INTERNATIONAL FASTENER EXPO2025

Navigating tariff-driven cost increases

strategic considerations for purchasing, inventory & supply chain managers

Josh Bartel
CEO, Hydrian Inventory Optimization

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

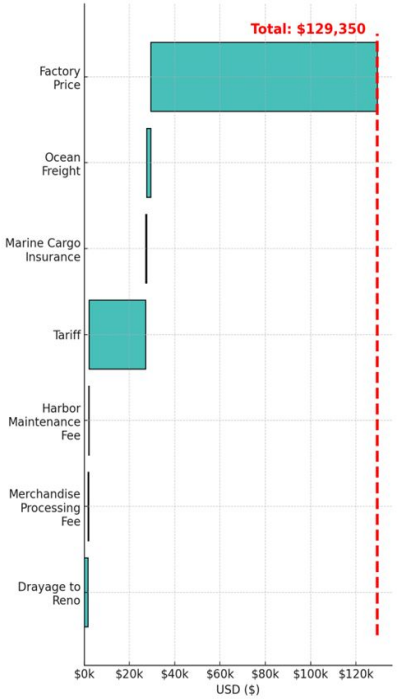
- **Tariffs** are one source of **uncertainty** around cost - we'll discuss many
- Effective **inventory management** is key to managing cost risk
- You will leave with clear steps to **protect margin** and **service**
- You will know **what to measure**

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

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

Creating a **cost waterfall** can accurately attribute **drivers of change**

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**

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** (not headlines)
- 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

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 40% correctly guessed** if their key commodity cost would be higher or lower in 6 months (twice!)
- Focus on **speed of response**, not price prediction
- If you buy ahead for discount, have a clear **sell-down timeline**
- Set rules for **review thresholds**, and execute quickly

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

- Lock or hedge only when **sell price** is **hard to change**
- Otherwise it's far less risky to **react quickly when change happens**
- …Or when you know you can **sell at a profit** at the locked cost
- E.g. specialty fasteners w/ **stable prices** but **volatile commodity** price
- Most customers accept that prices move when inputs move
- Remember: most buyers are not good at guessing price direction

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
- When a threshold is hit, check competitor pricing and customer terms
- 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

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 investment opportunity
- **Risky or erratic** items need tight caps and **lower service targets**
- **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; risk of excess / dead stock a primary factor

Key Purchasing Decisions

Supplier Outage Avoidance	• Frequency / duration of past outages for this item, product line, vendor • Market risk of an extended vendor stockout vs margin taking opportunity of being “last man standing” • Risk of item discontinuation, “spoilage”, etc
One-time Supplier Incentives	• Does the discount offset the added holding cost and added risk of excess / dead stock? E.g. a 10% discount has negative value if 10% of the buy ends up in liquidation. • What basket of goods will meet the incentive while maximizing our fill rate boost and minimizing the time to sell down the excess?
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 buy-ups and one-off inventory investments helps prove the **return** of those **opportunities**

Buy Up	Date of Purchase	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	9/29/2018	$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
One Time 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

This is only to serve as a rough example - data included is for illustration only

Systematic excess management gives us better control and ensures **discipline** as inventory moves along the “conveyor”

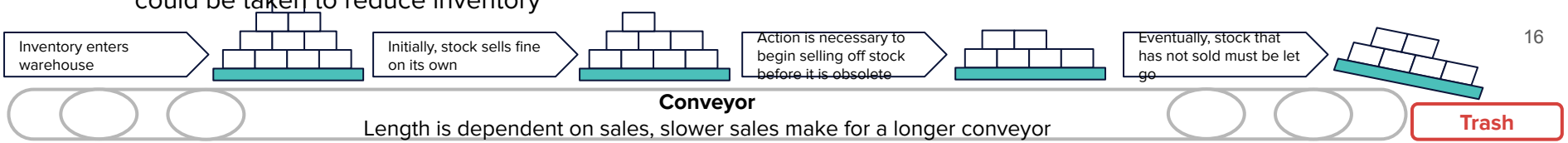
Measuring inventory health

- Time since last sale (last time a box was taken off the conveyor)
- Estimated days on hand / time to obsolescence (length of conveyor, which can change)

