INTERNATIONAL FASTENER EXPO2025

Navigating tariff-driven cost increases

strategic considerations for purchasing, inventory & supply chain managers

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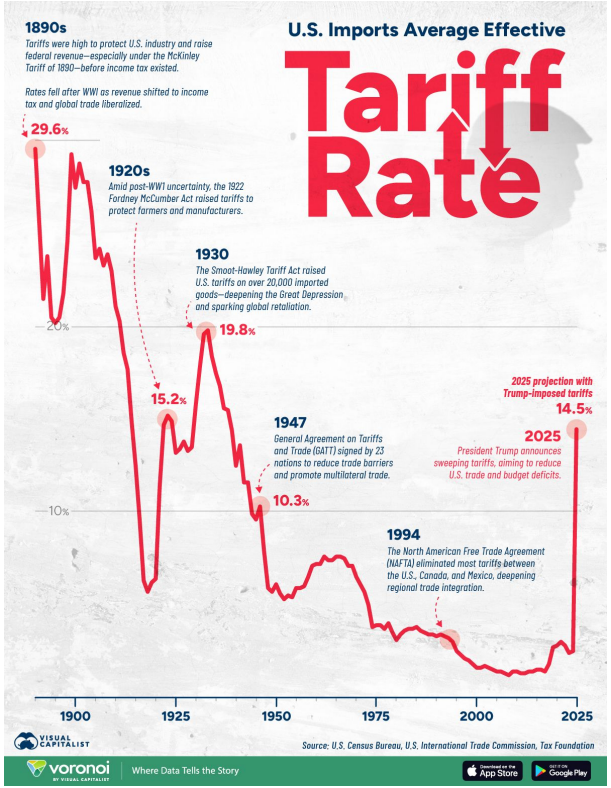
My goal is to give you **practical advice** for managing **cost volatility**, including **tariffs**

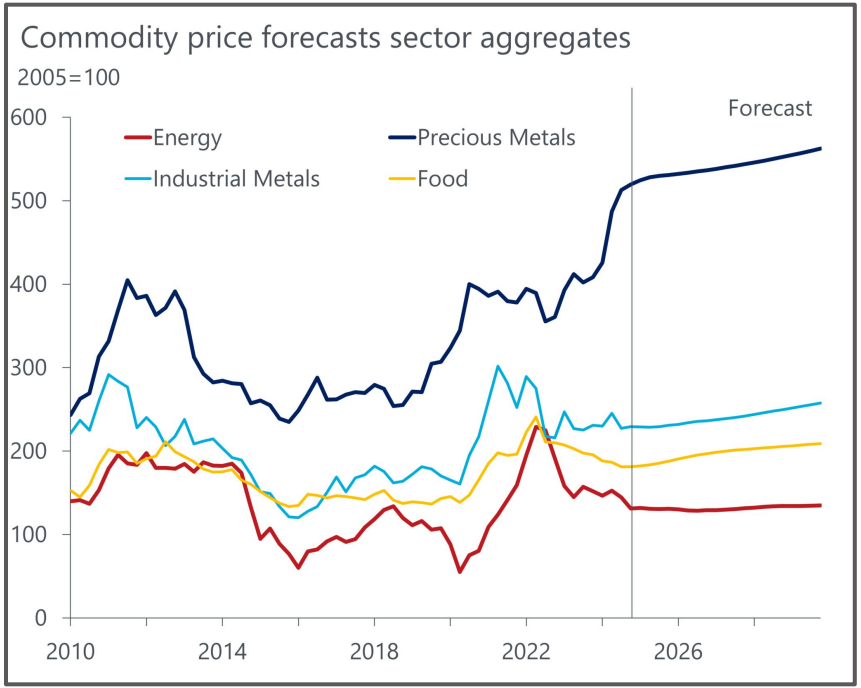
- **Tariffs** are one source of **uncertainty** around cost - we'll discuss many
- Effective **inventory management** is key to managing cost risk
- You will leave with some **actionable insights** for managing cost risk



