



The **Tariff** Effect

The tariffs on goods imported from China are adding a new layer of complexity to doing business and requiring suppliers and distributors to rethink and **refocus their communications with clients.**

by Tina Berres Filipski



It's been more than a year since the Trump Administration announced plans to impose tariffs on products imported from China. On July 6, 2018, the tariffs became a reality with \$34 billion worth of Chinese goods subject to tariffs. As the year wore on, news on the tariff negotiations continued to make almost daily headlines while threats to increase the tariff rate

and the list of products subject to tariffs grew. As of June 1, 2019, \$250 billion in goods from China are now included in the 25 percent tariff including bags, backpacks and luggage, some drinkware items, technology products and related accessories, hats, notebooks and other stationery items, fabrics and sporting gloves, among other items.

At press time, the threat still



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lingered of extending the tariffs to virtually all Chinese imports—more than half a trillion dollars—should the two sides not come to a satisfactory agreement. This latest turn in the ongoing trade dispute has roiled markets and raised questions throughout the promotional products industry.

When the threat of adding tariffs on products imported from Mexico was announced in late May, it stunned industry suppliers and distributors who were already dealing with the impact of the Chinese tariffs. Mexico is one of the U.S.’s largest trading partners, surpassing China and Canada in the first three months of 2019. While the majority of imported promotional products come from China, a percentage are imported from other countries, including India, Vietnam and Mexico.

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Fortunately, the Mexico tariff was lifted just days before it would have gone into effect, but the China tariffs continue to confound suppliers and distributors who are trying to find their way through it.

In May, the U.S. Trade Representative (USTR) announced a proposed List Four of Chinese imports upon which tariffs will be levied on approximately \$300 billion in additional products, representing almost all imports from China not already covered under the previous tariff lists.

As this issue went to press, the USTR was due to complete the public hearing and comment period on June 25 on the List Four tariffs and a final decision on the tariffs’ implementation was expected soon.

“PCNA has submitted comments in opposition to the List Four tariffs,” says Larry Whitney, director of global compliance at supplier Polyconcept North America. “While in Washington with L.E.A.D., I brought up the costs related to List Four, and why it’s bad for our business, in every meeting that I had on the Hill. I’ve also had subsequent calls with one of the Pennsylvania senator’s staff members to go into more detail on the potential impact to PCNA.”

Whitney adds, “If List Four goes into effect it will have a horrible impact on our industry. While some of the suppliers have made efforts to diversify out of China, many have not, and there is not sufficient manufacturing capacity out of China to replace the Chinese factories.”

Brett Cutler, vice president of sales at supplier Greater China Industries, says, “Most promotional products come from

China and the pending next tariff that taxes essentially everything from China will be more damaging than we have seen thus far. However, an interesting occurrence is taking place around the world and that is the more important element to be aware of. Almost every other manufacturer of goods around the world has had to compete against factories in China and Mexico for market share. They’ve had to reduce profit margin to remain competitive. With a 25-percent tariff on goods from China, everyone else is raising—or saying they are about to raise—their prices, because they can. Especially factories in East Asia—we see prices rising, in part, because they source raw materials from China and these Chinese suppliers have raised rates. But, also because they are competitive now by a significant amount, and they know they can charge us more and still be less than China prices with the tariff.”

Cutler adds, “Combine the tariffs and the response of factories in other countries and all we have done is drive up the cost of goods we use everywhere in our industry and economy. And, we all know that once prices are high, it will take a long time for them to come down to where they were. So, it’s all tied together. While tariffs are good negotiating tactics, they are not a very good long-term solution. Hopefully the shared pain in each country will be enough to move all parties to a solution quickly.”



Changing Client Conversations

The tariffs are also requiring additional communications with clients on both sides of the industry to prepare them for possible pricing fluctuations.

Richard Anderson, owner of distributor AAAA Designs LLC in Morrison, Colorado, replied to a post on PPAI’s Promo Connect about the verbiage he is using when communicating with clients

about the tariffs. “I added this line to my SAGE website: Please confirm pricing with your AAAA Designs representative due to new tariff implementations as of May 10, 2019. Prices shown on our website may not reflect these new changes and are therefore subject to change at any time,” he says, adding that he also included the line to his default presentation template in SAGE, just to be safe.

When communicating with her customers, Janie Holbrook, co-owner of distributor Tee It Up Promotions in Oakton, Virginia, says, “I often send out quotes that do not become firm orders for days, weeks or months while customers wait for internal purchase orders, work with committees, etc. Since last September, I have been adding notifications that read: ‘Pricing subject to change as a result of tariffs on Chinese imports. Pricing will be confirmed when order is finalized.’”

Jo-an Lantz, MAS, CIL, president and CEO of distributor Geiger in Lewiston, Maine, says the company has had to address the ongoing issue of tariffs and pricing uncertainty for quite some time, so it has implemented several measures relating to communicating with clients.

“When sending a client a quote, we state the price is only valid for X days (it depends on the product) due to tariffs. If the client orders after that time period, we double-check to make sure pricing is valid, and if there is an increase we go back and explain,” she says. “There is so much in the media about tariffs, clients truly understand.”