Tracking inventory on the conveyor

- Developing systematic thresholds to take action on items as they move along the conveyor will help prevent excess stock - before drastic measures are necessary (e.g. selling below cost, discarding, etc)
- The more systematic, the more disciplined the process becomes
- Table to the right contains examples of actions that could be taken to reduce inventory

Action	Example
Price markdowns	Mark halfway down to cost
Promotions	Sell through clearance section of 3rd parties 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

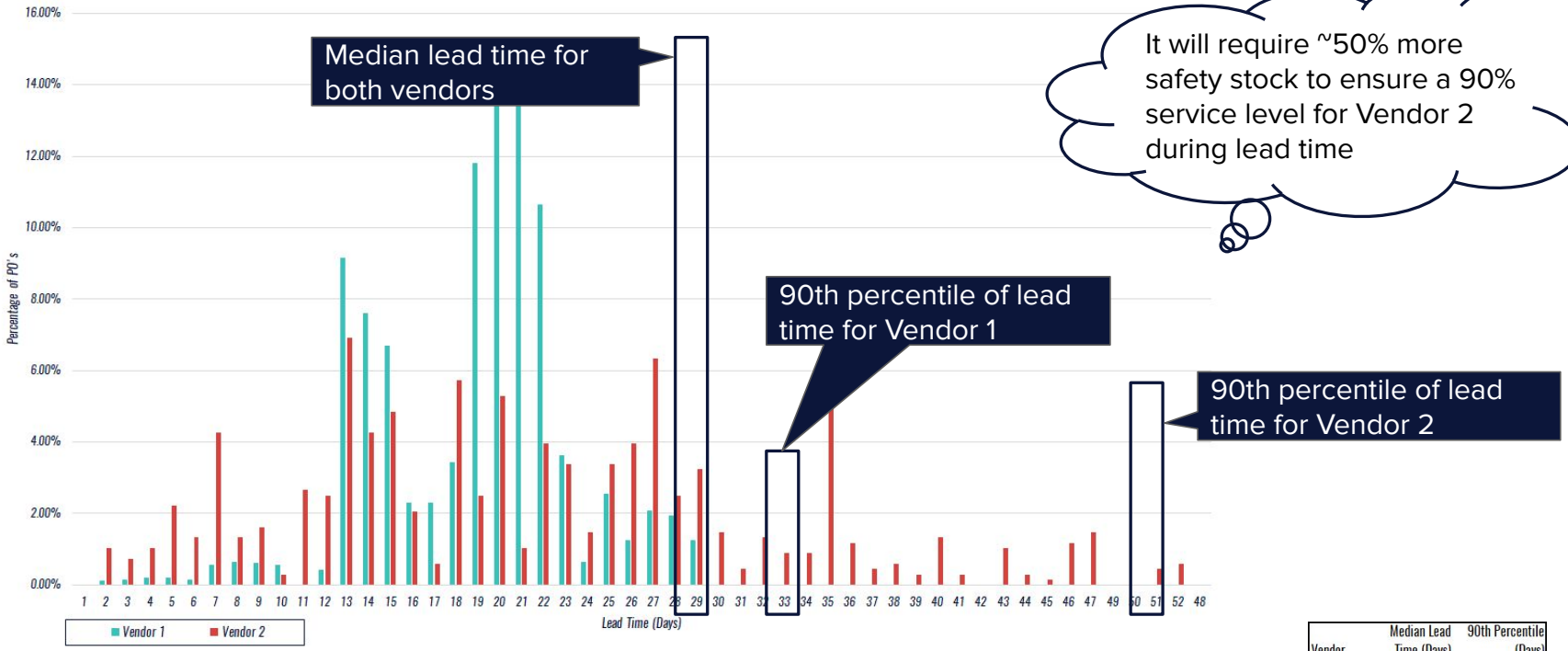


Hydrian can build recommendations into excess reporting so steps can be taken to move items before demand completely evaporates.

