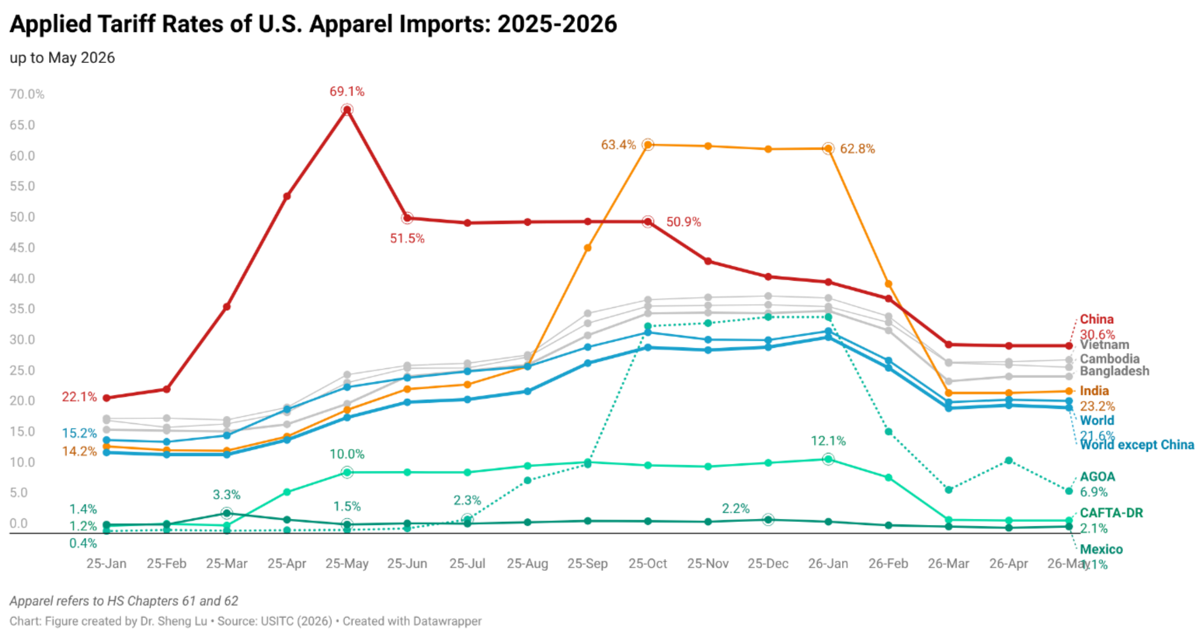
What Tariff Hikes Mean for U.S. Fashion Companies' Apparel Sourcing and Merchandising? An Analysis of the 2026 Earnings Call Transcripts

Hope Gallagher, Sheng Lu
University of Delaware

Since April 2025, the tariff rate on U.S. apparel imports has risen significantly due to the "reciprocal tariffs" imposed by the Trump administration under the International Emergency Economic Powers Act (IEEPA). In February 2026, the U.S. Supreme Court ruled the IEEPA "reciprocal tariffs" unlawful and ordered a refund of the collected duties. The Trump administration then imposed new Section 122 tariffs on all imports immediately after the Supreme Court ruling. As a result, as of May 2026 (the latest data available), the average applied tariff rate for U.S. apparel imports remained at 21.6%, well above 15.2% in January 2025, before Trump's second term began. Furthermore, the Trump administration has launched numerous Section 301 investigations into issues ranging from manufacturing overcapacity to forced labor enforcement, which could result in additional tariffs on imports from all major U.S. trading partners.



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The unprecedented tariff hikes and policy uncertainty have directly and significantly affected U.S. fashion companies' sourcing, merchandising, and other key business operations. Nearly 98% of clothing sold in the U.S. is imported, particularly from countries subject to the highest tariff increases, such as China, Vietnam, Bangladesh, and other leading Asian suppliers. Recent industry surveys also show that executives at leading U.S. fashion brands and retailers still cited tariff hikes and policy uncertainty as their top business concerns in 2026.

To better understand the evolving impacts of tariff hikes and policy uncertainty on U.S. fashion companies' sourcing and merchandising practices, we examined the latest earnings call transcripts of about 30 leading U.S. apparel brands and retailers. All earnings calls were made after April 1, 2026, reflecting companies' businesses since 2026. Below are the key findings.

