Battling the retail disruption Hydra

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Hydra (noun)
Hy·dra

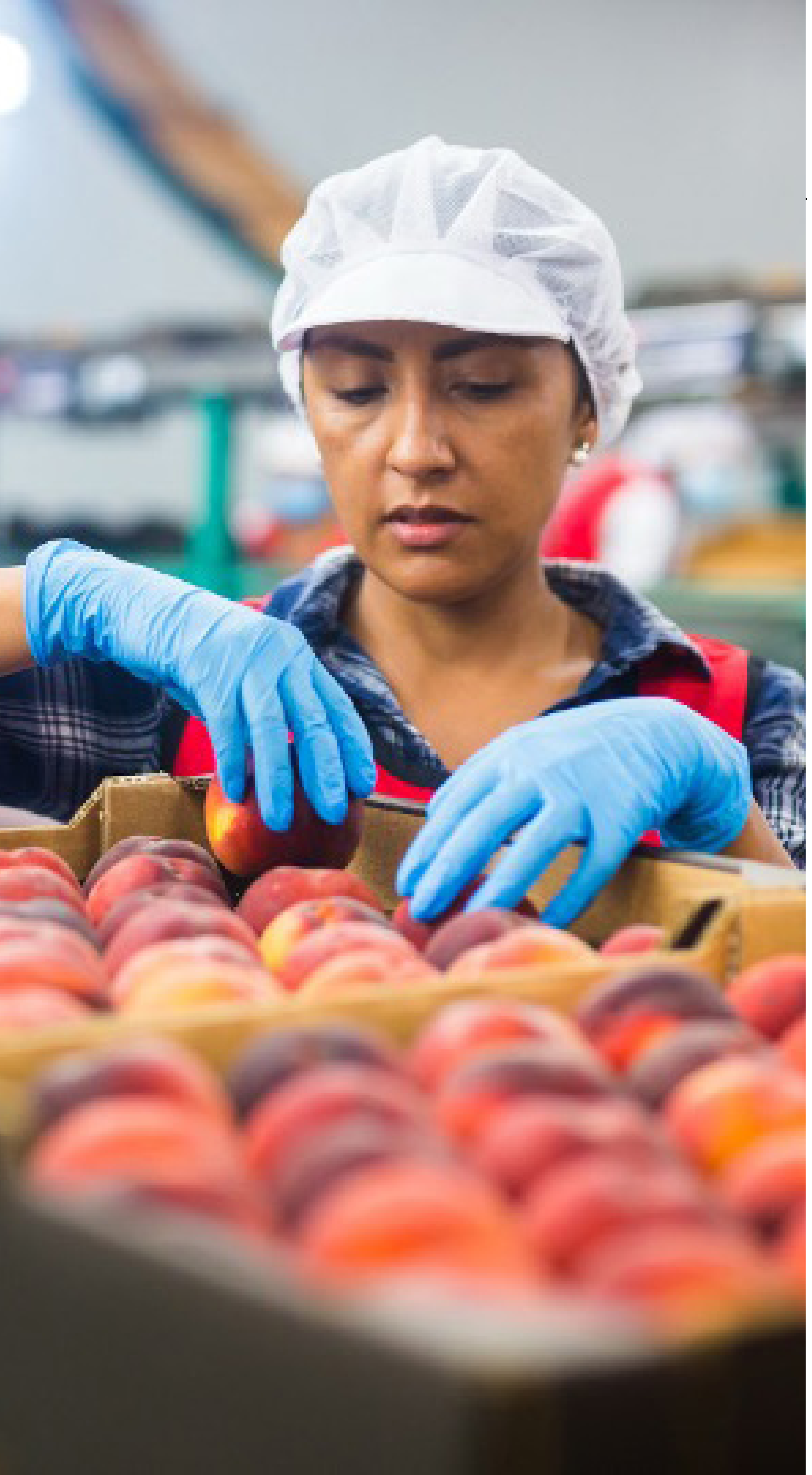
a many-headed serpent or monster in Greek mythology that was slain by Hercules.