Better **demand forecasting** and **lead time accuracy** reduces cost 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)

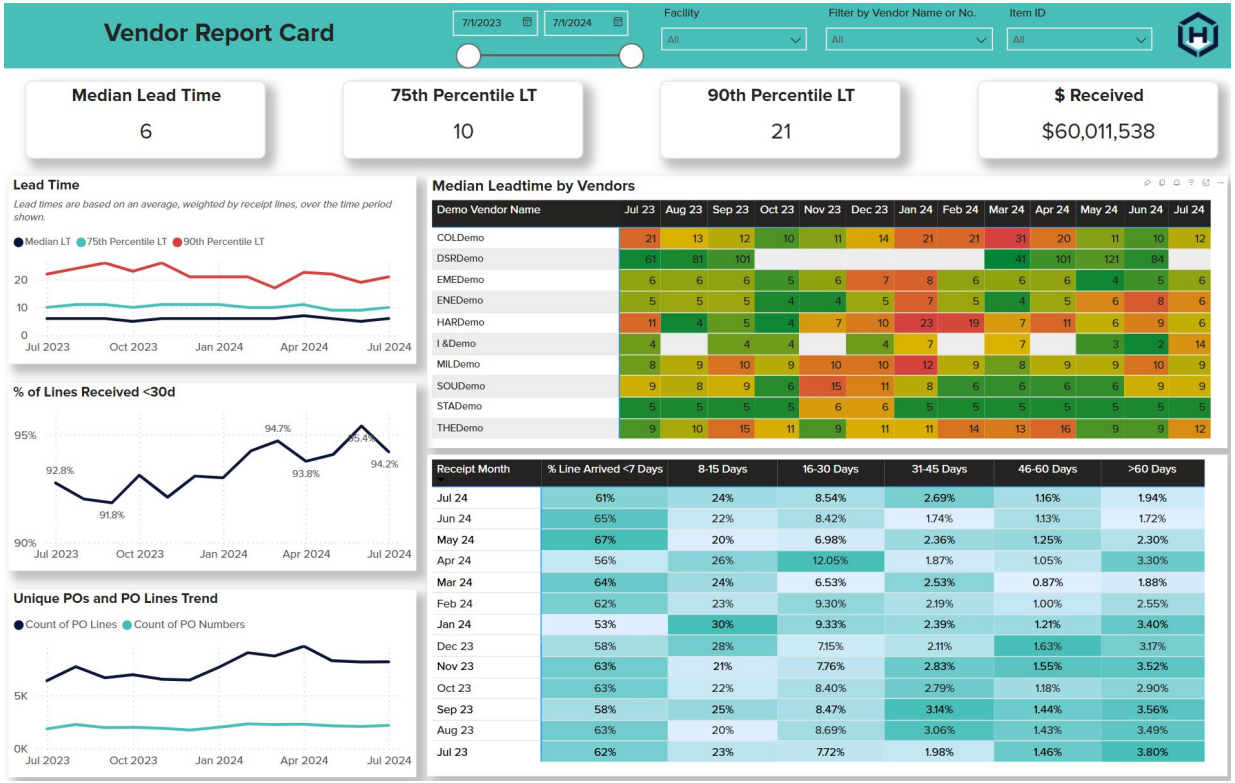
Lead-time Patterns Cannot be Described as a Single Number