Focus Area #1:
Tracking and Reacting to Cost Changes

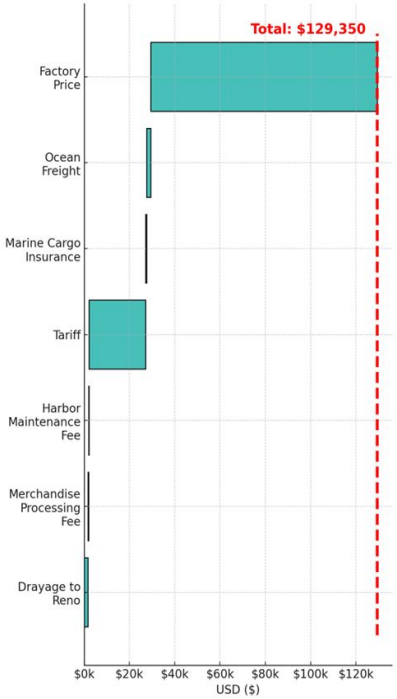
Six main forces drive **cost variability beyond supplier choices** - track them

1. **Tariffs** and trade rules
2. **Commodity prices**
3. **Energy**
4. **Freight**
5. **Exchange rates**
6. **Disruptions:** wars, ports, weather



A **cost waterfall** can track **drivers of change** to **item level net profit**

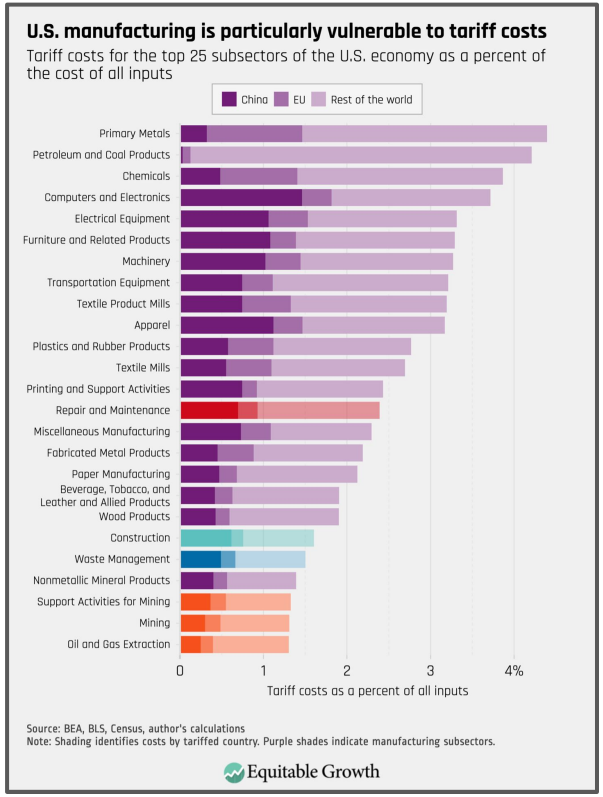
1. Factory price (invoice value): **$100,000**
2. Ocean freight (per-container spot, China to LA): **$1,725**
3. Marine cargo insurance (about 0.5% typical): **$500**
4. Tariff (25% of invoice value): **$25,000**
5. Harbor Maintenance Fee (0.125% typical): **$125**
6. Merchandise Processing Fee (~0.35%, min/max caps): **$350**
7. Drayage to Reno (truckload rate from LA to Reno): **$1,650**



Total landed cost: **~$130,000… but what about other overhead?**

If you aren’t paying the tariff **directly**, **push back** on “tariff related” increases

- **Map products** to customs tariff codes and duty rates
- Calculate **full landed cost** for each product (see earlier “waterfall”)
- Ask for **cost driver proof**
- Anecdote: domestic supplier asked +7% for “tariffs”; public information showed small exposure; settled at +3%



Explore **cost sharing** tactics and when possible, **pre-negotiate** surcharges

- Make sure to **fully exploit** any remaining buys at **“old” pricing**
- When costs change, ask for **partial offsets** or **temporary credits**
- Explore **payment terms** - how is your **cost of capital** vs suppliers?
- Set **automatic cost changes** tied to **public indices** (e.g. fuel cost)
- Place more orders at **full pallet** / **full container** sizes

Only ~30% of Hydrian clients have **automatic surcharges** in place with customers, and only ~20% have them with suppliers

Explore **alternate sourcing** before it becomes a necessity

- Keep a **second source** alive on your most important items
- **Split awards** (for example, 80/20) to keep communication open
- Develop emergency gap sourcing, even if from **competitors**
- Compare safety stock need, stockout risk, etc - not just unit price
- More **safety stock** needed with longer and less stable **lead times**
- Example: COVID drove **secondary sourcing**, with **big payoffs**

