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Technology Innovation
Management

Up Our Game, Canada!

SME Strategies to Confront U.S. Tariff Threats

Five types: Short-term cost reduction, Long-term adjustments, Market diversification, Collaboration & advocacy, & Value addition & differentiation

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Root of the problem

- President-elect Donald Trump's proposed 25% tariffs on Canadian imports are expected to significantly impact small & medium-sized enterprises (SMEs) across various sectors
- 77% of Canada's exports were destined for the U.S. in 2023, the repercussions of the tariffs are expected to be substantial across various industries
- Ongoing waves of U.S. tariff threats have become “normal”

Problems Canadian SMEs face due to U.S. tariff threats

- **Heavy reliance on the U.S. market** – Dependence on U.S. markets makes Canadian SMEs highly vulnerable to tariff-related disruptions
- **Risk of revenue & customer loss** – Higher prices due to tariffs make Canadian products less competitive in U.S., leading to lost sales & customers switch to non-Canadian suppliers
- **Supply chain & operational disruptions** – Tariffs increase input costs from U.S., forcing Canadian SMEs to reconfigure sourcing, logistics, & production processes
- **Barriers to rapid adaptation** – It is difficult to build new supplier networks, sales channels, & operational strategies quickly enough to remain competitive and/or survive with sudden, large tariffs
- **Limited resources & influence** – Compared to larger firms, SMEs have fewer financial, operational, & legal resources to navigate & influence trade policy changes

Introductory remarks

- Tariffs create unpredictability in costs, sourcing decisions, & company strategy
- Tariffs shape SME valuations, investment decisions, & cross-border deals
- Tariffs are political tools that have broader consequences than just trade
- Canadian SMEs face disruption & cost escalation
- Canadian SMEs are most vulnerable to tariffs due to limited resources & narrower supplier bases, while large multinationals often circumvent or offset tariff burdens
- Canadian SMEs expected to be most affected operate in sectors such as automotive, manufacturing, retail, electronics, & healthcare devices
- Canada-U.S. relationships are deeply interdependent, making retaliatory measures & negotiations quite complex

SME Strategies by Type

Strategy

- Structured, actionable approach that a Canadian SME can implement to confront U.S. tariff threats
- Involves a deliberate set of actions aimed at mitigating the negative effects of tariffs on a SME's operations, costs, & market access
- Broader than isolated tasks or tactics— strategy encompasses a cohesive set of decisions designed to achieve a specific outcome