Merriam-Webster

Retail excellence has never been simple. The fundamental offering—the right quantity of the right product at the right price in the right place—is a constant battle to get right. What makes it especially hard for retailers today is, well, everything else.

- Tariffs
- Inflation
- Margin pressures
- Consumer behavior changes
- Transportation disruptions
- Technology limitations

These are the many heads of the Hydra retailers fight every day. They're interconnected, and it's never enough to focus on one. This report is about how some retailers are winning that battle.



Tariffs

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IMPACTS ON RETAILERS

1 Margin pressure

Tariffs directly raise the landed cost of imported goods. More exposure means more margin pressure, with some categories like apparel, home goods, electronics particularly exposed.

50% of retailers saw gross margins fall 1–5% due to tariffs[1]

Retailers can absorb these costs or pass them on as higher prices, but consumers are increasingly price-sensitive, as we'll cover in a later section.

2 Rising logistics and inventory costs

Retailers experienced initial higher storage and handling costs as they rushed to front-load.

In early 2025, 60% of companies saw logistics costs rise 10–15% (often citing tariffs as the driver)[2]

Tariffs may increase lead times, in turn prompting retailers to increase safety stock or lean towards just-in-case approaches, resulting in higher inventory holding costs.

3 Volatile forecasting and planning uncertainty

Uncertainty has been a hallmark of recent tariff changes.

Unpredictable tariff policies can undermine planning, as retailers want to front-load inventory before tariffs take effect, but if the tariff rate changes or goes away entirely, that front-loading can become a significant cost rather than a mitigation.

27% of retail executives doubted tariff predictability and 20% felt very insecure about it[3]

Over half of retailers accordingly delayed or scaled back capital investments due to trade policy uncertaint[4]

1. KPMG
2. TRADELINX
3. KPMG
4. KPMG

4

Added complexity

A single error in applying tariff schedules, value-added thresholds, or country-of-origin documentation can incur high penalties.

Tariffs, therefore, bring operational disruption and new administrative burdens, forcing constant recalculation of landed costs and sourcing plans.

5

Working-capital strain

Front-loading inventory and paying dues, plus planning delays and larger shipments, can disrupt cash flow.

6

Consumer behavior changes

Shoppers can react to tariff-driven price inflation by delaying purchases or seeking alternatives.

44% of consumers reported intent to switch to affordable alternatives[5]

5. CIVICSCIENCE

1

Tariff-aware merchandise financial planning

Merchandisers are overhauling open-to-buy and budget plans, recalibrating them based on updated landed costs, and shifting spend away from tariff-exposed categories before forward commitments are locked in.

Tariff scenarios are being built into financial planning: category gross-margin targets are adjusted and markdown forecasts increase for at-risk lines. Planners are modeling different tariff scenarios, stress-testing category gross margin targets at different duty rates, and mapping markdown exposure for at-risk lines.

They are also tightening inventory turnover targets on exposed stock to avoid working capital being trapped in tariff-inflated goods that are slow to sell.

2

Supply-chain diversification

Many retailers have sought new sources in countries with lower duties to reduce overall exposure.

63% of procurement executives have broadened their supplier base

57% have accelerated nearshoring/reshoring efforts[6]

3

Assortment optimization

Retailers are mapping products to country-of-origin and tariff codes to identify high-risk items. They can then either remove or temporarily defer these from plans while duties make them unprofitable. They can also prioritize domestically produced or lower-tariff alternatives.

Introducing more value-line (“good-better-best”) options in discretionary categories helps retain volume, while essentials are managed with tighter prices and loss-leader strategies to keep consumer value perceptions intact.

4

Agentic tariff monitoring and execution

Retailers are turning to Agentic AI to manage tariff volatility. Agents like the Blue Yonder Tariff Agent monitor tariff rules and changes, understanding and communicating their impacts on inventory and sourcing, and recommend actions to limit exposure and manage resulting costs.

