

# Potential Impacts of Tariffs on Supply-Chain & Channels-to-Market

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Establishing and maintaining a viable channel-to-market network is a key component of a successful sales plan. Obtaining and retaining access to the right channels-to-market that support the sale of a company's goods or services is not an easy task.

Individual elements of a channel-to-market strategy vary by market, geography, type of customer, along with a variety of other factors related to how customers obtain products from their suppliers. As business conditions change and transitions occur in the marketplace, adjustments are required to maintain a competitive supply position.

Supply-chain disruptions can have a significant impact on the channel-to-market strategies of many companies. This was evident during the COVID 19 period which created sourcing problems on a global scale. Shortages of key raw materials, long lead times for critical components used in final product assembly, and a significant escalation in cost (for various reasons) forced companies to modify their channel strategies to meet the supply needs of their customers.

Entering 2025, global supply-chain disruptions loom again as a consequence of the US negotiating new tariffs with most of our traditional global trading partners. In light of this possibility, this article takes a look at the channels-to-markets typically used by suppliers in several market categories. It focuses on anticipated changes in the supply-chain in these scenarios which can subsequently impact on the channel-to-markets currently used by suppliers.

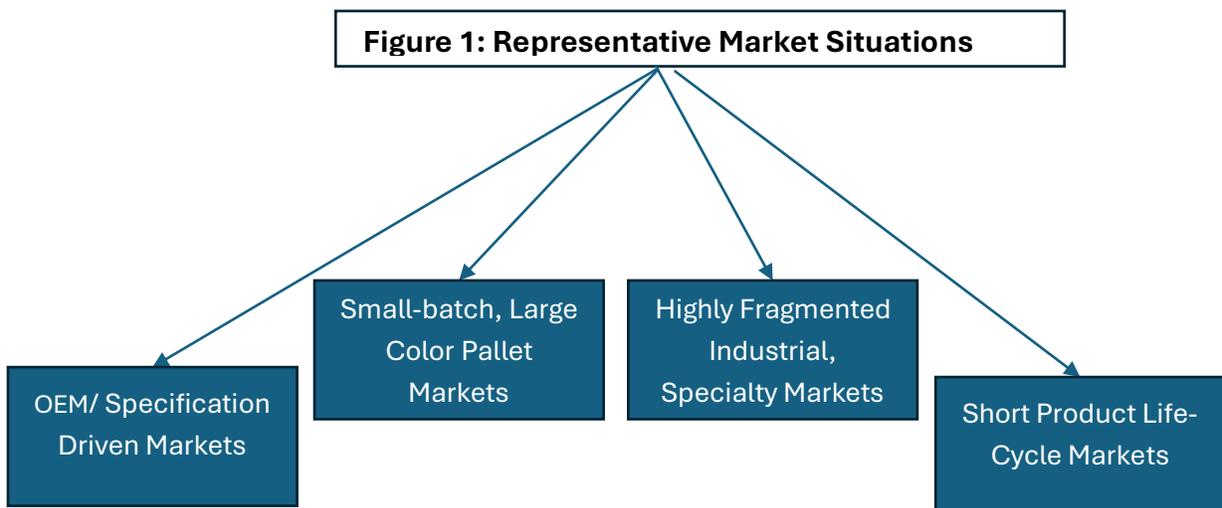
## Principle Channels-to-Market

Table 1 lists the major channel-to-market options used in our industry today.

Market Channel	Comments
Direct Sales Force	Direct hire personnel targeting a region, market, product line
Agents, Reps or Rep Organization	Complimentary individual sales support targeting specific needs
Co. Website Portals, Co. Stores	Direct customer to supplier ordering options
Distributors	Sales and inventory support, by region, by market, by product line
Internet Marketplaces	Sales through Amazon, other internet portals
Warehouses, distribution sites	Independent warehouses or companies distribution points
Market Specific Supply Co.	Market specific supply companies; Includes local supply support
Retail Stores	Retail stores including big box, major retail chains and specialty

## Representative Channel-to-Market Situation in our Industry

Four (4) market situations have been selected (**Figure 1**) for the different channels-to-market that their suppliers typically focus on in taking their products to market.



## **OEM Markets**

OEM markets normally demand a level of direct sales contact from their suppliers. Personnel relationships are a necessary channel-to-market component of the sales process. These relationships with the production-level personnel, are especially important Responsiveness to problems involving a suppliers products or services is an expectation.

In addition to direct sales, distributors represent a key channel-to-market partner serving the OEM market. Distributors provide warehousing, integrated inventory control, and local technical support services. Agents and warehousing service companies are also used to address specific channel needs.

The OEM supply-chain includes a network of primary (tier 1) and second tier (tier 2) suppliers who manufacture different components. These components undergo a level of sub-assembly at a Tier 1 and then final assembly at the OEM's final assembly point. It also includes suppliers of supporting materials including coatings and adhesives.

OEM supply-chain management commonly employs a just-in-time (JIT) philosophy. Under relatively static business conditions, this supply-chain, Including JIT inventory scheduling procedures, normally works well. This is true even considering that offshore sourcing of some components is frequently part of the process.

