


BRACE FOR IMPACT

Unpredictable Tariff Disruptions Are Here —This Is Your Playbook

Many companies publicly appear to be adopting a wait-and-see approach to the looming risk of a tit-for-tat trade war. Yet beneath this surface-level calm, businesses are taking steps to mitigate potential disruptions. Western firms are rapidly accelerating plans to diversify their supply chains, especially for nearshore manufacturing, assembly, and distribution systems. European manufacturers remain especially vulnerable, as the sector has been contracting for nearly two years with no turnaround in sight, increasing pressure to protect domestic manufacturers from Asian imports.

 [Continue reading](#)

 **GEP** | INTELLIGENCE
DRIVES
INNOVATION

In the U.S., where manufacturing accounts for just 12% of GDP, the greater concern is the potential revenue losses inside China from punitive actions — from sanctions to outright bans — and escalating trade tensions.

Drawing on our work with global companies across manufacturing, automotive, pharmaceuticals, semiconductors, software, technology, financial services, and a range of service industries, we outline the key actions companies are taking to navigate this period of heightened uncertainty.

We also provide critical context on the current state of global supply chains, which have emerged from 16 months of double-digit inflation following two years of pandemic-driven disruptions. In short, for the past six months, supply chains have been operating in a “Goldilocks zone,” with steady global manufacturing growth — except in Europe, where there is protracted weakness.

4 Strategies to Mitigate the Impact of Tariffs and Stay Ahead of Disruptions

1. Accelerate Plans to Increase Supply Chain Flexibility, Including “China-Plus-One” and Regional Diversification

- Diversify your sourcing and production beyond China by accelerating a “China-plus-one” strategy, shifting operations to Vietnam, India, South Korea,

and other lower-risk hubs to mitigate vulnerabilities. While there is no place that can compete with China’s manufacturing capacity, manufacturers are increasingly expanding their footprint elsewhere.

- Realign and streamline your global production network by reshoring some assembly and manufacturing to domestic markets.
- Identify and address single-country dependencies in your supply chain and take steps to build resilience and safeguard operations against disruptions.

2. Shift Risk by Outsourcing Supply Chain Financing and Operations

- Subcontract operations to a global provider to buy and hold inventory for your business and deliver that inventory whenever and wherever it’s needed, shifting the risk to companies better equipped to handle disruptions.
- Be ready to rebalance supply chain flows to offset risk. A third party can simplify your complex supply chain and materials flow to optimize cross-border movements — such as parts moving back and forth between Mexico and the U.S. — expressly minimizing exposure to tariffs and trade disruptions.





- Transfer financial risk off your own balance sheet by securing supply chain financing to improve cash reserves and working capital, limiting the financial whiplash from tariffs.

3. Factor Trade Disruptions Into Supplier Contracts & Cost Models

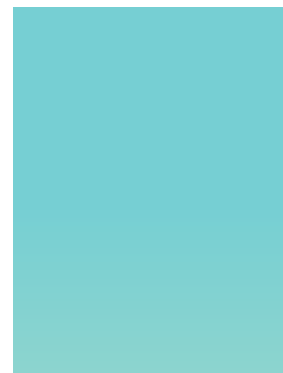
- Renegotiate key supplier agreements to include contingency clauses for potential tariff hikes, and integrate this flexibility into your standard contracting and terms and conditions agreements.
- Expand the total cost of ownership models used inside the business to introduce new rules for potentially impacted product lines or cost centers.

4. Take Scenario Planning and Visibility Discussions to the Next Level

- Confirm and enhance supply chain transparency by identifying where critical components, raw materials, and sub-assemblies originate and how they flow through the supply chain.
- Quantify potential costs and financial impact if tariffs or other trade barriers

are imposed on key suppliers, and compare them to your best alternatives.

- Develop best-, mid-, and worst-case “what-if” tariff impact scenarios based on your current sourcing footprint.
- Explore alternative suppliers, suppliers’ suppliers, and manufacturing locations to reduce risk and cost. Repeat the same exercise for your competitors – will they be planning to use the same alternatives?
- Without a crystal ball, it is essential to align cross-functional teams to ensure functions, including procurement, finance, and operations, speak with a unified corporate voice and collaborate early to enhance readiness if tariffs go into effect.