Geiger took a proactive approach beginning last year by providing an explanation of what the tariffs are and preparing clients for what they could mean for prices. “In many cases, we urged clients to order earlier, and some did,” she says. Although Geiger has absorbed some of the tariff increases and has seen a decline in margins on some products, she says that “overall, the suppliers have been terrific in communicating, our sales partners have done a really

fine job in communicating and our customers understand.”

“We have been really proactive about this issue with our clients,” says Larry Cohen, CAS, president of distributor Axis Promotions in New York City, adding that the company is including the following clause in all customer quotes: “Due to the impending tariff increases, all pricing must be confirmed at time of order. Pricing is subject to change.” On sales orders, this copy is included: “Please note that on May 10, U.S. Customs Border and Protection implemented the additional 25% tariff. This item is currently NOT subjected to the additional tariff. However, please note that there is a potential for duty rates to increase an additional [X percent] for this item prior to shipping.” In addition, prior to the announcement of the tariff escalation, Axis Promotions emailed a nearly 500-word letter to all clients explaining the tariffs and their impact on pricing, the product categories included and how the new trade regulations, along with spikes in gas and freight costs, are affecting the cost of raw materials. The letter noted that Axis

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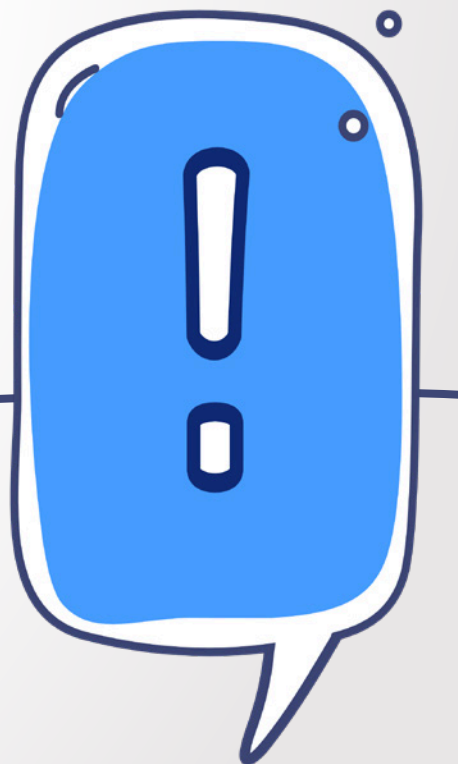
Promotions would keep clients updated and fully aware of the impact on the promotional products industry despite the uncertainty of the situation at present.

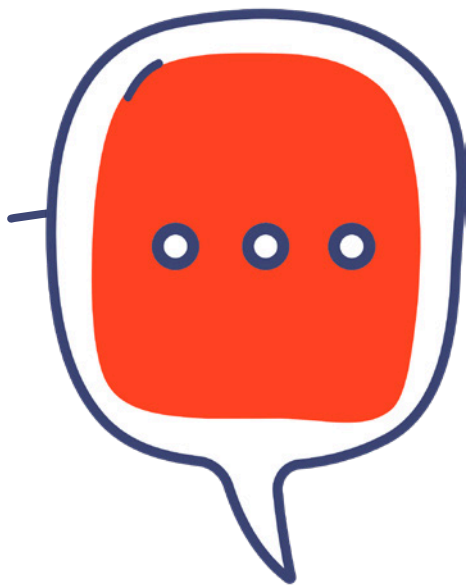
“Once you know what the tariffs are going to be, you have some options,” says Cohen. “Everybody is going to adjust. Once you know what’s going to happen, you just adjust. If it costs more money, the impact will be maybe choosing items that aren’t subject to a tariff or trying to find another location to get them from.” One thing he has not heard from customers, fortunately, is that they won’t buy promotional products because of the tariffs. “We’ve not heard that at all,” he says.

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Promotional Products in
White Bear Lake, Minnesota

For companies that have a certain budget for an event, he believes that if prices increase because of the tariffs, it may affect quantities. That means his team is constantly adjusting to what’s going on. “We have flexibility; there are so many products at so many price points that if the budget was \$X [per product], now I can show you one for \$X [per product], and move things that way. Other industries don’t have the flexibility that we do. Look at car manufacturers. There’s not a lot of elasticity there,” he says.

Tom Goos, MAS, president of Kirklund, Washington-based distributor Image Source, Inc., describes the current situation as very dynamic. “It’s not black and white—there’s a lot of confusion for my sales team and our clients. What they are hearing is it’s a set percentage increase and that’s not really true. If it’s a component part, on a lanyard for example, the increase may be on the clip but not the strap. It’s impossible for us to say, with all the million different variations of products we sell, exactly what that increase will be for our customers in overall, broad categories.”