6. JABIL

5

Dynamic pricing and promotions

Broadly, there are three pricing approaches retailers use to manage tariff impacts.

- Raising prices on tariff-heavy items
- Using targeted discounts and bundles to try to retain overall basket value despite price increases
- Trading margin for volume with bulk discounts

These are being used to try to recover margin on highly exposed lines and to counter consumer perceptions of rising prices in a value-conscious market.

6

Planning automation enables strategic responses

Retailers that have invested in time-saving automation can respond faster and more effectively to tariff imposition.

Automation in planning has to work across the planning process, not just in one silo. Automatically generating forecasts that then have to be manually brought across to planning systems, or automatically collecting in-store data that is held in a reporting tool and has to be manually exported into planning software—these are automations that don't stitch the process together and can't move the needle to enable planners to spend more time on what matters. Time saved on the day-to-day lifting means time invested into the kind of strategic analysis that reduces tariff exposure meaningfully.

Margin Pressures

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IMPACTS ON RETAILERS

1

Rising input costs

Inflation in raw materials, labor and energy is cutting deeply into retailer margins as their inventory and operating costs are pushed upwards.

2

Logistical and supply chain volatility

Tariffs and major logistics disruptions force unexpected costs, or out-of-stocks and missed sales opportunities.

Strikes and port delays have driven up handling charges, and a tight labor market makes warehousing and transportation more expensive too.

3

Value-oriented, promotion-heavy consumers

Shoppers remain extremely price-sensitive after notable inflation in recent years, putting pressure on retailers to offer discounts and compete on price, eroding full-price sales.

Nearly one-third of shoppers report distrust in promotions; only ~32% believe "deals" truly save money[7]

Consumers still "shop for promos" and switch channels, squeezing average selling prices and margins on every sale[8]

In grocery, shoppers are trading down to lower-priced stores[9]

7. TECH RADAR
8. ASSOCIATED PRESS
9. GROCERY DIVE

Omni-channel complexity and returns

Carrying multi-channel inventory (stores, e-commerce, ship-from-store) raises stocking and fulfillment costs for retailers, with operational challenges also arising from fulfilling e-commerce orders from stores, or picking orders for collection from store shelves.

Additionally, returns continue to significantly erode profit margins, with their frequency rising as consumers adopt habits like bracketing and wardrobing.

U.S. retailers spent about $890 billion on returns in 2024 (vs. $309B in 2019) as return rates hit ~17%[10]

In response, ~72% of retailers are charging for returns in 2025 to recover some margin[11]

A majority of shoppers say they won't shop with a brand that charges return fees[12]

10. AXIOS
11. NRF
12. OPTORO

1 AI/ML adoption

Retail planners are increasingly deploying advanced analytics and AI in merchandise planning, plugging machine learning into SKU-level demand forecasting, safety-stock and reorder-point calculations to fine-tune orders.

Predictive AI can balance inventory against working capital, grow sales and free up cash. That means fewer stockouts on top sellers and less capital tied up in slow-moving goods, which trims markdowns and protects margins.

3 Disciplined merchandise financial planning

Connecting financial targets to operational plans gives teams a shared view of margin exposure across categories, and scenario modeling helps planners stress-test assumptions like receipt timing, cost changes, and promotional depth. Exception-based alerts surface margin drift early, so teams can act while there's still room to course-correct.

5 Unifying data and processes end-to-end

Unifying planning processes helps retailers pinpoint waste and margin leakage. For example, as much as 15% of returns are estimated to be fraudulent. Identifying and preventing these can significantly protect margins, especially in categories with higher return rates like apparel.

Having a single view of inventory enables replenishment planning to reduce rush shipments and overstocks, balancing inventory across the network to maximize sell-through and minimize inventory costs.

2 Integration across pricing, promotion and assortment

Disconnected systems for pricing, promotions, and inventory erode margin efficiency. By running pricing logic, forecasting, replenishment and supplier deals on a shared data platform, planners eliminate manual gaps.