Firstly, U.S. fashion companies reported somewhat improved financial performance so far in 2026, despite ongoing tariff hikes. Beyond the IEEPA tariff refund, which provided temporary relief, this improvement also stemmed from companies' various tariff mitigation strategies. **That said, tariff pressure is not easing, and the outlook for the second half of 2026 remains highly uncertain amid the Trump administration's evolving tariff policies.**

On the one hand, U.S. fashion companies generally reported that their financial performance in 2026 somewhat improved compared to the previous Fiscal Year. This improvement was the result of various factors, including the many mitigation strategies they implemented, such as sharing additional costs with suppliers and consumers, adjusting product offerings, and improving internal operational efficiency. Many of these mitigation strategies relied on companies' **medium- to long-term sourcing and operational capacity built over the years**, rather than quick, short-term tactics. For example:

- **Abercrombie & Fitch**: "***Operating margin of 8% exceeded our plan****, reflecting slightly lower tariff rates. Earnings…Tariff expense was lower than anticipated, given the timing and level of tariff rates in the quarter…We're operating with discipline and flexibility in a mixed environment, and we're monitoring our markets, particularly the Middle East, and we're remaining nimble and tight with inventory. This is* ***the same model we've consistently used to successfully manage through a wide range of environments****, and we're confident in our ability to deliver another year of growth and profitability*."
- **G-III Apparel Group:** *"First quarter gross margins on a Generally Accepted Accounting Principles (GAAP) basis were* ***64.9% compared to 42.2%*** *in the previous year. Excluding the non-GAAP IEEPA tariff recovery benefit,* ***adjusted gross margin was 45.7%, up 350 basis points compared to 42.2%*** *in the prior year...Gross margin benefited from pricing actions taken last year to mitigate tariffs, as well as the mix shift to higher margin owned brands from licenses."*
- **Columbia sports:** *"We are now* ***expecting a slight improvement*** *based on the 10% universal tariffs extending through July and the assumption that the U.S. administration will implement new tariffs at or near IEEPA tariff rates following the expiration of the Section 122 rates…S&A expenses…partially offset by lower enterprise technology and supply chain personnel expenses, reflecting cost reductions actions which were taken last year…other mitigation efforts, including engineering our products in a different way and, you know, changing the componentry…"*
- **Oxford Industries:** *"…****earnings were better than we anticipated****, primarily due to stronger than expected gross margin. That gross margin performance reflects meaningful work done by our teams over the past year to respond to tariff pressure, including* ***updates to our sourcing strategies,*** *refinements to our pricing architecture, improved freight rates through vendor negotiations, and the benefit from a higher mix of direct-to-consumer sales…"*

The IEEPA tariff refund was a critical new topic raised during this year's earnings calls. According to the transcript, the average refund U.S. fashion companies applied for ranged from **$50 million to over $900 million**. However, both the timing and the amounts of refunds actually received varied significantly across companies due to the complexity of the customs refund process, particularly the liquidation status of the affected import entries. For example:

- **Abercrombie & Fitch**: "*We've applied for around $100 million in IEEPA tariff refunds.* ***We have not assumed any benefit from these in our outlook****.*"
- **Nike:** "*We determined that the financial recovery of claims related to incremental tariffs paid under IEEPA had become probable. This resulted in the recognition of a one-time benefit of* ***$986 million****, offsetting the IEEPA tariffs embedded within cost of sales that had been expensed through the income statement throughout fiscal 2026. As of quarter end on May 31, we collected over* ***$300 million of*** *cash related to these claims*."
- **PVH:** "*Our outlook now includes approximately* ***$100 million*** *benefit from tariff refunds to our EBIT, and that's about 100 basis points favorable impact to our full-year operating margin*."
- **Kohl's**: "*In the Q1, we submitted* ***$140 million*** *of claims related to the Phase 1 CAPE tariffs we paid as importer of record. The total tariff refunds we are eligible to receive is $190 million.* ***We did not receive any tariff refunds within the Q1***."
- **URBN**: "*We have filed for refunds from the IEPA tariffs imposed in the spring of last year and expect to receive approximately* ***$100 million*** *in refunds in the second quarter*."
- **American Eagle**: "*We've applied for roughly* ***$190 million*** *in tariff refunds and anticipate a $140 million net cash benefit. However, it's not included in our guidance, with a* ***significant portion still outstanding***."