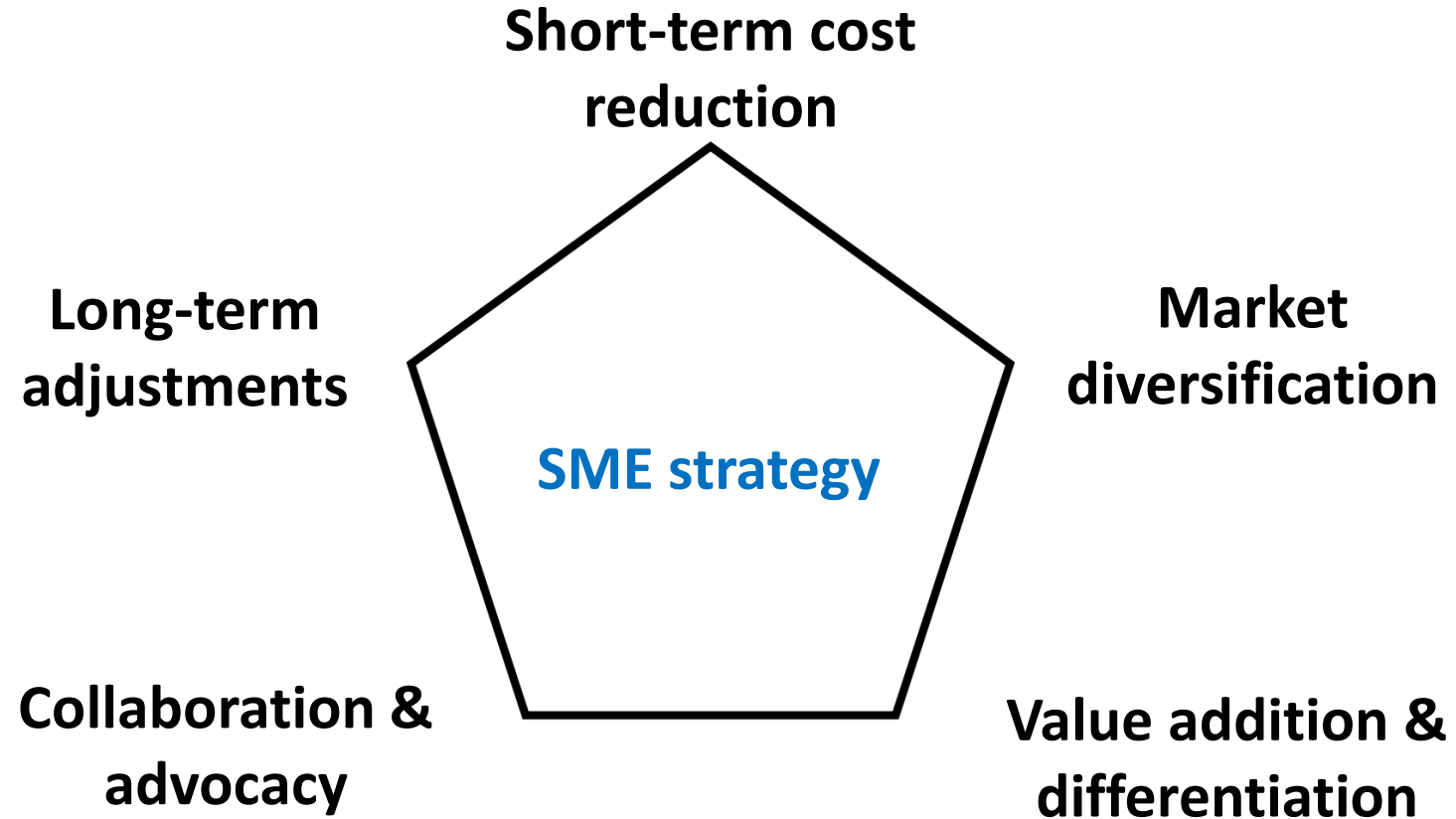
Characteristics of a SME strategy

- **Actionable:** Includes clear steps or mechanisms that SMEs can follow to address tariff threats
- **Purpose-driven:** Each strategy addresses a specific challenge posed by U.S. tariffs, such as cost increases, market access issues, or supply chain disruptions
- **Long-term or short-term goals:** Aimed at immediate cost reduction (e.g., financial hedging) or long-term adjustments (e.g., reshoring operations)
- **Proactive or reactive:** Proactive prepares SMEs to avoid tariff risks (e.g., diversifying markets), while others are reactive, helping SMEs cope with existing tariff impacts (e.g., lobbying for tariff exemptions)
- **Broad enough to encompass multiple tactics:** A single strategy may include several specific tactics. For example, the strategy "Apply tariff engineering" might involve reclassifying products under lower-tax HTS codes, leveraging bonded warehouses, or modifying product designs

Strategy types

	Strategy type	Distinctiveness
1	Short-term cost reduction	Can be implemented quickly to offset immediate tariff impacts
2	Market diversification	Explore new opportunities to reduce dependence on the U.S. market
3	Long-term adjustments	Require investment but offer sustainable solutions
4	Collaboration & advocacy	Focused on collective action to influence trade policies
5	Value addition & differentiation	Enhance product appeal & retain customer loyalty despite higher prices

Strategy framework



1. Short-term cost reduction ^{1/2}

Adjust pricing or manage costs

- Assess whether U.S. buyers & consumers can bear part of the tariff cost
- Pass through the tariff to U.S. importers & buyers
- Absorb some of the tariff costs to avoid losing competitiveness in U.S. market
- For differentiated products, justify price increases emphasizing product quality & branding
- Leverage Canadian government export assistance programs, tax incentives, & grants to counteract tariff-induced cost increases
- Leverage Export Development Canada (EDC) & Trade Commissioner Services
- Take advantage of R&D tax incentives to offset costs incurred due to tariff-related adjustments

1. Short-term cost reduction ^{2/2}

Work closely with U.S. importers & customers as well as your suppliers

- Renegotiate terms that share or shift tariff burdens
- Reduce markups negotiating with your suppliers
- Sell to importers stockpiling goods & diversifying suppliers

Defer tariff payments

- Store goods in U.S. bonded warehouses to defer tariff payments until sale is finalized

Key takeaways for short-term cost reduction strategies

- Pricing flexibility & negotiation with buyers are crucial for minimizing tariff impact in the short term
- SMEs should explore cost-sharing opportunities with U.S. partners & adjust pricing based on market conditions
- Utilizing government incentives & financial tools (like bonded warehouses) can provide temporary relief from tariff costs

2. Market diversification ^{1/2}

Expand into new global markets

- Expand export activities to non-U.S. markets
- Leverage free trade agreements (FTAs) to expand into Europe (CETA), the Asia-Pacific (CPTPP), & emerging markets
- Increase digital presence to reach international & domestic customers

Strengthen presence within Canada

- Grow market share within Canada
- Enhance branding, innovation, & partnerships with domestic retailers & distributors
- Take advantage of government contracts & incentives aimed at supporting SMEs

2. Market diversification 2/2

Maintain or grow U.S. sales despite tariffs

- Utilize Amazon, Shopify, & other digital platforms to sell directly to U.S. & non-US consumers, reducing dependence on U.S. distributors
- Take advantage of R&D tax incentives to offset costs incurred due to tariff-related adjustments

Key takeaways for marketing diversification strategies

- International diversification is critical for SMEs seeking to mitigate U.S. tariff threats
- Strengthening domestic market share provides a fallback strategy in case U.S. exports decline
- Direct-to-consumer sales in the U.S. via e-commerce can bypass traditional trade barriers