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

Example: Supplier performance dashboard



Demo Vendor Name	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24	Jul 24
COLDemo	21	13	12	10	11	14	21	21	31	20	11	10	12
DSRDemo	61	81	101						41	101	121	84	
EMEDemo	6	6	6	5	6	7	8	6	6	6	4	5	6
ENEDemo	5	5	5	4	4	5	7	5	4	5	6	8	6
HARDemo	11	4	5	4	7	10	23	19	7	11	6	9	6
I &Demo	4		4	4		4	7		7		3	2	14
MILDemo	8	9	10	9	10	10	12	9	8	9	9	10	9
SOUDemo	9	8	9	6	15	11	8	6	6	6	6	9	9
STADemo	5	5	5	5	6	6	5	5	5	5	5	5	5
THEDemo	9	10	15	11	9	11	11	14	13	16	9	9	12

Receipt Month	% Line Arrived <7 Days	8-15 Days	16-30 Days	31-45 Days	46-60 Days	>60 Days
Jul 24	61%	24%	8.54%	2.69%	1.16%	1.94%
Jun 24	65%	22%	8.42%	1.74%	1.13%	1.72%
May 24	67%	20%	6.98%	2.36%	1.25%	2.30%
Apr 24	56%	26%	12.05%	1.87%	1.05%	3.30%
Mar 24	64%	24%	6.53%	2.53%	0.87%	1.88%
Feb 24	62%	23%	9.30%	2.19%	1.00%	2.55%
Jan 24	53%	30%	9.33%	2.39%	1.21%	3.40%
Dec 23	58%	28%	7.15%	2.11%	1.63%	3.17%
Nov 23	63%	21%	7.76%	2.83%	1.55%	3.52%
Oct 23	63%	22%	8.40%	2.79%	1.18%	2.90%
Sep 23	58%	25%	8.47%	3.14%	1.44%	3.56%
Aug 23	63%	20%	8.69%	3.06%	1.43%	3.49%
Jul 23	62%	23%	7.72%	1.98%	1.46%	3.80%

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Thank you!