These planning teams encounter fewer discrepancies, reduce out-of-stock events during promotional peaks, and enjoy more stable forecast performance, helping stabilize gross margin during promotions.

4 Assortment Rationalization & Private-Label Expansion

Some retailers are trimming low-margin SKUs and shifting their assortments toward higher-margin products, including by expanding private labels. By cutting the bottom-performing SKUs and refocusing spend on top-performing lines, retailers can see an uplift in volume and greater promotional efficiency.

Beefing up store brands helps to insulate margins. For example, Walmart's overhaul of its Great Value private label (nearly 10,000 items) reflects a $330 billion U.S. private-label market, approximately 25% of retail sales.[13] Selling more own-label and core, high-margin items enables retailers to maintain profitability.

13. AXIOS

Consumer behavior changes

IMPACTS ON RETAILERS

1

Inflation reawakens

A persistent post-COVID theme has been inflation, often driven by energy price rises thanks to regional conflicts. That is now true again, with inflation set to surge and worsen.[14]

This puts even more pressure on consumer spending as their essential goods cost more, further limiting their discretionary spending. This may have the effect of deepening the “K-shaped” nature of the economy, where a lot of growth is concentrated in the highest income brackets[15] , who retain more discretionary income

As consumers trade down not just within categories but between stores, discount and off-price retailers are set to benefit.

2

Consumer sentiment remains shaky

U.S. store closures jumped to about 8,100 in 2025 according to Coresight Research, a 12% YoY rise over 2024, itself a record year[16]

The University of Michigan’s Consumer Sentiment Index dropped to a record low of 48.2 in early May 2026. Consumers frequently cited gas prices and tariffs as reasons for concern[17]

Worldwide, the OECD consumer confidence index in May 2026 showed consumers were the most pessimistic they have been since July 2022-January 2023, which was the lowest mark in the index’s history[18]

In the US, store closures reflect retailers’ conservatism about the economic environment. Weak consumer confidence is forcing retailers globally to trade margin for volume through persistent discounting and cost-cutting, leading to compressed profits, bloated inventories, and higher closure rates.

14. CNBC
15. FORTUNE
16. GCORESIGHT RESEARCH
17. UNIVERSITY OF MICHIGAN
18. OECD

3 Expectations are sky high across channels

73% of retail supply chain leaders agreed that their customer is becoming increasingly demanding.[19]

Nearly half of online shoppers abandon their carts if a convenient local pickup isn't offered.[20]

Consumer expectations are higher than ever, with convenience a particular driver of new habits. Convenience-first models like curbside pickup are growing, with buy/reserve online pickup in-store (BOPIS/ROPIS) transactions up 7.5% year-on-year.

At the same time, brand loyalty is eroding. Consumers are "less brand loyal than they've really ever been historically," per Best Buy CEO Corie Barry.[21] 53% of shoppers said they would switch brands after just one bad experience, highlighting the high standards retailers are increasingly held to.[22]

4 Cost-consciousness and 'discovery-driven'

Value-hunting is driving traffic to off-price and thrift retailers. Thrift-store foot traffic jumped ~11% year-over-year in the crucial week before Christmas 2025 and off-price retailers were up ~85% in seasonal visits[23]

Even dumpster-diving now has a niche in social media[24] algorithms. The thrill of a discovered bargain is pushing new kinds of consumer behavior, illustrating just how much pricing pressure there is on non-discount retailers.

19. BLUE YONDER
20. CXMWORLD
21. BEST BUY
22. RETAIL BREW
23. AP
24. NEW YORK TIMES

1

Data alignment

Planning around consumer behavior shifts is a test of a retailer's ability to incorporate, unify and analyze data, from inside and outside the business, whether that's customer loyalty and shopper data, store data by region, or external demand and buyer trends.

Having a single source for consistent data availability and utilization means every function can leverage that data to develop responses and plans for the changing consumer environment, helping retailers get to market faster.

2

Mapping product and pricing strategies to changing markets

Merchandise planners can sometimes lack the market visibility to make effective decisions and struggle to scale those decisions across their products.