3. Long-term adjustments 1/3

Reposition production & sourcing

- Work with fewer, more reliable suppliers to simplify supply chain & reduce risks associated with tariff volatility
- Relocate production facilities to bypass tariffs & maintain close ties to the customer base
- Nearshore or reshore operations to reduce logistical challenges & tariff exposure
- Shift to non-U.S. suppliers for raw materials & components to avoid tariff-related cost increases

3. Long-term adjustments 2/3

Improve efficiency, reduce waste, & lower costs over time

- Adopt technology solutions to streamline operations & reduce costs
- Implement lean manufacturing & technology-driven supply chain tools to reduce waste & improve cost efficiency
- Explore just-in-time manufacturing to reduce reliance on tariffed imports
- Conduct thorough risk assessments to understand the financial implications of tariffs & develop strategies to maintain profitability, such as cost reduction initiatives or price adjustments

3. Long-term adjustments 3/3

Leverage existing trade regulations & classification tactics

- Apply tariff engineering, & reclassify under different Harmonized Tariff Schedule (HTS) codes that carry lower duty rates
- Adjust the design, classification, or assembly process of products to minimize tariff impact under different customs codes
- Work with trade consultants to reclassify products under lower-duty tariff codes
- Modify product design & assembly locations to minimize tariff exposure

Develop contingency plans

- Continuously monitor trade policies & develop contingency plans for tariff escalation

Key takeaways – Long-term adjustments

- Structural & supply chain adjustments provide lasting protection by reducing tariff exposure through relocation & supplier diversification
- Operational efficiency measures ensure cost savings that help SMEs remain competitive regardless of tariffs
- Regulatory strategies can provide immediate relief but require continuous adaptation

4. Collaboration & advocacy

Influence trade policy through group efforts

- Join trade associations & coalitions to advocate for policy adjustments & tariff exemptions
- Participate in policy discussions to influence future trade negotiations

Engage with U.S. companies to seek mutual tariff relief

- Collaborate with U.S. businesses affected by tariffs to push for policy reforms

Work with specialized lawyers & investors

- File for tariff exemptions through legal counsel with investor backing

Key takeaways – Collaboration & advocacy

- Joining trade associations is the most feasible strategy for SMEs to advocate for policy changes without high legal costs
- Cross-border collaboration is beneficial but difficult for SMEs without strong U.S. business ties
- Legal & regulatory strategies, like filing for tariff exemptions, require significant resources & may not be viable for smaller firms

5. Value addition & differentiation

Enhance products to maintain competitiveness & justify premium pricing

- Offer premium features, bundling, or customization to justify higher prices despite tariffs

Build brand value

- Build brand loyalty by emphasizing unique Canadian product value propositions
- Enhance branding, innovation, & partnerships with domestic retailers & distributors

Make long term investment commitments

- Invest in R&D & innovation to create high-value, differentiated products
- Invest in branding & partnerships with retailers & distributors

Key takeaways - Value addition & differentiation

- Short-term differentiation can be achieved through customization, bundling, & branding efforts
- Long-term differentiation through R&D & domestic partnerships may not be immediately actionable for SMEs with limited resources
- Brand loyalty strategies can be effective without requiring large-scale investment

Provide temporary relief but do not offer long term stability

- Use financial instruments like futures contracts to stabilize prices & costs
- currency fluctuations to price products more competitively
- Import into the U.S. products that face a lower rate, then convert them into products that would have been subject to higher tariffs if imported directly

Outside of scope

- Mergers & acquisitions

Our Space

Our digital space includes

Articles	40
Slide decks	2
Web links	50
Total:	92

All content published
after January 1, 2019

Modules are Organized into Chapters

Chapters 1/2

1. SME strategies to confront U.S. tariff threats

- Short-term cost reduction
- Market diversification
- Long-term adjustments
- Collaboration & advocacy
- Value addition & differentiations

2. Sector-specific

- Automotive
- Retail & consumer goods
- Manufacturing & industrial
- Professional services (legal, accounting, consulting)

Chapters 2/2

3. Academic insights for Canadian SME exporters

4. Policy, economic, geopolitical dimensions

- Official government perspectives
- Academic analysis
- Canadian-specific concerns
- SME perspectives

5. Outlook

- Predictions
- Market & investment implications
- Tensions driving tariff policy

1. Short-term cost reduction ^{2/2}

- Pass through the tariff to U.S. importers & buyers
- Work closely with U.S. importers & customers to renegotiate terms that share or shift tariff burdens
- Sell to importers stockpiling goods & diversifying suppliers
- Absorb some of the tariff costs to avoid losing competitiveness in U.S. market
- Take advantage of R&D tax incentives to offset costs incurred due to tariff-related adjustments
- Store goods in U.S. bonded warehouses to defer tariff payments until sale is finalized
- Use financial instruments like futures contracts to stabilize prices & costs
- Monitor currency fluctuations to price products more competitively

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