Notably, despite the IEEPA tariff refund, U.S. fashion companies acknowledge ongoing, or even worsening, uncertainty about tariffs in the coming months and the financial pressure they face. Many specifically expressed concerns about the upcoming determinations in several Section 301 investigations and a new round of tariff hikes that are very likely to follow, which could completely wipe out the IEEPA tariff refund. For example:

- **Carter's:** *"****We're cautious that we're out of the woods when it comes to tariffs.*** *It's possible that new tactics could be employed by the government to reinstate the previous IEEPA level tariffs or an even higher level of tariffs..."*
- **VF Corporation:** "*On tariffs, we are* ***closely watching*** *a potential step-up to take effect mid-July following the conclusion of the Section 301 investigations*."
- **Gap inc.: "***For the remainder of the year,* ***we've assumed tariff rates revert back to IEEPA level rates*** *incorporated in our original plan. We maintain this assumption based in part on comments from the administration indicating an intention to reimpose higher tariff rates following the expiration of Section 301, potentially at levels comparable to those implemented under the IEEPA regime."*
- **Ross Stores:** "***Given ongoing uncertainties*** *related to the timing and ultimate amount of the reimbursement, we have excluded potential refunds from our forward guidance*."

Secondly, while maintaining geographically diversified sourcing portfolios, U.S. fashion companies are increasingly balancing production across existing sourcing regions to mitigate tariff impacts and reduce supply chain risks. However, unlike in previous years, when companies more often expanded into additional sourcing countries, fashion companies today increasingly focus on **optimizing their existing supplier networks.** By improving sourcing flexibility, reallocating production among countries, and partnering with manufacturers that operate across multiple countries, fashion companies can enable production to shift quickly as tariff exposure or geopolitical conditions change. This nuanced difference reflects a broader change from geographic expansion toward supply chain agility and optimization. For example:

- **Abercrombie & Fitch**: "*We have the opportunity set up with our supply chain, producing in **16 countries around the world**…As we shared on our March call, the team is closely monitoring developments in the Middle East using our playbook and **global operating model** to remain agile*."
- **Land's End***: "We've gone with many larger manufacturers who have very flexible supply chains and can move between countries, so that as there is challenges in tariffs for one country, **we're able to move that production to a different country with the same vendor**, with the same timing."*
- **VF corporation:** "*Over the past year, we have **been actively mitigating, rebalancing our sourcing footprint**, reducing exposure to higher tariff routes, and working with partners to share cost burden...*"
- **Gildan:** "*We are progressing well with our integration initiatives and relocating textile production volumes from the Hanes to the Gildan facilities, leveraging our low-cost manufacturing and supply chain structure…*"

Thirdly, unlike in previous years, when U.S. fashion companies frequently discussed shifting apparel sourcing away from China toward alternative countries, relatively few companies in the 2026 earnings calls announced increases or decreases in sourcing from any specific countries. Instead, the theme focused on how to better leverage each existing sourcing destination's distinct strengths in manufacturing capabilities, cost competitiveness, or specialized supply chain advantages to meet sourcing needs. Meanwhile, **the textile mechanism** included in the U.S. bilateral "reciprocal" trade agreement reached with Bangladesh was mentioned by some fashion companies as a potential opportunity to support their sourcing. For example:

- **Nike:** "*Local for local, we have hired and are resourcing our **Greater China** local product creation team. They will be delivering locally designed, developed, and **manufactured product in China in holiday 2027**…Overall, pleased with the progress we're making in China*."
- **Gildan:** "*Our **Bangladesh** operations have been running normally until now, and we have built-in temporary contingency plans should the situation deteriorate. This is what our agility and our vertical integration enable us to do..*.We had the **optimization of our Central American facility**. We had the investments we made in yarns pinning…as of March 1st, obviously, we're not paying tariffs from product coming in from **Central America** anymore,

which has allowed us to continue driving, you know, a good cost structure in this hemisphere."

