

Navigating Proposed Tariffs: Strategies for Resilience in the CPG Industry

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The latest round of tariffs could have significant impacts on consumer packaged goods (CPG) companies including beauty, health, wellness, pet, and food and beverage companies, depending on whether they import raw materials, ingredients, or finished products. Recent proposals include tariffs on goods imported from key trading partners such as Mexico, Canada, and China. These changes could create ripple effects across supply chains, pricing structures, and consumer demand. Industry leaders have expressed concern that these tariff actions could inject massive costs into an already inflation-weary economy and potentially trigger damaging trade wars, affecting key export markets vital to CPG companies.

Impact on Businesses

- **Increased Costs of Imports:** If tariffs are imposed on ingredients (such as fruit, vegetables, natural oils, plant extracts, sugar, dairy, and grains), or packaging materials (such as aluminum or tin for cans and compacts), companies will face significantly higher costs.
- **Supply Chain Disruption:** Many CPG companies rely on global supply chains. Tariffs can make foreign suppliers more expensive, forcing

businesses to either absorb the cost or seek alternative suppliers, which may not be as efficient or cost-effective.

- **Reduced Competitiveness and Demand Shifts:** For companies that depend on imported ingredients or finished goods, higher costs due to tariffs, if passed on to the consumer, can make them less competitive compared to domestic producers or international rivals from countries not subject to heightened tariffs. Consumers may opt for lower-priced alternatives, especially for non-essential or premium products.
- **Retaliatory Tariffs and Export Challenges:** If the U.S. imposes tariffs, other countries may continue to respond with their own, making it more expensive for U.S. CPG companies to export their products. While some of these costs can be offset with duty drawback claims, businesses that rely on international sales could see a decline in market access or a reduction in sales due to higher costs for international consumers.
- **Impacts of Changes in Sourcing and Manufacturing:** To avoid tariffs, some companies may shift production to domestic sources or move operations to countries with lower tariffs. This transition can be expensive and time-consuming, requiring adjustments to supply chain logistics, regulatory compliance, and operational infrastructure.

While larger companies may have the resources to absorb costs or navigate tariff challenges more effectively, smaller businesses could struggle with higher expenses, reduced profit margins, and difficulty in securing financing. Stock valuations may also decline, forcing businesses to sell more product to generate the same level of funding or capital raising.

Strategic Approaches to Managing Tariff-Driven Challenges

To mitigate the risks associated with tariff-driven cost escalations, CPG companies should consider the following strategies:

- **Advanced Procurement and Stocking Nonperishable Goods:** Purchasing key ingredients and materials in advance, where feasible, can help lock in current prices and hedge against cost increases. This strategy is

particularly beneficial for nonperishable goods or those with a long shelf-life, but requires sufficient storage capacity and capital reserves.

- **Diversified Sourcing and Market Expansion:** Identifying alternative suppliers in non-tariffed regions or domestic markets can reduce dependency on affected imports. Diversifying market reach can help companies mitigate risks associated with tariffs in specific regions. Exploring multiple sourcing opportunities could also help companies be nimble should additional regions become subject to increased tariffs.
- **Freight and Supply Chain Optimization:** Working with freight companies to bulk shipments and consolidate logistics can help reduce transportation costs. Additionally, upgrading inventory tracking systems can improve supply chain management, reducing waste and optimizing procurement strategies.
- **Acquiring a Manufacturer for Cost Control:** Some companies may opt to acquire manufacturing facilities rather than sourcing from third parties, providing greater control over costs and supply chain efficiency.
- **Cash Flow and Financial Planning:** If tariffs lead to higher costs, companies should evaluate opportunities to cut down on trade expenditures, focus on high-performing SKUs, maximize supplier contracts, and consider scaling back marketing expenses where necessary.
- **Shipment Route Optimization:** Evaluate changing the route of shipments when the country of origin is not subject to heightened tariffs in order to avoid jurisdictions where heightened tariffs are imposed.
- **Duty Reduction Strategies:** Work with your advisors to assess the applicability of duty reduction strategies, including the use of Bonded Warehouse storage, Foreign Trade Zones, and other methods. For multi-tiered transactions, explore whether First Sale valuation could offer monetary savings by allowing importers to use the first sale price as the basis for the customs value.
- **Ensure Correct Classifications:** Verify the accuracy of all [Harmonized Tariff Schedule \(HTS\) classifications](#) and country of origin codes to eliminate any unnecessary tariff impact.
- **Review Commissions and Fees:** Conduct a thorough review of all paid commissions, services, and fees associated with transactions. Identify any

that may be legally excluded from the customs value to reduce duties. This includes examining the nature of the services provided and ensuring they meet the criteria for exclusion under customs regulations, potentially lowering the overall duty liability.

- **Prioritize Transparency and Accessibility:** In addition to these potential approaches, and in instances where they are inapplicable or cost-prohibitive, companies should prioritize transparency with their vendors, investors, lenders, and, most importantly, their customers. Consumers may more favorably accept cost increases or adopting pricing models, such as dynamic pricing, due to the widely discussed nature of tariffs and their economic repercussions for growing businesses. In addition to transparency, companies should ensure that consumers can easily access information on where to buy products in a manner that aligns with their spending philosophy, in the event of any [retailer bans](#).

As the current administration continues to focus on tariffs as a tool for trade policy, the CPG industry must remain agile in responding to cost pressures, supply chain disruptions, and shifting consumer expectations. Companies that proactively address these challenges through strategic sourcing, financial planning, and operational adjustments will be better positioned to withstand the impact of tariffs and maintain stability in a volatile trade environment.

For more information or to discuss how these tariffs might affect your business, please contact [Megan Klingbeil](#), Food and Beverage Group Partner and Beauty, Health, and Wellness Group Co-Leader, [Robyn Conte](#), Senior Manager in Anchin's Food and Beverage and Branded CPG Groups, or your Anchin Relationship Partner.