You aren’t a commodities trader; don’t try to **time the market - rules beat hunches**

- **No one** can consistently **predict price direction**
- Our study: across 245 buyers, **less than 35% correctly guessed** if their key commodity cost would be higher or lower in 6 months (twice!)
- Focus on **speed of response**, not prediction
- If you buy ahead for discount, have a clear **sell-down timeline**
- Set **review thresholds** and execute quickly

Lock in costs only when your sell price is **stable** or can't be changed quickly

- Lock or hedge if **production time** is long, or **sell prices** are inelastic
- …Or when you know you can sell **profitably at the locked cost**
- Otherwise it's far less risky to **react quickly when change happens**
- Most customers accept that **prices move when inputs move**
- Remember: most buyers are not good at guessing price direction

90% of Fortune Global 500 utilize financial derivatives to **hedge commodity price** risk

Automated review triggers can help to ensure timely reaction to **cost changes**

- Pair disciplined **recurring review** with **quick action** when required
- Set **review thresholds** for metals, freight, energy, currency, tariffs, etc
- Look at **current inventory positions** and cost before acting
- Decide **if and how** to adjust price
- Consider if customers need **lead time** ahead of price changes

In 2025, **65%** of clients had a **widespread price increase**; **less than 20%** of those reported any **customer pushback**

Focus Area #2:
How Effective Inventory Management Lowers Cost Risk

Inventory efficiency (i.e. turns) is directly tied to **price volatility risk**

- Obviously, reducing inventory **frees cash** and **warehouse space**
- Fewer days on hand means avg. unit cost is **closer to current market**
- Higher turns mean **less exposure to wrong-price stock**
- Faster cycles let you **match cost and price sooner**
- Bottom line: leaner is better when tariffs, freight, and metals are moving

Largest opportunity is **slow moving** / **dead** items, not “slimming down” healthy sellers

- **Healthy, steady sellers** can **run leaner** than less predictable items, but this is typically the minority of inventory reduction opportunity
- **Risky or erratic** items need tight caps and **lower service targets**
- Beware of **incentive buys** that create excess
- **Catch excess early** so you can **return**, **rotate**, or **discount**
- Look for increasing days on hand, falling quotes and orders, etc
- Waiting too long means **fewer options** and **higher liquidation costs**

Decisions to take on **excess stock** should be **deliberate** and carefully considered

Key Purchasing Decisions

Supplier Outage Avoidance

- Frequency / duration of past outages for this item, product line, vendor
- Risk of extended vendor stockout vs margin taking opportunity
- Risk of item discontinuation, “spoilage”, etc

One-time Supplier Incentives

- Does the discount offset the added holding cost and dead stock risk? E.g. 10% discount has negative value if 10% ends up in liquidation.
- What basket of goods meet the incentive most efficiently?

Annual Rebate Programs

- Consider all rebate thresholds / tiers for all vendors.
- Quantify the cost of excess / dead stock at the item level
- Impact of buy-ups on next-year’s rebate qualification

Tracking the outcomes of incentive buys proves the value (or cost) **over time**

Buy Up	Date of Buy	Purchase Size	Remaining Excess Stock	Added Holding Cost to Date	Total Added Holding Cost	Added Profit	Total Profit	ROI	Time to Realize Return
15% one-time discount	1/1/2025	$30,000	$14,503	$1,038	$2,625	$10,500	$7,875	11%	4.5 Months

Type	Amount	Added Revenue To Date	Holding Cost To Date	Total Revenue To Date	Expected Total Holding Cost	Expected Added Revenue	Expected Total Profit
Active Stock	$1,127,577	NA	NA	NA	NA	NA	NA
Other Excess	$115,744	$0	$1,929	-$1,929	$23,149	$0	-$23,149
Discount Excess	$63,209	$3,161	$1,054	$2,107	$12,642	$37,925	$25,284
Annual Rebate Excess	$190,134	$9,507	$3,169	$6,338	$38,027	$114,081	$76,054
Total	$1,496,663	$12,667	$6,152	$6,516	$73,817	$152,006	$78,188

Catching **excess stock early** and using a **systematic approach** minimizes cost

