



Conquer Tariffs with Confidence: A Guide for Business Leaders



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As global trade tensions escalate, tariffs are reshaping the operational and financial realities for companies across sectors. From manufacturing and consumer products to M&A strategy and tax compliance, the impact is far-reaching. For business leaders, the challenge isn't just responding to what's happening today—it's preparing for what might come tomorrow.

Many middle-market businesses have questions about how to navigate these disruptions. To help, we've compiled our thoughts on how to make proactive decisions rooted in data, strategy and alignment to help middlemarket organizations respond to tariffs. Stay current with our [tariffs updates](#) page for significant tariff-related developments and what they could mean for you.

This guide explores the current tariff environment, the business implications of tariffs and considerations for managing risk and identifying opportunities.

What's Happening Now: Volatility, Stacking and Strategic Shifts

The reintroduction of tariffs, particularly reciprocal tariffs and the tariffs on China, has introduced cascading cost pressures across supply chains. Whether it's raw materials, components or finished goods, companies are seeing:

- Tariffs across multiple stages of production, e.g., steel + parts + finished goods
- Unpredictable policy shifts, causing disruptions in planning, procurement and pricing strategies
- A need for scenario planning to model out how changes in tariffs will impact bottom-line costs, evaluate pricing options and understand the impact on overall sales
- Indirect effects of tariffs, such as customers' input costs rising and rising bond yields
- Potential retaliatory tariffs from other countries, complicating cross-border trade

Manufacturers report struggling with timing issues related to the changes in policy, such as tariffs incurred at border crossings but billed to customers later. Increased volatility results in greater working capital needs, margin compression and financial reporting complexities, emphasizing the need for scenario modeling and careful strategic shifts.



Areas to Watch

Financial planning and reporting

Tariffs affect multiple layers of financial statements, including

- **Inventory valuation:** Tariffs must be capitalized into inventory cost under U.S. GAAP, impacting gross margins and Lower of Cost or Net Realizable Value (LCNRV) testing
- **PP&E:** Tariffs on imported capital goods increase depreciation bases
- **Revenue recognition:** Cost-to-cost percentage methods under ASC 606 may trigger contract losses or variability in revenue if tariffs alter input costs mid-contract
- **Impairment testing:** Weakened margins and lower forecasted cash flows may trigger asset or goodwill impairments under ASC 360/350
- **Working capital:** Frontloading imports, raising inventory costs and straining cash flow, which may lead to port congestion and economic volatility
- **Strategic risk management**

Tax and compliance

Tariffs create ripple effects through tax strategies:

- **Transfer pricing:** Multinational companies must revisit which entities in the supply chain bear the tariff burden
- **Tariff exemptions:** Partial exemptions may exist for U.S.-sourced content; determining eligibility can reduce liability
- **Customs strategies:** Companies may consider re-routing goods or “substantially transforming” them in low-tariff jurisdictions to minimize costs

Supply Chain and Operations

Companies are rapidly reevaluating:

- Supplier diversification and nearshoring/reshoring to mitigate tariff risk
- Operating plans to maximize U.S. production or eliminate duties altogether
- Strategic sourcing and contract renegotiation to create cost-sharing with customers and vendors
- How to use special trade zones more strategically
- Inventory management, which is crucial; some companies will adopt frontloading, which could lead to increased inventory holding costs
- Market entry and exit strategy

Supply chain agility is now a requirement, not a luxury. One manufacturer we spoke to began itemizing tariffs on invoices and passing them directly to impacted customers while simultaneously modeling long-term alternatives to Canadian production.

M&A and Deal Strategy

For private equity and acquirers:

- Valuation adjustments are becoming more common as tariffs lower EBITDA or increase COGS
- Earnouts, indemnities and holdbacks tied to tariff exposure are now standard in many deals
- Enhanced diligence to review the direct and indirect impact on tariffs, such as supply chains and customer concentration, is critical
- The cost of borrowing may increase due to market volatility and actions by the Federal Reserve to combat potential inflation
- Diversifying risk helps to protect portfolio performance, maintain valuation stability and ensure flexibility

Capital Allocation

- CAPEX planning could also accelerate the need for CAPEX allocation to track the impact of and plan better for expenditures, e.g., a much-needed ERP or other software investments
- Pending tariffs can impact cash flow and profitability, which may force firms to reconsider dividend payouts to preserve liquidity
- Evaluate stable, flexible long-term financing structures
- Equity financing could become less favorable or dilute existing ownership more than expected, requiring careful analysis before raising capital.