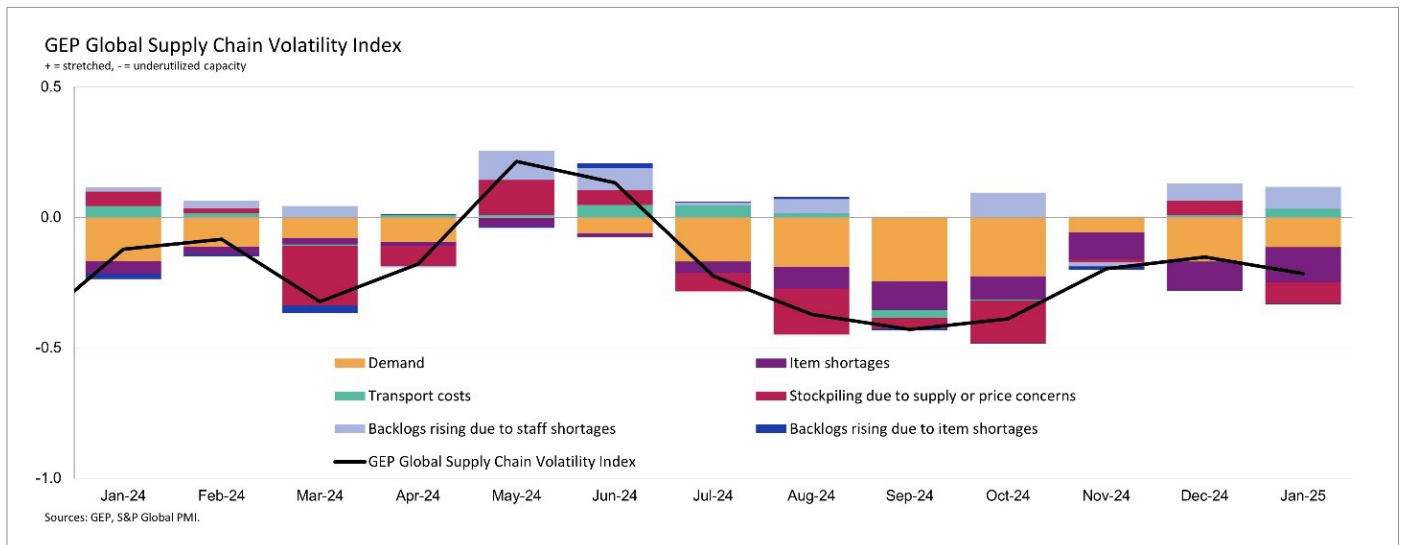


Current State of the World's Supply Chains

In January, despite tariff uncertainty, manufacturers did not stockpile inventories. Reports of material shortages hit a five-year low, and supply chains were well stocked.

Our monthly survey of 27,000 businesses found:

- Asian factories increased purchasing, hitting a 13-month high, to meet rising demand, with China, India, and in particular South Korea reporting notable gains.
- North American procurement activity surged, led entirely by U.S. manufacturers. Meanwhile, purchasing managers in Mexico and Canada cut back, signaling a weaker near-term outlook outside the U.S.
- European manufacturing remains in a protracted two-year plus contraction. Factories in Germany, France, Italy, and the U.K. scaled back on raw material procurement, signaling no turnaround in sight.



Interpreting the data:

Index > 0, supply chain capacity is being stretched. The further above 0, the more stretched supply chains are.

Index < 0, supply chain capacity is being underutilized. The further below 0, the more underutilized supply chains are.

It is increasingly likely tariffs will materialize, causing significant disruptions to the continuity of our global value chains. Contact us to discuss how you can best prepare and to provide a full supply chain risk assessment.

www.gep.com/volatility

Contact Us



Krish Vengat N.
Vice President, Consulting
Manufacturing Sector

E-mail: vn@gep.com
C: +1 269 425 5808