2018 tariffs on aluminum and steel from Europe, Canada and Mexico, compounded with those introduced in

July and August that included meat, beverages, tobacco, vehicles, medical equipment and machinery from China.

The retail industry might not feel the full impact of these measures until 2019, but additional fees on goods from China will undoubtedly affect US trade, especially if China follows through with threats of retaliating tariffs.

For many retailers, tariffs on raw materials will raise the cost of production significantly, but some of the leading US ecommerce companies have said they can withstand price increases. Small businesses might not be so lucky.

This examination of tariffs through the lens of the top US ecommerce companies is the first in an eMarketer series on tariffs.

Top 10 Retail Ecommerce Sales, by Company

US, 2018, billions

Amazon

\$258.22

eBay

\$34.57

Apple

\$20.69

Walmart

\$19.56

Home Depot

\$7.87

Best Buy

\$6.68

QVC

\$2.54

■ \$6.51

Macy's

■ \$6.38

Costco

■ \$6.12

Wayfair

■ \$5.78

Source: eMarketer, July 2018

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Online Marketplaces and Smaller Merchants

Amazon's ecommerce sales are about 7.5 times higher than eBay's, but they both share a reliance on small merchants selling on their platforms. eBay is dependent upon this marketplace model to a higher degree, but even Amazon's marketplace sales represent 68% of its total sales and have been growing faster.

Tariffs could slow growth in this segment, as many of these smaller retailers source products from China. These are the merchants that don't have deep pockets like Walmart and The Home Depot, so they might have to raise prices or carry fewer products next year.

According to message board discussions, some marketplace sellers didn't expect to feel much impact at all, while others thought it could help gain back the edge lost to merchants from China undercutting sales.

The number of China-based merchants selling directly to US customers through the Fulfillment by Amazon program has increased rapidly, as much as 100% in the past six months, according to Teikametrics.

Products in Peril: Electronics, Clothing and Furniture

It's not likely that **Best Buy** will emerge unscathed. TVs and electronics could see higher prices due to higher costs of raw materials. Television parts and monitors were among the goods on **the massive list** the Office of the United States Trade Representative released in June.

In August, **Apple** submitted a filing with the Securities and Exchange Commission detailing how **tariffs may "adversely affect" the company**.

The precise adverse effects aren't clear, but health trackers are included in the new wave of proposed tariffs, which would affect the Apple Watch.

Apple might not pass along higher prices to the consumer because the company can afford to absorb some losses. But bigger picture, lower margins could affect Apple's earnings, and that could have repercussions for the US economy, especially as Apple became the first US company to hit a market value of \$1 trillion in August.

Tariffs on leather, silk, wool, cotton, fabric and man-made textiles like polyester would potentially affect retailers like **Macy's** that carry many brands of clothing, shoes and handbags, though companies like Michael Kors and Tapestry have shifted or are in the process of shifting sourcing to Vietnam and other countries in Asia-Pacific.

Furniture sales stand to feel big repercussions from tariffs, especially for online retailers like **Wayfair** that operate with very low margins and heavy reliance on China-based products. These discount retailers also have mastered an efficient supply chain starting overseas, which can't be completely reinvented overnight.

Costco, with its warehouse model and low markups, could see a large impact. In 2017, before any tariffs were enacted, Costco executive vice president and CFO Richard Galanti speculated that around 25% of its products were manufactured overseas.

Made in China

Many retailers and trade associations have been vocal in opposing tariffs. Twenty-four retailers including Costco and Walmart signed a letter to President Trump in March 2018 expressing concern about tariffs on consumer goods. The Retail Industry Leaders Association, American Apparel & Footwear Association and the National Retail Federation also made their position known, citing statistics showing that more than 41% of clothing, 72% of footwear and 84% of travel goods sold in the US are made in China.

While Walmart president and CEO Doug McMillon acknowledged the uncertainty of proposed tariffs in a Q2 2018 earnings call, he also said that "we buy more merchandise, by a wide

margin, in the US than from any other country.”

But buying from US suppliers doesn't necessarily mean the goods were made in the US. Walmart doesn't break out products sourced from China, but **Alliance for American Manufacturing** placed the figure at around 70% to 80% in 2016.

Walmart has been proactive in mitigating potential issues. It was reported that the retail giant asked some of its beauty suppliers **if they could source products in other countries**.

The Advantage of Size and Scale

The Home Depot might be the test case since the home improvement retailer was subjected to previous tariffs on lumber and washing machines, imports that were mentioned as having an impact on sales during the company's Q2 2018 earnings call. CFO Carol Tomé speculated that tariffs could add \$300 million to the sales of goods, but countered that this was a "manageable number" out of \$100 billion in sales.

QVC took a similar approach in its Q2 2018 earnings call. President and CEO Mike George acknowledged the risk but said tariffs have had a "fairly modest impact" and quantified this as \$10 million to \$15 million.