EFESO
MANAGEMENT CONSULTANTS

Tariff Mitigation amid Today's Uncertain International Business Landscape

The flurry of recent tariffs and whiplash of counter tariffs precipitated by the current administration have left manufacturers concerned and confused. Many companies are potentially facing up to a 25% loss to contribution margin and are paralyzed with indecision as they await to see if new tariffs will stick. Most if not all manufacturers are seeking guidance on how to proceed given a tariff environment like nothing they've ever encountered.

As manufacturers grapple with this new tariff reality, they've come to a stark realization: For those seeking solutions to current tariffs, what worked well in the past is no longer a solution. When tariffs were specific to a product category, even if complex, the classic method of assessing the situation to minimize duties and optimize the portfolio — revenue/commercial impact, cost impact, invested capital impact — generated comparatively straightforward and often fast approaches, including:

Targeted Tariff Game Plan

- Move production to alternative countries (especially if those options are already in place within the company or its supply chain)
- Source raw materials and components from suppliers in the US or non-tariff countries

Flat Tariff Game Plan

- Revise selected technologies in a product for declaration purposes
- Revise Harmonized Tariff Schedule (HTS) code

Executives recognize that current conditions do not resemble the business landscape for which they were trained or experienced in the past. The recent round of tariffs are no longer selective, instead targeting countries and sectors, albeit with some sector-specific exemptions later applied to countries (25% or more of goods from Mexico and Canada deemed exempt). But in this heavy-handed chaotic environment, gone is the ability to change the declaration of products and move them into an exempt category. The only choice is to lobby for change — as many industries and administration backers are doing — or pay it, pass it, or move it:

- Pay the tariff and take the hit to contribution margin, which few companies can withstand as a sole strategy. Some companies thought the 25% China tariffs from the first Trump administration would be long gone by now and did nothing, subsequently paying a steep price.

- Pass on the cost of tariffs, sharing it across their network of OEMs, distributors, and customers as well as eating a percentage. Multi-level supply chains with enough partners may split and share the burden, but otherwise customers take the biggest hit — giving competitors with domestic-produced goods a huge price advantage.

- Move production out of tariff countries and back to the U.S. and/or to non-tariff countries. This is a time-intensive option not available to many, but it looks increasingly attractive if the quantity of tariff-targeted goods is significant and the likelihood of tariffs remaining in place for a long time is high.

THE EFESO APPROACH

At EFESO, we know the classic tariff-mitigation approach is no longer an end-all strategy, and understand that manufacturers want fact-based directions. We develop a decision-making framework and rigorous plans that prepare them to cost-efficiently act when they determine the tariff situation has sufficiently stabilized and they must execute. We first evaluate the product portfolio affected by tariffs, taking into account market attractiveness and competitive position, then rate products (existing and new) based on sound data free of biased opinions. From this assessment — based on full transparency of relevant facts and figures and apples-to-apples product comparisons — we develop strategic recommendations and options for each product/market combination.

Based on our recommendations and collaborating with our clients, we put forward an executable implementation roadmap geared to the challenging tariff propositions they're facing and their appetite for change: To what extent are they are willing to pay the tariffs? How much can be shared across the supply chain without adverse consequences? How much production can be moved and where can they put it?

If the right solution is to move production or sourcing, we can assist in executing these changes in an efficient manner on a short timeline. Diversifying existing manufacturing and assembly locations includes establishing new production footprints in countries with favorable trade agreements (e.g., Vietnam, India, Malaysia); adding value in a non-tariff location to change country of origin (e.g., packaging, final assembly); and/or reducing dependency on high-tariff regions while offsetting those duties with cost advantages in other markets. Global companies with multiple manufacturing facilities producing the same or similar goods can mothball a plant in a high-tariff country and move production elsewhere. Without duplicate sites, however, new internal or external options need identified along with details for ramping up those changes.

We'll also reevaluate overall supply-chain footprints — map networks to identify and minimize nodes in high-tariff zones and explore alternatives for sourcing, production, and assembly closer to end markets that improve total operational costs and risks and supply-chain resiliency.

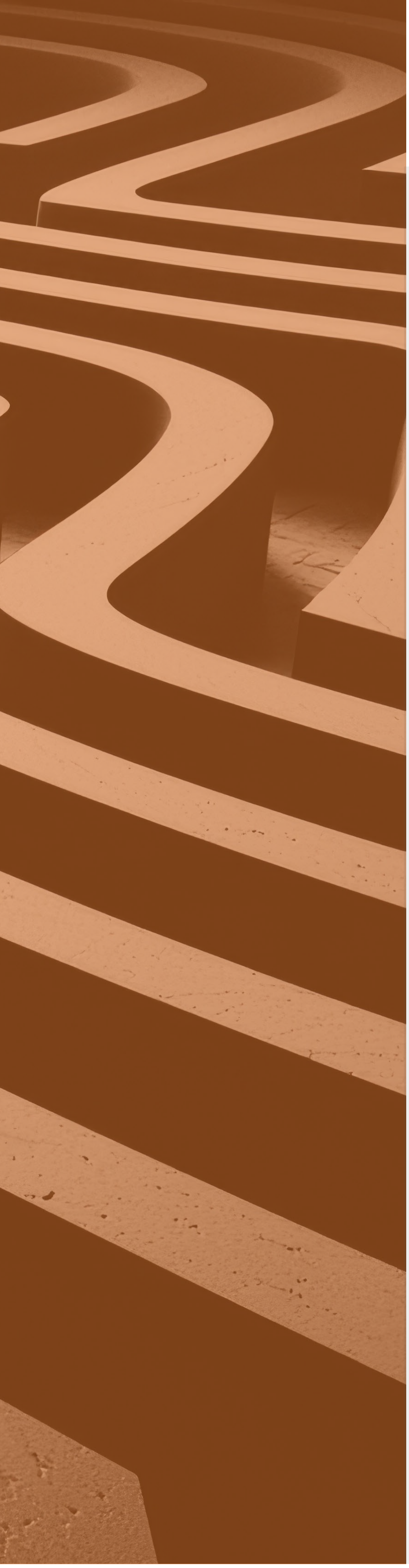
The big question with the new tariff challenges — even with sound recommendations and a well-designed plan — is when to enact the plan (three months, six months, one year out). The amount of loss a manufacturer is willing to take before they commit to execute differs by the type of manufacturer and company characteristics:

- **Investment profile (e.g., financial commitment to existing locations)**
- **Customer needs (e.g., acceptance of price increases or product changes)**
- **Margin profile (e.g., buffer to absorb tariffs)**

EFESO has been quick to support manufacturers — at the company, unit/division, or plant level — as they navigate this new tariff landscape, helping them to minimize the impact of these emerging duties. More than 900 global experts with experiences/skills in virtually every industry allows us to thoroughly exhaust — by country and industry — the production and supply-chain options available.

EFESO assesses tariff impacts and develops recommendations in just a few weeks, and then, in a month or two, provides a detailed plan to execute on recommendations. Our deep industry knowledge and first-hand expertise also enables us to guide and assist, if necessary, with on-the-ground changes when recommendations are acted upon (e.g., setting up production in new locations).

Thoroughly understanding options and having a plan in place is a necessary first step to mitigate today's duties disarray, especially when no one, even the administration, knows the precise nature of tariffs going forward.



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