Having demand data accessible in near-real time helps them to make the right decisions, and unifying planning into a single platform means those decisions propagate much faster, rather than transferring across systems and functions slowly.

That interlinking to the rest of the planning functions also allows teams to unite financial strategy with location and spacing decisions, ensuring that trends are captured in plans and promotions.

3

Scaling local assortments

Retailers are increasingly designing store-specific product mixes, at scale. To do this, they're combining product data with store- and channel-specific requirements, based on insights from across the network. That helps them to deliver the localized experiences consumers want, based on predictive product performance and local demand.

4

Inventory planning that accounts for uncertainty

Retailers with sophisticated inventory planning capabilities are using visibility of the entire network (including returns) to adjust replenishment and align to inventory fluctuations on the fly, rather than sticking to pre-prepared replenishment plans regardless of actual performance.

That means adaptability as predictions become reality, ensuring the business is always aligned with financial outcomes rather than outdated plans.

Teams are also using scenario planning to model changes in consumer behavior, understanding the actual impact across a full retail network and across their sales channels. They can then evaluate potential responses before shifts occur, so that when consumer behavior changes hit the market, they already have a plan in place.

5

Consistent and connected shopping experiences across channels

Space planners and category managers are deploying localized, space-aware assortments seamlessly into store-specific planograms and floor plans, translating macro strategy into local targeting that meets customers' changing needs.

Leaders are producing assortments and space plans concurrently, not sequentially, in a system designed to flow these processes together, saving valuable time and resource.

Supply disruptions

IMPACTS ON RETAILERS

1

Transit delays and unpredictability

Disruption at global transportation chokepoints force long detours and queues, dramatically lengthening lead times for retailers.

For example, Houthi attacks in the Red Sea diverted vessels around Africa, delaying shipments by two to three weeks.

Likewise, Panama Canal droughts led to a backlog, with 135 ships waiting to transit, compared with 29 a month prior, creating longer bottlenecks and risking late or missed deliveries.

Such erratic transit times make it very difficult for retail planners to forecast arrivals and align inventory with demand.

2

Inflation in inputs and products

Chokepoints of oil supplies and petrochemicals ripple through product costs.

Many retail goods (textiles, plastics, packaging) depend on petroleum derivatives, and Middle East oil disruptions have already caused basic input prices to jump by 10–15% in some supply chains. At the same time, fuel-driven surcharges push up air and trucking costs.

Retail planners see these pressures reflected in higher merchandise unit costs, squeezing margins unless price increases or cost cuts are implemented. The cost of moving inventory also increases as fuel grows more expensive, making it more critical than ever to have an accurate forecast in the first place to limit the need for expediting shipments or inventory transfers.

3

Soaring transportation costs

Rerouting around blocked passages drives up freight rates. Carriers cannot absorb all the extra fuel costs and charter fees, instead passing them downstream to retailers.