- **Kontoor Brands:** "*We are currently evaluating the proposed trade agreement with **Bangladesh**. We utilize U.S.-grown cotton in more than 80% of our products sourced from Bangladesh, which may qualify for a duty-free exemption under the trade agreement*."

Fourthly, as part of their tariff mitigation strategy, U.S. fashion companies continue to deliberately tighten their assortment, including reducing the total number of Stock Keeping Units (SKUs), focusing on popular sales categories, eliminating redundancy, and reducing inventory levels. These strategies ultimately helped companies "sharpen" the merchandise, save resources for product innovation, and better manage product costs amidst macroeconomic and tariff headwinds. For example:

- **Lululemon**: *"We decided to have a less dense presentation of our products featuring **these 15% fewer SKUs.** That, as a matter of fact, allows us to better highlight the new styles and innovation*."
- **Tapestry:** "I appreciate how much you recognize the innovation we're bringing, in so many ways, **we're doing it with fewer SKUs."**
- **Under Armour**: *"This also includes bringing an even sharper focus on editing and **optimizing our product assortment,** marketing spend, processes, and cost structure to improve UA's profitability. Along those lines, we've made strong progress simplifying our product offering while building a focused pipeline of innovation that you'll begin to see in a much more consistent way in the coming quarters. Over the past two years, we've **reduced SKUs by 25%...**We expect further reductions as we continue to sharpen the assortment."*
- **Dick's Sporting:** "*We reduced roughly **30% of the SKU** choices and focused on key styles, key colors, and key stories that when the consumer came in, they knew what was important."*
- **Gap Inc.:** "*For the second quarter, we remain focused on **clearing the inventory** so that we can begin to transition towards a cleaner assortment that better represents our go-forward aspirations for the brand in the fall. As we have worked to clear, we also have been introducing new product at a **smaller scale** and have seen encouraging results*."

Fifthly, U.S. fashion companies also commonly leverage pricing strategies to mitigate tariff pressures. However, **rather than implementing direct price increases, U.S. fashion companies in 2026 have focused more on limiting promotions and improving average unit retail (AUR).** Applied to both premium retailers and those targeting the mass and value market segments, this structured, non-promotional pricing framework covers staple and essential daily apparel items to secure steadier, more reliable profit margins. Meanwhile, **some fashion companies intentionally shift their product mix toward more recognizable, premium, and fashionable newer items to "naturally" migrate consumers into higher-priced buckets, thereby offsetting higher sourcing cost pressures** without compromising profit margins. For example:

- **American Eagle**: "*We successfully **transitioned away from brand-wide promotions** to more **disciplined**, high-margin commercial strategies. This shift was fueled by three key levers: **targeted promotions**, always-on pricing in key categories, and investments in marketing to acquire and retain high-value customers. This strategy has resulted in **improved AURs** and product margins*."

- **Burlington Store**: "*The Elevation Strategy has been a major strategy for us for the last couple of years.* ***Elevating the assortment*** *to offer better, more recognizable brands, higher quality, and more fashion, all at great values within a good-better-best assortment. Now, our internal data shows that by elevating our assortment, we've been able to drive higher customer perception scores,* ***stronger growth in higher price buckets,*** *and ultimately****, a higher average basket and unit retail****.*"
- **Ralph Lauren:** "*AUR increased 16% in the fourth quarter, with approximately half of the growth driven by* ***stronger full price selling, reduced discounting, and modest targeted pricing****, and the remaining half attributable to favorable product, channel, and geographic mix.*"
- **Victoria's Secret**: "*The expected (gross margin) rate expansion is based on the strength of our operating model, which continues to deliver leverage on buying and occupancy expenses as net sales grow, as well as our* ***disciplined promotional*** *strategy and more regular price selling…We are reducing promotions and markdowns and replacing promotional offers with compelling emotional messaging.*"
- **Nike**: *"We are monitoring marketplace inventory and promotions closely and adjusting buy plans to manage future supply and sell-in with demand and improvement* ***in full price sales****…We are seeing recovery in full price realization on digital after more aggressive actions* ***to reduce promotions over the last two quarters****…We're elevating the user experience by leading with performance, celebrating sport moments, and we're* ***discounting less*** *on Nike Digital."*
- **Land's End:** *"the underlying merchandise margin of the business remained healthy, supported by our solutions-focused merchandising strategy,* ***disciplined promotional posture****, and better product mix…we are expanding our customer file, improving new to brand acquisition, and strengthening gross margin by emphasizing higher quality****, full price selling rather than chasing lower value promotional volume****."*