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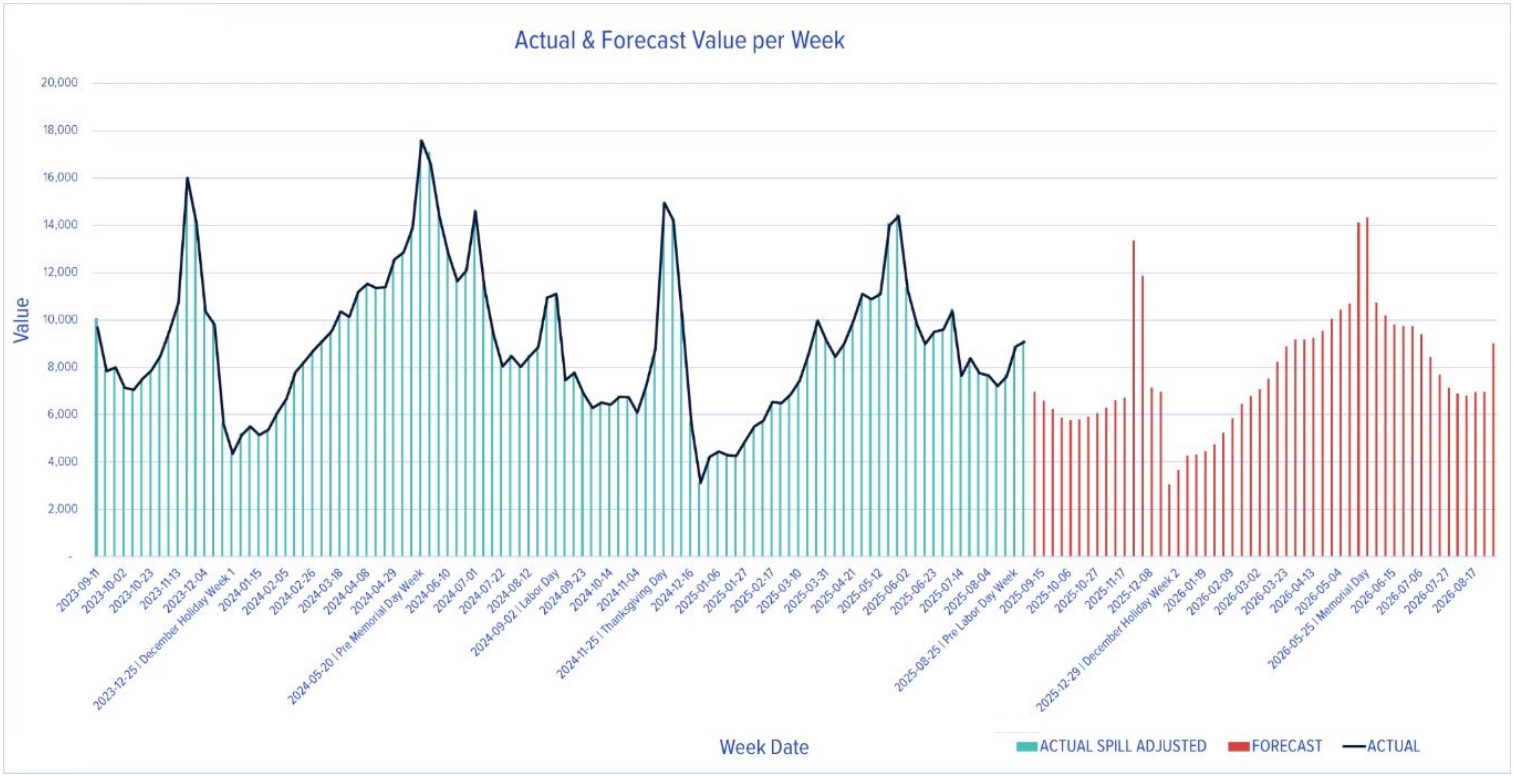
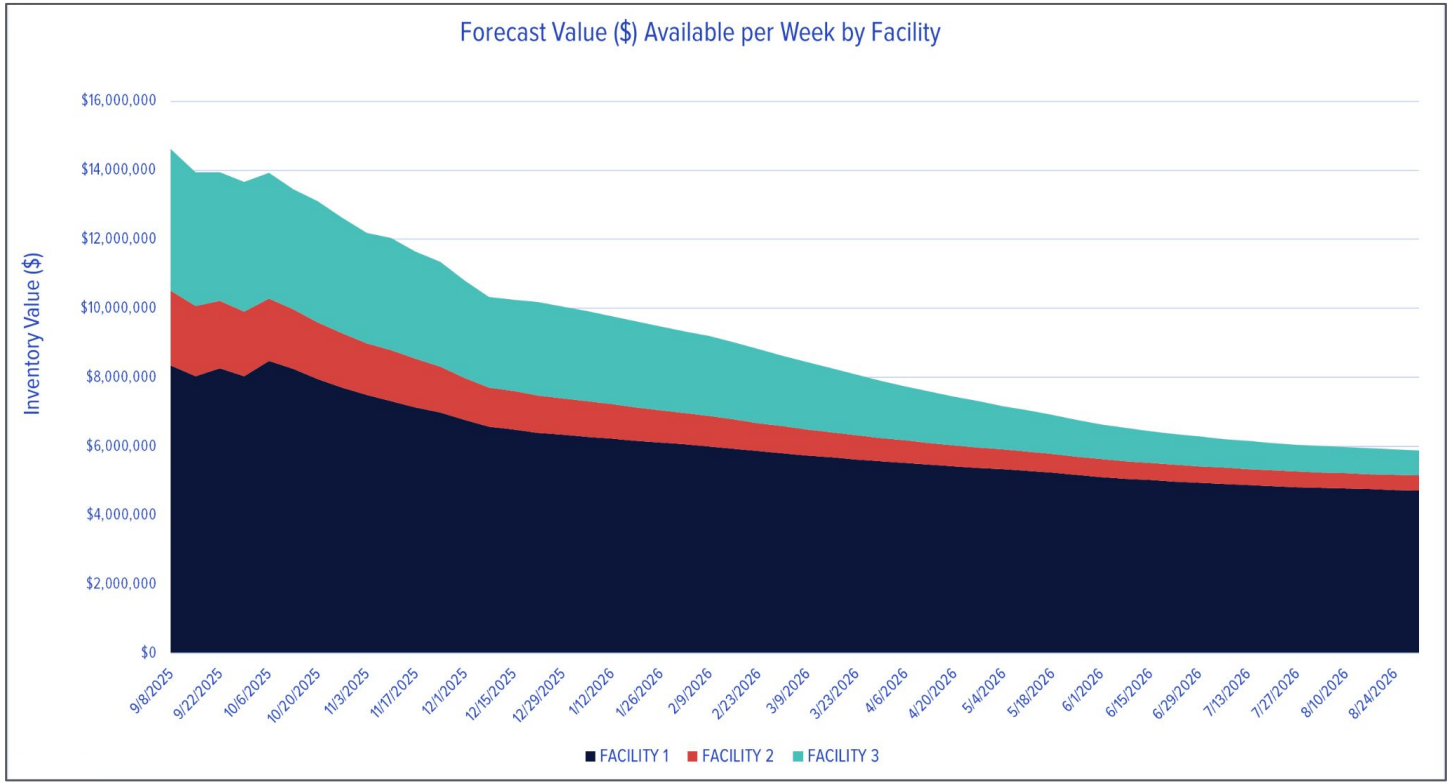