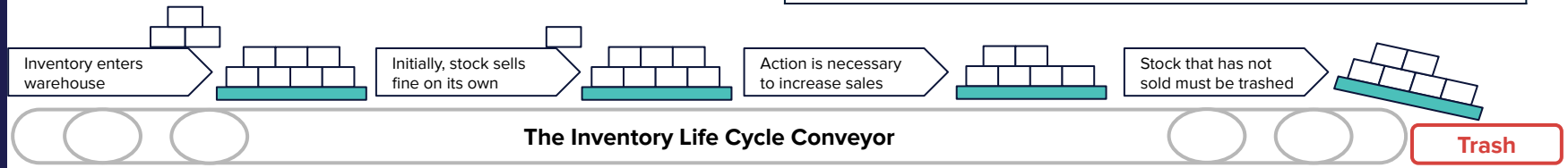
Measuring inventory health

- Time since last sale
- Estimated days on hand / time to obsolescence (length of conveyor, which can change)

Tracking inventory on the “stock health conveyor”

- Develop systematic thresholds to take action on items moving along the conveyor; prevent excess stock before costlier measures are necessary

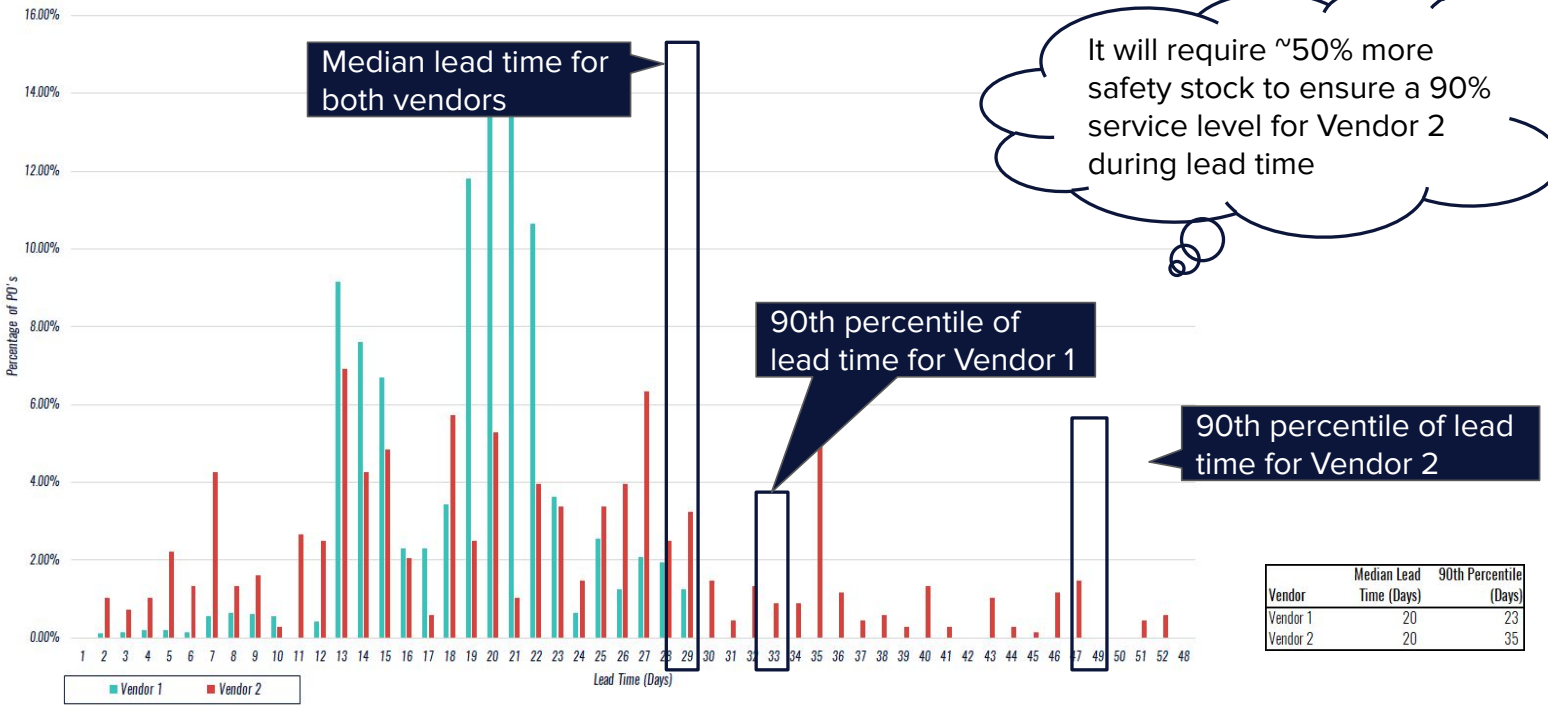
Action	Example
Price markdowns	Mark halfway down to cost
Promotions	Sell through clearance section of 3rd party website
Returning to vendor	Check in near vendor-imposed return deadline to look for rotation candidates
Negotiate with vendor	If you take back $50k I'll buy $100k today of healthy stock