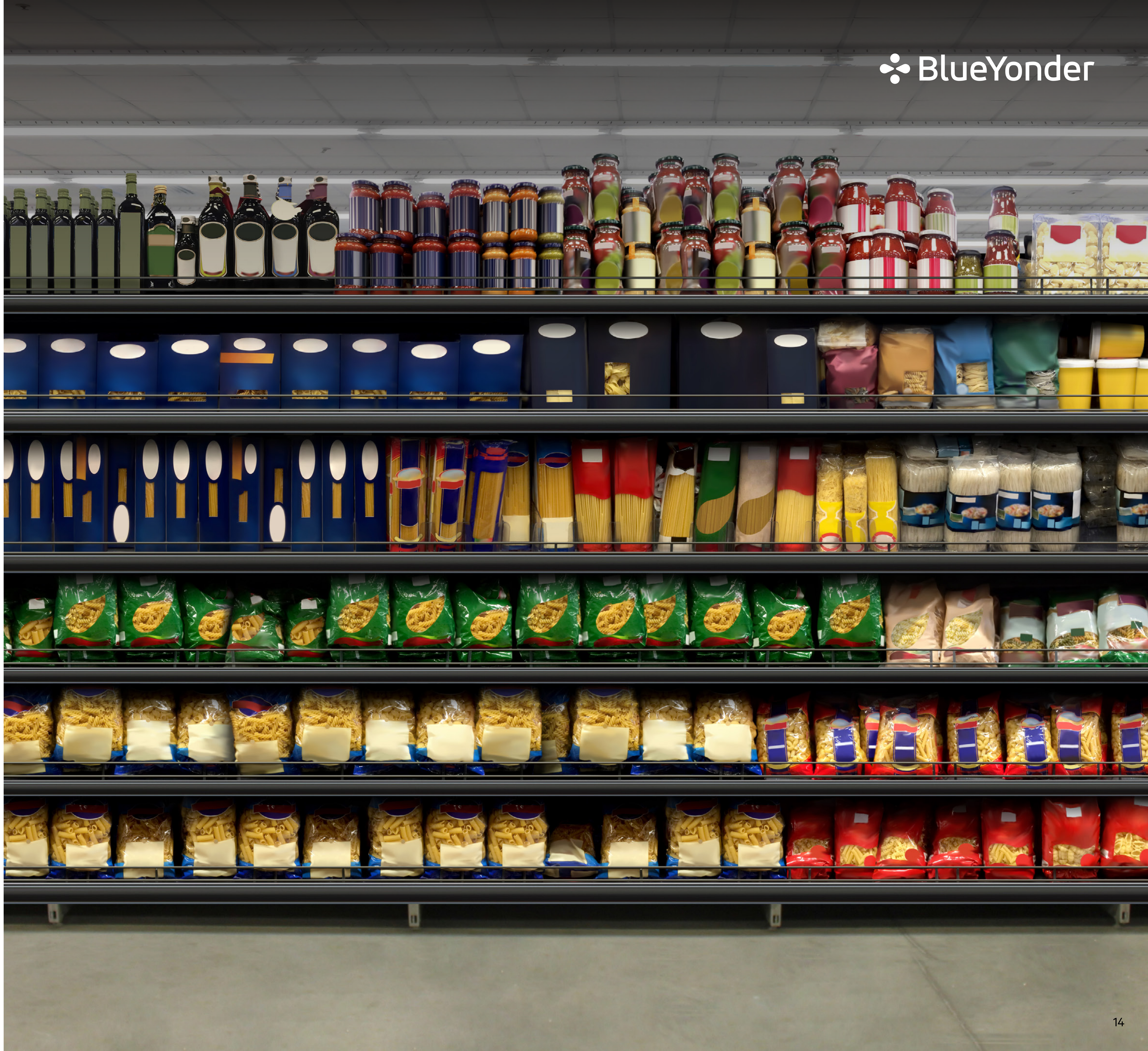
Planning teams thus face a sudden jump in landed costs and must revise pricing and margin models accordingly.

4

Inventory and forecasting challenges

To hedge uncertainty, retailers often add more safety stock, but even that may not prevent stockouts as unpredictable delays on inbound inventory or outright cancellations and turn-backs still leave gaps.

In practice, planners must juggle overstocks (occurring as a result of a swollen pipeline of inbound goods) with out-of-stocks on shelves, complicating demand forecasting, order cadence and replenishment.



1

Intelligent inventory management

Longer lead times due to supply disruptions like transportation lanes being blocked are hard to combat directly at the planning level, but what retailers can influence is their ability to manage the inventory they do have as efficiently as possible.

Having a single view of inventory across their network allows retailers to shift stock intelligently to help in a pinch and reduce the prevalence of out-of-stocks when lead times lengthen.

2

True landed cost

Understanding the real landed cost of inventory allows retailers to adjust pricing and promotional plans when the costs update, rather than sticking to a plan that is already out of date once the products are in-country.