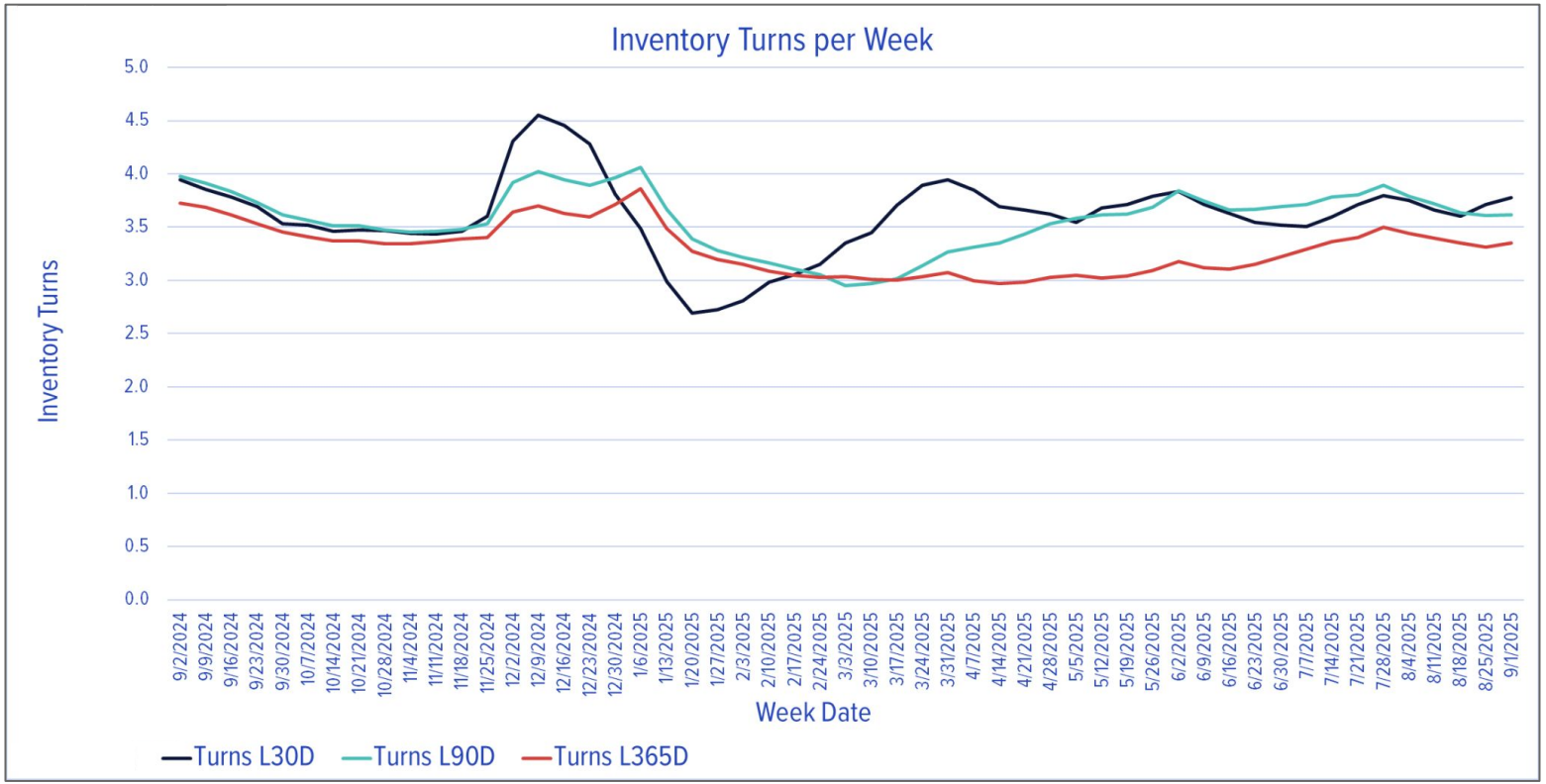
Demand Forecast Visual