Debunking Misconceptions

Misconception 1: Tariffs are a Temporary Blip – We Can Wait Them Out.

Reality: While specific tariffs might be subject to change or removal, the underlying drivers of trade friction – geopolitical tensions, national security concerns, and the desire for regionalization – are likely to persist. Viewing tariffs as a fleeting phenomenon is a dangerous gamble. Organizations need to adopt a long-term perspective and build adaptability into their core operations. This means moving beyond short-term fixes and embracing strategic shifts that can weather future storms, regardless of the specific tariff du jour.

Misconception 2: Our Only Option is to Absorb the Costs.

Reality: While absorbing some initial cost increases might be a short-term necessity, it's rarely a sustainable long-term strategy.

It erodes profitability and can put businesses at a competitive disadvantage. Thriving in a tariff-laden environment requires a multi-pronged approach that explores various avenues including supply chain diversification, value engineering, pricing strategies, automation and efficiency improvements and strategic partnerships.

Misconception 3: Lobbying and Legal Challenges are the Most Effective Solutions.

Reality: While engaging in advocacy and exploring legal avenues can be part of a comprehensive strategy, relying solely on these approaches is often reactive and uncertain. Policy changes are unpredictable, and legal battles can be lengthy and costly. Organizations need to focus on proactive measures that they can control directly. Advocacy efforts should be part of a broader strategy that prioritizes internal adaptation and resilience.

Misconception 4: Only Large Corporations Have the Resources to Effectively Plan for Tariffs.

Reality: While large enterprises might have dedicated teams and significant financial resources, smaller and medium-sized enterprises (SMEs) can also build resilience through agility and focused strategies. SMEs can:

- **Focus on Niche Markets:** Specializing in less price-sensitive or highly differentiated products can provide more pricing flexibility.
- **Build Strong Customer Relationships:** Loyal customers may be more willing to absorb small price increases or accept product substitutions.
- **Collaborate with Industry Associations:** Leveraging the collective knowledge and resources of industry groups can provide access to expertise and shared solutions.

Misconception 5: The Goal of Pricing Strategy is to Negate Margin Compression from Tariffs Fully.

Reality: While the desire to completely offset tariff-induced margin compression is understandable, it's often unrealistic and can lead to unintended negative consequences, such as significant volume loss or decreased competitiveness. Best-in-class companies recognize that external pressures, like publicly announced tariffs, present strategic opportunities for proactive price adjustments that can improve margins in the long run, even after the immediate pressures subside.

They understand that customers are often more receptive to price increases when there's a clear, external justification that is widely known. By acting early and communicating transparently about the impact of tariffs (and potentially other cost increases), companies can implement price adjustments that are more likely to be accepted

across the board. The strategic advantage lies not in simply reacting to cost increases, but in leveraging these moments to reset pricing expectations and potentially expand margins beyond the immediate tariff impact. The risk lies in delaying price adjustments and being among the last to do so, potentially facing greater customer resistance and missing the window of opportunity.

Misconception 6: In Times of Economic Uncertainty and Tariff Volatility, Investing in New Technology Should Be Put on Hold.

Reality: Precisely the opposite is true. In an uncertain environment marked by tariffs and fluctuating global trade, now is the critical time to strategically invest in technology that enhances agility, provides proactive insights, and enables rapid, informed reactions. Cutting back on technology investment during such periods can leave organizations vulnerable, less efficient, and ultimately less competitive.



Modern technological tools offer a powerful arsenal for navigating the complexities of tariffs and volatile markets:

- **Advanced Analytics and AI:** These technologies can process vast amounts of data – from import/export costs and tariff schedules to supply chain disruptions and market demand shifts – to provide predictive insights. Organizations can use these insights to forecast potential tariff impacts, identify alternative sourcing options, optimize inventory levels, and even anticipate shifts in customer behavior. Being proactive means using these tools to model different scenarios and understand the potential consequences of various tariff regimes before they fully materialize.
- **Supply Chain Management (SCM) Software:** Modern SCM platforms offer real-time visibility into the entire supply chain, allowing organizations to track goods, identify potential bottlenecks caused by tariffs, and quickly assess the feasibility of alternative routes or suppliers. Features like digital twins can even simulate the impact of tariffs on different parts of the supply chain, enabling proactive adjustments.
- **Enterprise Resource Planning (ERP) Systems with Enhanced Capabilities:** Upgraded ERP systems can integrate tariff information directly into costing and pricing models, allowing for more accurate profitability analysis under different tariff scenarios. They can also facilitate faster adjustments to pricing strategies and help manage the complexities of international trade compliance.
- **Communication and Collaboration Platforms:** In a dynamic environment, swift and efficient communication with suppliers, distributors, and internal teams is paramount. Modern platforms enable seamless information sharing, collaborative problem-solving when faced with tariff-related disruptions, and faster decision-making.

- **Automation and Robotics:** Investing in automation within manufacturing and warehousing can help offset increased labor costs or inefficiencies that might arise from supply chain adjustments due to tariffs. This can improve overall cost competitiveness and reduce reliance on tariff-sensitive inputs.

Organizations that postpone technology investments risk being stuck with outdated systems that lack the agility and analytical power needed to navigate the complexities of tariffs. They will be forced into a reactive posture, constantly playing catch-up and potentially incurring higher costs and lost opportunities.

Conversely, organizations that strategically invest in the right technologies will gain a significant competitive advantage. They will be better equipped to:

- Proactively identify risks and opportunities arising from tariff changes.
- React swiftly and effectively to disruptions in the supply chain or changes in market conditions.
- Optimize their operations for greater efficiency and cost-effectiveness in a tariffed environment.
- Make data-driven decisions regarding sourcing, pricing, and market strategy.

In essence, technology is not a discretionary expense in this volatile environment; it's a critical enabler of resilience and a key driver of proactive strategic adaptation. Organizations that recognize this and invest wisely will be far better positioned to not only survive but thrive in the face of ongoing tariff uncertainty.

Tackling the Current Tariff Environment Head-On

Even amid uncertainty, companies can position themselves for resilience and advantage. Here's how:

- **Build flexibility into the model.** Use scenario planning and AI-driven modeling to anticipate multiple tariff outcomes. Reforecast regularly and pressure-test liquidity and pricing assumptions.
- **Modernize operations thoughtfully.** Target automation or technology investments that could reduce labor costs or energy consumption. Also consider alternative materials or input components. These moves can offset rising material and tariff-driven costs over time.
- **Align your internal teams.** Tariff management isn't just a finance or operations issue—it requires legal, tax, procurement, and executive alignment. Cross-functional governance is key.
- **Track, adjust and communicate.** Maintain clear audit trails for tariff charges and price changes. Review financial disclosures to ensure material tariff risks and responses are captured properly. Communicate changes clearly to investors, customers, and employees alike.

Don't Wait for Tariffs to Hit; Take Action Now

Tariff changes can wreak havoc on your margins, supply chains and strategic plans, but only if you let them. Business leaders who move quickly and think strategically can turn volatility into opportunity.

Here are four high-impact actions to help you assess risk, uncover advantages and stay in control as the global trade landscape shifts:

- **Assess your exposure:** Understand which goods, services and entities in your business, including effects on the workforce at every stage of production, are most affected by tariff changes
- **Evaluate exemption opportunities:** Determine if your goods qualify for full or partial exemptions or if reclassification or transformation can help
- **Revisit cost allocation:** Ensure accurate financial and tax reporting for both tariff and non-tariff costs
- **Reassess M&A or investment strategies:** Factor in both risks and potential advantages in a shifting global supply chain



Tactical Approach	Description	Impact of Scenario Planning/Business Modeling
CORPORATE PLANNING		
Assess tariff risks	Conduct self-assessments to identify high-impact products, direct and indirect tariff risks, and supply chain vulnerabilities	Quantifies revenue at risk, EBITDA margin erosion, and working capital needs under various tariff scenarios
Segment and stratify customers and channels	Review sales history by customer and by channel to identify key trends and sensitivity to pricing and other market forces	Identify trends, including seasonality, reaction to pricing and other macroeconomic events, and sensitivity thresholds based on historical analysis
Competitive analysis	Understand your company's market position and vulnerabilities, paired with an in-depth look at how key suppliers are positioning themselves within the industry	Model potential responses from competitors based on industry knowledge
Utilize duty minimization programs	Leverage foreign trade zones, duty drawback programs or "first-sale-forexport" strategies to reduce tariff costs	Models cost-saving opportunities that directly improve EBITDA margins and cash flow
Restructure supply chain strategy	Redesign supply chains by nearshoring, reshoring or diversifying suppliers to reduce exposure to tariffs and improve operational control	Quantifies cost-benefit of alternative sourcing strategies on EBITDA margins and working capital requirements
Engineer products for lower tariffs	Modify product designs or sourcing materials to fit lower tariff classifications while maintaining compliance	Simulates cost impacts of reclassification strategies on COGS (cost of goods sold) and EBITDA margins