3

Unified planning

Having one system to unite sourcing, demand forecasting and merchandise financial planning allows retailers to adjust to changing conditions and supply without restarting the entire process—data is free to move between teams and functions.

4

AI-accurate forecasting

When supply gets stuck at a bottleneck, it can result in overstock and excess inventory holding once released. Retailers using AI to rapidly generate the most accurate forecasts, closest to the time of purchasing from suppliers, can minimize excess stock by collecting the most demand data and ordering less buffer stock, which reduces holding costs once the supply is released.

Technological limitations

IMPACTS ON RETAILERS

1

Data fragmentation and silos

Retailers' tech stacks often consist of multiple point-to-point solutions with no single source of truth, meaning data lives in separate silos

52% of retail leaders agree that decision makers often operate in silos.[25]

Faster/better decision-making was the number two strategic priority for retail supply chain leaders in 2025.[26]

This fragmentation makes unified planning and analytics difficult, and it makes decision-making much slower, which means retailers find it harder to respond to the complex array of challenges they're facing.

2

Inflexible legacy infrastructure

On-premise systems were not built for modern omni-channel demands.

Forrester warns that clinging to outdated legacy tech means missing out on the cost savings, automatic updates and scalability of cloud/SaaS, and facing "significant obstacles" when trying to adapt.[27]

Legacy stacks typically lack real-time, cross-channel visibility, even though 83% of retailers agree that real-time visibility is fundamental to success.[28] In stores, that means plans aren't matching reality, and margin is lost as a result. 70% of retailers responding to a survey said they lost at least 5% operating margin in each area of out-of-stocks, price and promotion execution, planogram compliance and allocation and assortment planning.[29]

25. BLUE YONDER
26. BLUE YONDER
27. FORRESTER
28. BLUE YONDER
29. CORESIGHT RESEARCH

3

Technology debt is hindering AI adoption

Siloed data, legacy architecture and manual processes make it hard for retailers to make the most of the AI opportunity, because their data is poor quality and disparate, and their systems are not AI-native.

The burden of old systems means most retailers struggle to execute on modern omni-channel strategies. Research suggests 99% of retailers believe unified commerce drives higher profits but nearly half (45%) admit they have no roadmap to implement it.[30]

There's a risk that AI pilots and automation projects result in limited progress because systemic inflexibility and poor data quality don't allow for the more valuable transformative effects of new AI technologies.

In the age of electrification, simply switching factories over to electrical power didn't unlock massively higher productivity. The biggest benefits came in the reorganization of layouts, of workflows and of tools that electrification enabled. Without thinking strategically and broadly about how AI can deliver value, planning teams risk automating the structures that prevent them from delivering.

30. BAIN

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1

Unifying data

Having a single source of truth for retail planning means huge time savings in manual work to export, fix, import, check and utilize data when it's moving from one system to another. That time comes back to teams to make valuable strategic decisions with the data.

It also gives them the foundation to adopt AI and harness its power to generate much more accurate forecasts, scale localized assortments, optimize replenishment and inventory management, and more.

2

Cloud-based solutions for longevity and adoption

As technology evolves, it's increasingly important to stay current. With cloud-based solutions, an upgrade doesn't have to mean downtime, and scalability is much more achievable.

Platform-based architecture means that transformation can happen at the right pace for retailers, focusing on their priority areas first and expanding outwards from there, rather than a major "rip-and-replace" approach.

3

Agents and automation

By leveraging agentic AI capabilities, retailers are fueling true efficiency. Shorter planning cycles deliver more accurate results. Faster decisions mean faster reactions when things change – real-time market insights get rapidly incorporated into workflows.

Agentic AI is a game-changer for the scale and speed of planning intelligence, with agents able to reason over huge amounts of data and make informed decisions aligned to financial outcomes, understood in the full context of the business, not just in specific functions.

Leading retailers are particularly adopting agentic AI in this end-to-end, contextually informed manner. This harnesses the full power of new AI technology by giving it more scope and data to work with, enabling genuine transformation, rather than simply automating existing workflows and realizing incremental improvements.

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