Investor Group Services

Tariff-Responsive Pricing

Three Strategies for Navigating Uncertainties

There is looming uncertainty around the administration's evolving tariff policy and unease about implications for the global economy, including everything from the performance of PE-backed businesses to their valuations. Tariffs pose a significant challenge for businesses, especially those dependent on international supply chains. Whether it is sudden policy shifts or escalating trade disputes, tariffs can increase costs, disrupt operations, and erode profit margins. To navigate these uncertainties, companies must adopt flexible and strategic pricing approaches that not only mitigate risks but also maintain customer trust and market competitiveness.

This article explores an actionable approach for managing pricing considering tariff risks and provides a roadmap for businesses to thrive in volatile trade environments. With the right approach, managing tariffs can become less about risk mitigation and more about strategic growth.

The Impacts of Tariffs on Pricing

Tariffs directly increase the cost of imported goods and materials and impact a company's supply chain, product strategy, and profitability. Businesses affected by tariffs are faced with a tough decision: absorb the additional costs, pass them on to customers, or find alternative solutions. Each choice comes with its own risks and benefits.

Key Challenges that Tariffs May Bring

- **Eroded Margins**

  Tariffs can shrink profit margins if costs are absorbed without price adjustments.

- **Customer Attrition**

  Sudden price changes diminish customer trust and may cede market share to competitors.

- **Forecasting Difficulties**

  Uncertainty on which products may be impacted, when tariffs will occur, and the potential for retaliatory tariffs constrain business' ability to forecast and plan.

> ***To address these challenges, companies need a proactive pricing strategy tailored to their unique circumstances.***

3 Strategies for Managing Pricing During Periods of Tariff Risk

Companies can assess their current situation and the path forward based on available options and tradeoffs. A combination of available information, industry, sourcing mix, and product strategy, among others, play into determining the best approach for a given company. There are three main strategies that can be employed by companies to address potential or current tariff risks: wait and see, direct pass through, and indirect pass through.

Handling Tariffs: 3 Options for Decision Makers

Low profit upside impact / Low implementation effort

Option	Actions	Likely to Use
1. Wait and see	▪ Gather incremental data on impact of tariffs ▪ Assess competitive actions ▪ Prepare for response dictated by goals (profit vs. volume)	*Companies w/ tariff uncertainty*
2. Direct pass through	▪ Assess terms in contracts ▪ Quantify specific cost impact ▪ Prepare customers for price changes based on market forces	*Low pricing capability companies*
3. Indirect pass through	▪ Reassess existing price model ▪ Quantify differential value ▪ Rebuild price structure for increased alignment to value	*Companies seeking to maximize growth & profit*

High profit upside impact / High implementation effort

1. Wait and See

The wait and see option is viable for companies with uncertainty on the impact of tariffs. To illustrate this scenario, consider an industrial company with U.S.-based operations importing goods from a range of suppliers across the globe. The company relies on high volume to drive profits in an industry with thin margins and a looming threat of tariffs that could upend future earnings.

By building a well-articulated price infrastructure, companies can easily track rapidly changing input costs to ensure the right level of profit visibility. Creating systems and processes that track both costs and the volume of raw goods by region is required to calculate profitability by both product and account, which should be a key input into a robust pricing strategy.

The eventual goal should not be to pass costs directly to the customer, but rather to ensure profits are accurately measured and effectively used as an input to the pricing strategy. Determining exactly which products and customers are driving high vs. low profits enables companies to set prices in a way that drives the most desirable behavior.

2. Direct Pass Through

Passing changes in costs directly to customers is rarely, if ever, a recommended strategy. The primary reasons this method is considered is because it is easy to implement and explain to customers. The challenge with this strategy is that it sends a signal to the market that a manufacturer’s offerings are largely commoditized and will fluctuate based on costs rather than differentiated offerings that drive customer value. Moreover, passing changes in costs directly to customers signals to the market that costs are the primary driver of price rather than value. This encourages customers to embrace a commoditized mindset and often attracts the most price-sensitive customers who are the least profitable and have the highest rate of attrition.