SUPPLY CHAIN/OPERATIONS

Renegotiate supplier contracts	Collaborate with suppliers to share tariff costs or adjust pricing terms to mitigate financial impact	Models impact of supplier negotiations on gross margins and working capital improvements from adjusted payment terms
Renegotiate customer contracts	Adjust contract terms with customers to account for increased costs due to tariffs while balancing competitiveness and retention risks	Quantifies revenue impacts from passing on tariff costs versus absorbing them into EBITDA margins
Optimize inventory management	Adjust inventory levels strategically to avoid price increases, mitigate risks, or capitalize on pre-tariff stockpiling opportunities	Forecasts inventory carrying costs versus savings from avoiding higher future tariffs, impacting working capital
Diversify suppliers	Reduce reliance on single regions by sourcing from multiple countries with favorable trade policies to mitigate tariff exposure	Identifies alternative suppliers' impact on COGS, EBITDA margins, and lead times affecting working capital needs
Segment and stratify customers and channels	Review sales history by customer and by channel to identify key trends and sensitivity to pricing and other market forces	Identify trends, including seasonality, reaction to pricing and other macroeconomic events, and sensitivity thresholds based on historical analysis
Leverage free trade agreements (FTAs)	Utilize FTAs like USMCA to reduce or eliminate tariffs through favorable trade terms while optimizing sourcing strategies accordingly	Quantifies savings from FTA utilization against potential operational changes required for compliance with agreement terms
Implement foreign trade zones (FTZs)	Use FTZs to defer or reduce tariff payments by storing or assembling goods before they officially enter the domestic market	Simulates cash flow improvements and cost savings from deferring tariffs in FTZs under various scenarios

OTHER FINANCIAL STRATEGIES

Implement cost reduction initiatives

Streamline operations through labor efficiencies, process improvements, or automation to offset increased costs from tariffs

Models operational adjustments for financial savings while improving EBITDA margins under different cost structures

PRICING CHANGES

Adjust pricing strategies

Increase prices strategically to reflect higher costs due to tariffs while balancing competitiveness and profitability in key markets

Simulates pricing strategies that maintain margins across multiple market conditions influenced by tariffs while managing demand elasticity risks

Improve net pricing through a disciplined approach to discounting depth and frequency

As close to real-time updates as possible allow fast visibility into actual impact of pricing changes

Get Help With Tariff Preparation and Response

Tariff changes and prolonged periods of uncertainty can disrupt nearly every aspect of a business, especially for companies already juggling lean teams, complex supply chains or high capital intensity.

Get help in these core areas to bolster your strategy and address tariff threats now:

- **Financial modeling, valuation impact evaluation and risk analysis** that help you scenario plan with confidence
- **Custom supply chain diagnostics** to identify cost savings, supplier alternatives and contract
- **Accounting and reporting considerations** that affect stakeholder decisions

- **Tax strategy and compliance support** to keep you audit-ready and optimize cost treatment
- **Working capital management**, liquidity and going concern impacts
- **Capital allocation and financing** decisions to manage costs
- **M&A and transaction structuring guidance** to protect value in volatile times
- **Pricing and promotion strategies** to protect margins and customer demand

Navigating tariffs doesn't have to feel overwhelming. With the right guidance and cross-functional support, you can turn uncertainty into strategic advantage. Whether you're reassessing your supply chain, financial plans or deal structures, we're here to help you move forward with clarity and confidence.



*Get expert guidance on navigating tariff challenges –
contact us today to protect your business and seize new opportunities.*



Are You Prepared for Regulatory Shifts?

Our Rapid Response team can help you assess your readiness and adapt quickly to upcoming changes, so you can set your business up for sustained success.

GET AN ASSESSMENT



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