When significant and unanticipated disruptions occur in the OEM supply-chain, major adjustments in their channel-to-market strategies can be required by suppliers. This can include the necessity to change channel partners to retain the business with certain key customers.

Current tariffs already announced by the US and those that are pending will likely result in significant disruptions within the existing global OEM supply-chain. Shortages of certain components will create delays that ultimately slow productivity. In addition, cost for the same components will increase which will slow market demand.

For suppliers, the current channel-to-market network will also need to be altered to align with the revision in the supply chain. This is especially true for the supporting distribution network, as well as for the agents or representatives, and warehousing services.

### **Fragmented Markets**

The building and construction market is an example of a market with a large number of individual channel elements that need to be available at various times to complete a given project. It is also a market where the supply-chain is variable and for any given project the materials required to do the job can change significantly.

A number of channel-to-market strategies are used to effectively support sales of products sold into the B&C market. Direct sales personnel or rep organizations are important channels used to build relationships with the major construction and architectural firms.

Distributors play a key role in providing regional or local supply of materials along with warehousing services to ensure on-demand product availability. Professional companies, who specialize in specific areas of expertise, are contracted for specific tasks. Local handyman are sometimes used to address short-term project needs as well.

Local businesses often play an important role by providing same-day product supply to the worksite. These companies buy direct from the manufacturer, wholesalers, or from designated distributors and then inventory products to support local construction projects.

Direct-to-consumer channels-to-market, such as on-line marketplaces like Amazon, retailers such as hardware stores, and supplier website portals have become important channel additions.

As a result of the announced US global tariffs, significant impacts are expected on both the supply-chain and the channel-to-market strategies used by suppliers serving the B&C market. Construction materials including steel, lumber, and composite materials will be among the most important materials impacted by the tariffs.

The potential for shortages or extended lead-times for supply of key materials including the above is a likely outcome. Accompanying these changes the expected increase in cost of construction materials. This has the potential for creating an extended slow-down across the B&C industry.

As sourcing changes occur, suppliers may be required to reset their channel-to-market strategies to keep pace with the needs of their suppliers. Because of the many fragmented elements involved in serving this market, the ability of suppliers to maintain the desired level of support is a concern.

### **Short Product Life Cycle Markets**

Certain markets, such as consumer electronics, create demand through the regular introducing of next-generation products. The manufacturers business focus is to appeal to the purchasing behavior of the individual consumer.

Markets, such as consumer electronics, are high volume but often have short product life cycles of 12-18 months. As a result, companies selling products into such markets are faced with several challenges in devising a viable channel-to-market strategy.

The manufacturing and assembly processes associated with this market are often accomplished in part or entirely through offsite contract manufacturers. The scale of the market in this case is often global. As a result, the supply-chain that supports it is fragile on its own without any other major disruptions.

A direct sales effort is an important part of a suppliers channel-to-market strategy. Personal relationship with the key specifiers of materials is necessary to keep pace with design changes planned for next-generation products.

A strong distribution partner that can provide local or regional sales, technical support, and warehousing services, is a necessary channel-to-market element. A distributor that can provide other complimentary products also gives their supplier additional leverage at the actual manufacturing and assembly site.

The impact of global tariffs on short product life cycle consumer markets will be to force manufacturers to make significant changes to their existing supply-chain. Higher costs for raw materials will require a shift in sourcing strategies. Shortages of certain materials, as a result of such changes, will further disrupt the existing supply-chain.

As the supply chain and manufacturing strategies (including contract manufacturers) are revised, the channels-to-market partners that currently support the sales effort of current suppliers may no longer exist. New distributors and other channel partners, capable of supporting the business in alternative geographies, will need to be established.

### **Small-batch, Large Color Pallet Markets**

Small-batch manufacturing serves markets where there is a demand for customized or specialty products with a smaller volume requirement. In most cases this small-batch business is complemented by a customer requirement for a select number of high-volume products.

In the coatings market, representative small-batch customers are job shops or major manufacturers who have short-run, small volume specialty color requirement. Customers who purchase small-batch quantities focus on several key needs from their suppliers. First, the availability of custom or a full-range color palettes such as RAL. Second, flexibility in the quantities that can be ordered without a major penalty in price. Third is fast-turn and timely supply of small-batch products to the manufacturing site.

Direct-to-customer sales, through a portal within the supplier's website, have become an important channel-to-market tool for the small-batch market. Orders directly placed through the website allow product selection, pricing, order confirmation, ship-date and tracking information.

Direct sales play's a limited role for the small-batch market unless linked to customers who also purchase large volumes of additional products. Distribution's role in small-batch sales is also primarily limited to supporting the small-batch requirements of the customer as a tool to support their sales efforts for the higher volume business.

Pending tariffs will have a limited impact on the small-batch market. As costs increase, they will be passed along to the customer. In the event tariffs disrupt the existing supply-chain and a timely supply of raw materials is interrupted or delayed, small-batch sales would be impacted due to delay in the ability of manufacturers to respond to their small-batch requirements.