Electronic Components Industry Association

Tariffs, the Ultimate Disrupter

Following recent research, John Denslinger takes a closer look at the impact of tariffs on the electronic component distribution chain in this article for *Electronics Sourcing North America*.

In tennis there's a term describing a totally self-induced, missed scoring opportunity called 'unforced error'. When it happens, the opponent immediately benefits. Tariffs, in my judgement, are akin to the unforced error, but unlike the tennis analogy the benefit is rarely immediate. Protecting intellectual property and opening the China market to more US goods and services is truly long overdue and gravely needed for a healthy global economy. To date, nothing else has brought Chinese leadership to the table, so maybe the tariff route will be the catalyst for that elusive win-win solution.

Tariffs invariably snag multiple industries firsthand or through duty retaliation. Unfortunately, our electronics industry is part of that collateral damage. The tariff battle has brought us to the front lines.

From the industry leaders I've talked with, IP protection seemed to be the one prize drawing the strongest support and worth enduring all the hardship it causes. Yet each executive also voiced similar concern on the short/long-term customer relationship impact. Customers appear to be understanding, but for how long? So, how are tariffs actually being managed in the supply chain?

Overall, it appears manufacturers and distributors are handling supply disruptions competently. Both seem to be: absorbing all indirect costs associated with monitoring regulatory adherence; managing supply system and logistic issues; increasing customer communications; and restructuring some agreements while passing only direct tariff rates onto customers. That being said, one would think a pass-through on tariffs might be simple, but the facts do say otherwise.

In January, ECIA surveyed its members to better understand how tariffs were being managed. Here's a quick baseline:
1) The overwhelming majority of manufacturer and distributor respondents reported charging tariffs to customers for three months or more. It should be noted, a small percentage said they are not charging or planning to passthrough tariffs. I suspect, they're waiting it out hoping for an early settlement.

2) Again, an overwhelming majority said tariffs are invoiced per order basis.

3) About half of those charging tariffs, bill as a separate line item, but interestingly, a third reported amortizing the tariff in the unit price.

Okay, invoices are sent, how does the payment side look? In one word… ugly!

1) Late payment exposure increased although manufacturers fare much better than distributors. One probable reason: the number of served customers is much higher through distribution. Accounting reconciliation across a broad customer base could explain much of the payment delay.

2) Non-payment exposure increased as well. Again, distributors feel the pain more than manufacturers. Here the problem is not that clear. It could be a breakdown in accounting, legal, procurement, communications, or just plain indifference.

One final point of note: the administration of tariffs is not straight forward. There are cumbersome issues that cause confusion and disrupt the established flow of commerce:
1) Duty drawback - no one likes to pay first then file for reimbursement.

2) Tracking and routing of product landed in USA destined for Canada or México production

3) Country of origin labeling & paperwork 4) Improper EDI transaction set up None of us want to see the tariff situation continue for too long.

Let's hope for an early, successful settlement and an end to this ultimate disruptor.