3. Indirect Pass Through

When a company incurs meaningful increases in costs, it is logical to implement strategies to recover lost profits. Buyers are aware of macroeconomic trends and are often prepared for upcoming price increases. This shift in the market is a clear opportunity to reassess customer needs and offer incremental value for their organizations. In many cases companies themselves will be in the process of reassessing suppliers to optimize their own cost structure, opening the door to a cross-sell or upsell opportunity. To prepare for these conversations with suppliers, companies should consider key questions:

- What are the primary customer segments purchasing from me? How and why do they vary?
- Who are the most vs. least profitable customers within a segment?
- Does the level of price variation for a product align with expectations?
- Which customer segments have the most growth potential? Why?

Through a combination of transactional data analysis and market research, companies can answer these questions and craft a price structure designed to maximize profitability while aligning to customer needs.

Strategic Planning for Tariff Impacts

Regardless of how sophisticated a company is in its pricing efforts, three steps can be followed to prepare for impacts of impending tariffs. Each of these can be done on a spectrum from first time analysis of the business to developing advanced models and tools to support the effort.

Step 1: Analyze anticipated product and customer financial impacts

- **Create a cross-functional team** to spearhead the efforts – supply chain, finance, sales, product
- **Perform product, customer, and geographic analyses** to quantify where tariff impacts are likely to be felt
- **Analyze product elasticities** of the high-risk products and customers
- **Provide market-level analysis** to disaggregate historical market impact on volume vs. price
- **Create a financial model** to capture the magnitude of the tariffs across the portfolio
- **Prioritize the largest impacts** for further analysis and planning
- **Obtain any additional information** that is not currently available but is needed for decision making
- **Conduct value quantification** to estimate end customer value as a basis for price

Step 2: Develop a flexible strategy that considers multiple potential scenarios

- **Develop the strategic objectives** for the plan, leveraging the insights from the analysis phase – market share, revenue, brand equity, margin, etc.
- **Determine pricing scenarios** across products and customers at an account level based on elasticities, product strength, and differential value
- **Identify alternatives** and fallback plans for a range of market and customer responses
- **Establish thresholds for changes in the strategy** based on likelihood of scenarios

Step 3: Execute effectively by enabling sales teams and monitoring results

- **Develop sales enablement content** that outlines the new selling plan to reinforce product value, the pricing and discounting plan to appeal to customers, and the tactical guide for each channel
- **Train GTM Team** to enable cross-functional teams to share a common understanding of upcoming changes so they are prepared to defend price based on value
- **Create a communication plan** that considers direct and channel customer dynamics
- **Execute the plan** and verify sales team communicates the price changes
- **Monitor impacts** to ensure cross-functional team reports back the market findings to evaluate price adjustments accordingly

Case Study: A Manufacturing Firm's Pricing Strategy - $450M in Annual Revenue

IGS worked with a U.S.-based manufacturing company in the consumer durables space that managed all inflationary and tariff impacts on a cost-plus basis. The company's leadership team recognized an opportunity to take a more strategic approach to managing price.

- The differentiated value of the product lines was analyzed from both internal and external perspectives.
- A framework was developed based on the unique company dynamics and channels that would greatly simplify price management, while allowing for more surgically appropriate changes for inflationary or tariff price changes, in addition to value-driven price adjustments.
- Products were clustered into pricing families to set prices appropriately, including channel-specific differences.
- Sales, product, and operations teams were included in the process, which increased acceptance of the pricing solutions, and enabled those groups train up on the model for managing it on a go-forward basis.

As a result, the company is pursuing the $8M opportunity identified for pricing improvement, all of which would fall to the bottom line.

The Strategic Payoff

Turning Uncertainty Into Growth Opportunities

Tariffs present real challenges, but they also offer an opportunity for businesses to refine their pricing strategies and build resilience. The key is to stay proactive: anticipate risks, develop plans, monitor market trends, communicate transparently with customers, and continuously evaluate your pricing strategy against changing conditions. Companies that are proactively managing price can get beyond risk or cost mitigation and can focus on strategic growth.

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