Better **lead time** and **demand forecasting accuracy** reduces price risk

- **Demand forecast** errors mean excess, potentially locking in **high cost**
- **Lead time** forecast errors make the **pipeline** too full or too empty
- Ensure both lead time and demand are updated **at least every month**
- **Audit accuracy** and review **item-level outliers**
- **Work with suppliers** to understand changes and improve
- Ensure **sales and marketing** coordinate with **supply chain**
- Consider **technical upgrades** (e.g. bolt on forecasting tools)

Lead time forecast is as important as demand forecast to **stock levels / fill rate**



It will require ~50% more safety stock to ensure a 90% service level for Vendor 2 during lead time

Vendor	Median Lead Time (Days)	90th Percentile (Days)
Vendor 1	20	23
Vendor 2	20	35

Less variability = More predictability = Less safety stock required = Lower holding costs

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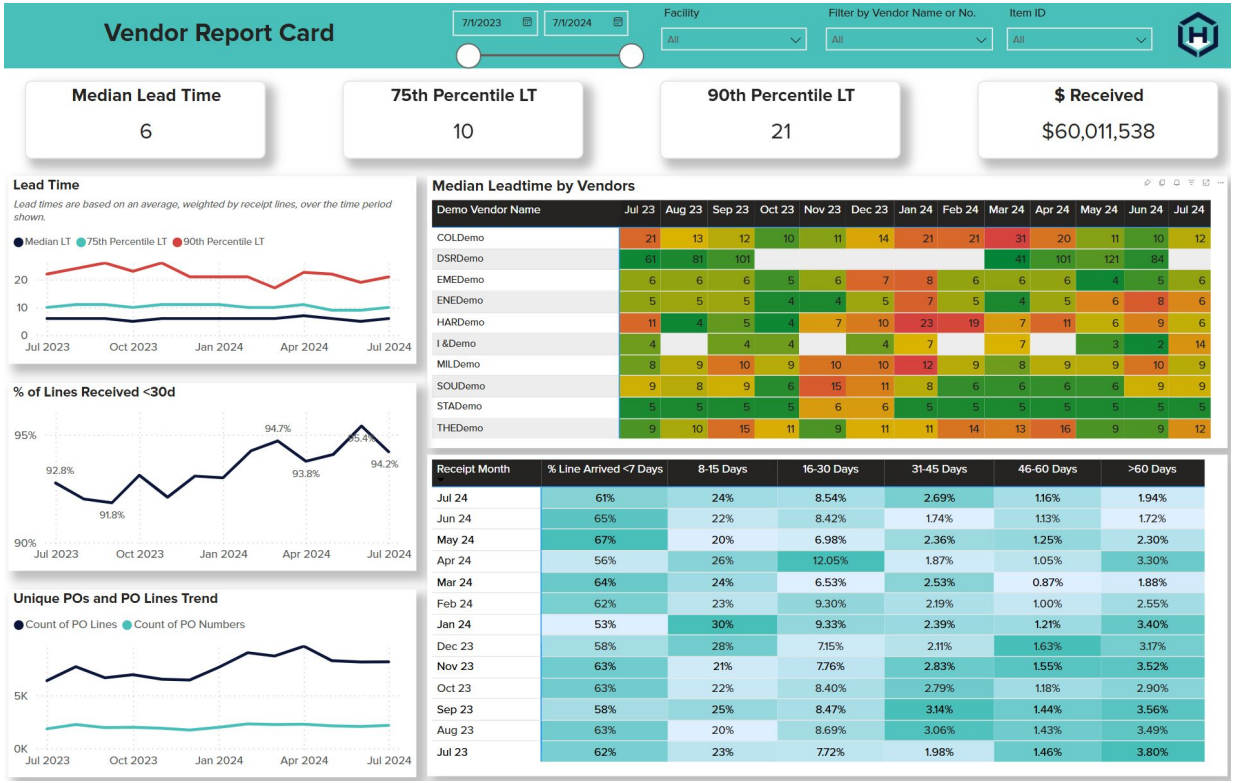
Track **supplier performance** and **hold them accountable**, down to the item level