Instead, Goos is educating his sales team and, in turn, his customers. He sends out a weekly newsletter, the *Weekly Heartbeat*, to report on what’s

going on with the business, industry and employees, and recently has been including tariff updates in every issue. He’s also looking at factories outside of China. “We moved a program out of a factory in China to one in Cambodia because at least we’ll have consistency in pricing,” Goos says. And the company has begun adding a disclaimer on quotes for large projects that reflects potential changes in pricing because of the tariffs. “But if you are going to add a disclaimer, I don’t think it’s a good idea to hide it under an asterisk,” he says. “For me, it’s much better to have a really good conversation with the customer about it instead.”

Bill Mahre, CAS, president of supplier ADG Promotional Products in White Bear Lake, Minnesota, says he has not added any tariff-related information to the company website, but is making sure everyone knows that published prices—especially in catalogs—may change if the company sees significant impact to its raw material costs. “We do not intend to make changes that amount to a couple of pennies but dramatic cost impacts to certain categories may necessitate a price change in the future,” he says. “Overall, we still believe the tariff issue is essentially an economic tool for the administration to negotiate better trade deals. Never

before have we seen this type of strategy, so we are definitely in uncharted waters on how to handle the costing impact on a short-term and long-term basis. Our intent is not to raise and/or lower prices broadly or without specific rationale. For example, just because an X-percent tariff has been announced today doesn’t mean it will impact our product costs immediately. In some cases, we have existing inventory that will keep us status quo from a cost structure for months.”

Mahre adds that his sales and customer service team members are being communicated with on how to answer questions and provide the best information available at the moment. “The difficulty is that things seem to change on a day-by-day basis and we are just one tweet away from a whole new direction,” he adds.

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Ira Neaman, CAS, owner of supplier Vantage Apparel in Avenel, New Jersey, recently recorded a video designed to communicate with customers about the tariffs. In it, Neaman speaks directly to the camera letting customers know that the company has a diverse supply chain and is not solely dependent on China to source products, so it won’t be raising prices in the near term. The video also reassures customers of the company’s continued commitment to its current

level of quality and service. The video was shared internally to guide associates in answering questions, and externally via email to all active distributor contacts, and it was posted on the company's social media platforms—specifically Facebook, Twitter and LinkedIn. “To date, customer responses have been positive, affirming the importance of keeping them up to date,” says Gina Barreca, Vantage Apparel’s marketing director.

On June 3, supplier Polyconcept North America in New Kensington, Pennsylvania, emailed a letter to customers explaining the actions the company needs to take as a result of the tariffs and outlining a new pricing schedule effective July 1. “Consistent with our strategy to date, we will continue to take a measured and moderate approach to passing along price increases,” the letter stated.

Supplier Hit Promotional Products, Inc., in St. Petersburg, Florida, is also keeping customers informed. The company sent a letter to customers in early June to let them know it was working to keep the tariff’s impact on pricing to a minimum and it also shared a new price schedule. With no relief in sight from the possibility of more tariffs, the letter stated that, “The next couple of months bring a level of uncertainty as to what will transpire regarding what would ultimately be the balance of our product line that would be impacted by newly imposed increased tariffs. Please be prepared for this possibility, and additional price increases, accordingly.”

Cohen forwards letters such as these to his internal team and sometimes they are included in communications to clients. He says this kind of supplier communication adds credibility to what his team is telling customers. “It’s good not just coming from us,” he says of the tariff updates. “It’s a good way to show your clients that you aren’t selling them; you are educating them on the impact of tariffs. And if you have items in a program that just went up [in price], well,

you’d *better* tell your clients.”

Jonathan Isaacson, president of supplier Gemline in Lawrence, Massachusetts, says his company is not getting inundated by questions from distributors at this point but the interest will likely pick up steam as more tariffs are applied. “We had seen this eventuality for quite a long time, so we had prepared as much as one can and are executing on the plan we put in place,” he says. That plan includes solid customer communications. “We’ve taken some time to make sure that we had a good assessment and we will be

to panic our end user. We can work our way through this without turning it into a giant demand detriment for promotional products. We have to find our way through this as an industry. It’s a difficult issue but there will be suppliers who can work through it and help mitigate some of the impact from the tariffs. There’s a lot we can do as an industry. There will be hard work involved but it’s not impossible.”

He is expecting tariffs to be an issue for quite some time. “Part of that is the domestic politics on both sides, they are difficult issues. It’s an issue we’ll have

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feeding back information to our internal team and our customers. This is a very fluid situation. There’s likely to be a number of twists and turns but business has to continue one way or another. Businesses can prepare and take action to mitigate some of the impact of this; there are some areas that will be very difficult. Communicating [that] will be very important.”

Still, Isaacson is positive about the industry’s future. “We, as an industry, need to do this in a way that is not going

to manage around for the foreseeable future. We will find ways to mitigate a reasonable portion of this issue—we have long understood that there is risk everywhere we do business, so we have contingency plans. That doesn’t mean it’s perfect, but we are better positioned than many to be able to react to the changes in the market that we are seeing today.” **PPB**

Tina Berres Filipski is editor of PPB. James Khattak, PPB’s news editor, also contributed to this article.