Additionally, although few U.S. fashion companies explicitly described using AI for sourcing-country selection or tariff management during their earnings calls, many more discussed expanding AI applications to improve demand forecasting, inventory allocation, merchandising, pricing optimization, and other supply chain operations. While these AI initiatives may not be intended to directly manage tariff exposure, they could indirectly mitigate tariff-driven cost pressures by reducing markdowns, optimizing inventory, and improving overall operational efficiency, rather than relying solely on higher selling prices. For example:

- **URBN: "***The technology investments relate to several exciting AI-related projects that we anticipate to benefit the company for years to come…We have recently launched an AI customer service agent that's helping to respond to customer service inquiries faster and more efficiently. We are rolling out Claude and other AI tools to help our teams be more efficient. That's a big initiative now.* ***We're also focused heavily on AI being deployed across our creative and merchant teams.*** *We think there's a big opportunity to help accelerate our product development life cycle, which is a big focus of the company."*

- **Abercrombie & Fitch**: "*We're very excited about AI's potential for the business…We launched on Perplexity during Black Friday to learn a little bit more about agentic commerce…We're using it in our business **model as being embedded into things like forecasting and inventory**. We're using it for our customers to create a more seamless experience. It's really becoming integrated in the entire business, and we're very excited about the opportunity.*"
- **Macy's:** "*We have **AI initiatives across the business**. We have about 35 tests and pilots that we're running, and we're really looking to leverage it in **customer-facing**, helping our associates be more effective in their roles, as well as **in areas like supply chain**. We're really trying to see where it can help us…serve our customers and work with humanity as well as the science.*"
- **Gap Inc.:** *"We are **leveraging technology and AI to help our teams make smarter merchandising decisions, improve inventory productivity, and drive the right value equation for our customers.** Another place this shows up is in the **customer experience,** making it easier to find the right product, feel confident in the fit, and discover what is new and relevant. This includes extending discovery through new **AI-powered shopping partnerships**, including our recently announced partnership with Google's Gemini. We are also deploying AI across our internal operations to drive the productivity that funds our investment agenda without expanding our cost structure."*
- **PVH:** *"We also continue to make important progress in becoming **more data and demand-driven**, enabled by our enterprise data platform and strengthened through our **partnerships with OpenAI** and **Salesforce**…Together, these capabilities are helping us connect consumer, product, and operational insights across the value chain, so we can move faster, get closer to demand, and make more data-driven decisions."*
- **Land's End:** "*We're deploying AI and advanced analytics to **sharpen our marketing** with a focus on reaching the right customers at the right moment with greater precision and efficiency…*
- **Kohl's:** *"**We continue to employ technology and AI** within our servicing efforts, and we're seeing some of those things come through our credit line in terms **of savings**."*

In conclusion, the study's findings highlight that tariffs' impacts on U.S. fashion companies have gone far beyond costs, affecting broader sourcing, assortment, and pricing practices. In particular, the uncertainty surrounding tariff policy appears to be even more concerning to U.S. fashion companies than the tariff hikes themselves, as sourcing relies on in-advance planning. Meanwhile, the findings illustrate that U.S. fashion companies have transitioned from short-term responses to tariff hikes to more medium- to long-term responses. Companies' sourcing flexibility and agility, and their ability to offer the right assortment at the right price to their consumers using new AI and technology tools, will become ever more critical for navigating the business environment and standing out from the competition.

About the authors: Hope Gallagher is a 2026 University of Delaware Summer Scholar and graduate student in the Fashion and Apparel Studies 4+1 program. Dr. Sheng Lu is a professor and Graduate Director in Fashion and Apparel Studies at the University of Delaware. He can be reached at Shenglu@udel.edu.