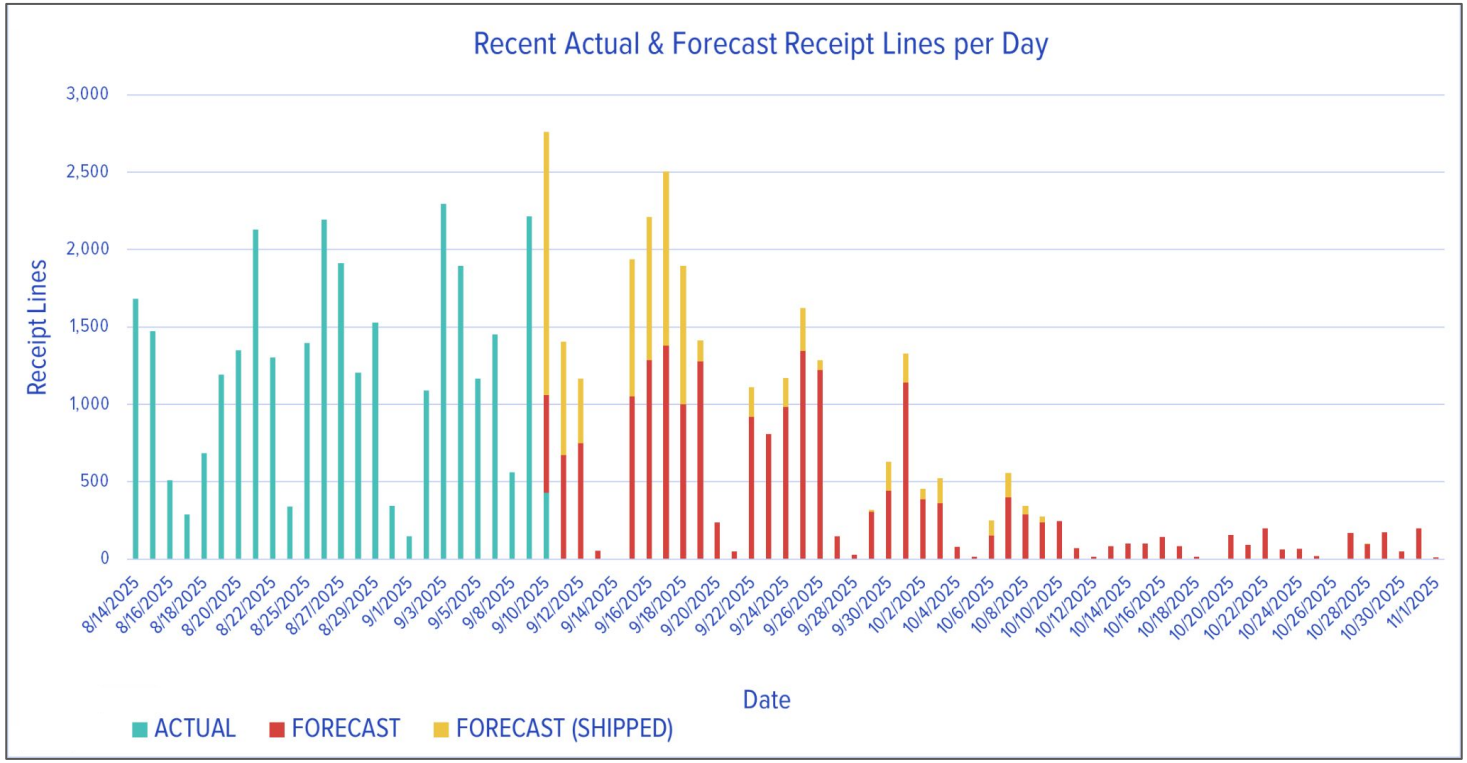
Inventory Forecast Visual



Inventory Turns Visual



Receipt Forecast Visual



Leadtime Visual

	Median Leadtime by Receipt Month									
	24-Dec	25-Jan	25-Feb	25-Mar	25-Apr	25-May	25-Jun	25-Jul	25-Aug	25-Sep
Vendor 1	11	11	14	15	11	11	14	12	14	14
Vendor 2	273	270	240	322	341	275	248	365	268	107
Vendor 3	38	31	29	37	38	33	42	53	40	36
Vendor 4	31	32	39	37	30	32	30	31	30	31
Vendor 5	29	29	35	41	26	36	34	43	47	49
Vendor 6	24	21	25	24	19	23	18	24	28	22
Vendor 7	34	34	34	36	34	48	43	34	35	30
Vendor 8	25	23	26	25	22	25	22	24	26	32
Vendor 9	47	46	50	51	46	50	49	52	51	54
Vendor 10	19	21	23	24	20	20	20	22	21	26

Cost Change Visual

Item ID	Vendor	2019 Avg. Unit Cost	2020 Avg. Unit Cost	2021 Avg. Unit Cost	2022 Avg. Unit Cost	2023 Avg. Unit Cost	2024 Avg. Unit Cost	2025 Avg. Unit Cost
12345	Vendor 1	$0.39	$0.39	$0.40	$0.45	$0.46	$0.50	$0.52
12345	Vendor 2	$0.45	$0.50	$0.49	$0.49	$0.50	$0.53	$0.56
12345	Vendor 3	$0.80	$0.72	$0.79	$0.81	$0.81	$0.90	$0.90
3263	Vendor 1	$8.73	$8.74	$8.78	$9.03	$9.49	$9.57	$10.15
3263	Vendor 2	$8.80	$9.27	$9.75	$9.76	$9.67	$10.29	$9.20
3263	Vendor 3	$9.61	$9.46	$10.31	$10.51	$10.54	$11.24	$9.35
990369	Vendor 1	$12.68	$12.68	$12.19	$11.93	$12.13	$12.92	$13.13
990369	Vendor 2	$13.55	$13.32	$12.47	$12.35	$13.50	$13.45	$13.73
990369	Vendor 3	$14.38	$14.30	$12.87	$13.11	$14.39	$13.54	$12.50
990369	Vendor 4	$15.18	$14.60	$13.28	$13.92	$14.67	$13.74	$13.24

Days on Hand Visual