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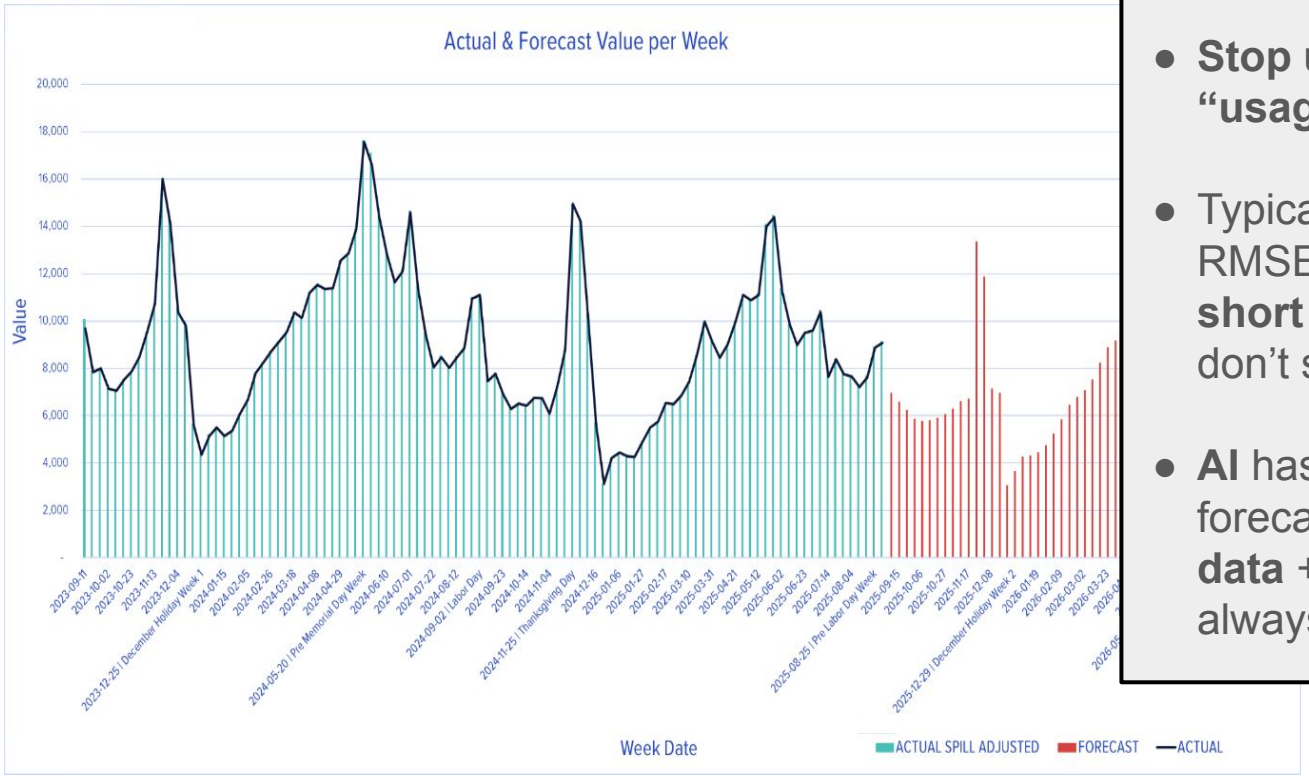
Forecast accuracy should track **total** error over **lead time**, focus on **item level**



- **Stop** using **simple "usage"** (e.g. 52wk avg)
- Typical metrics (e.g. RMSE) over-penalize **short term noise**, and don't show **actual cost**
- **AI** has come to demand forecasting, but **clean data** + simple fcst will always beat sexy AI

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