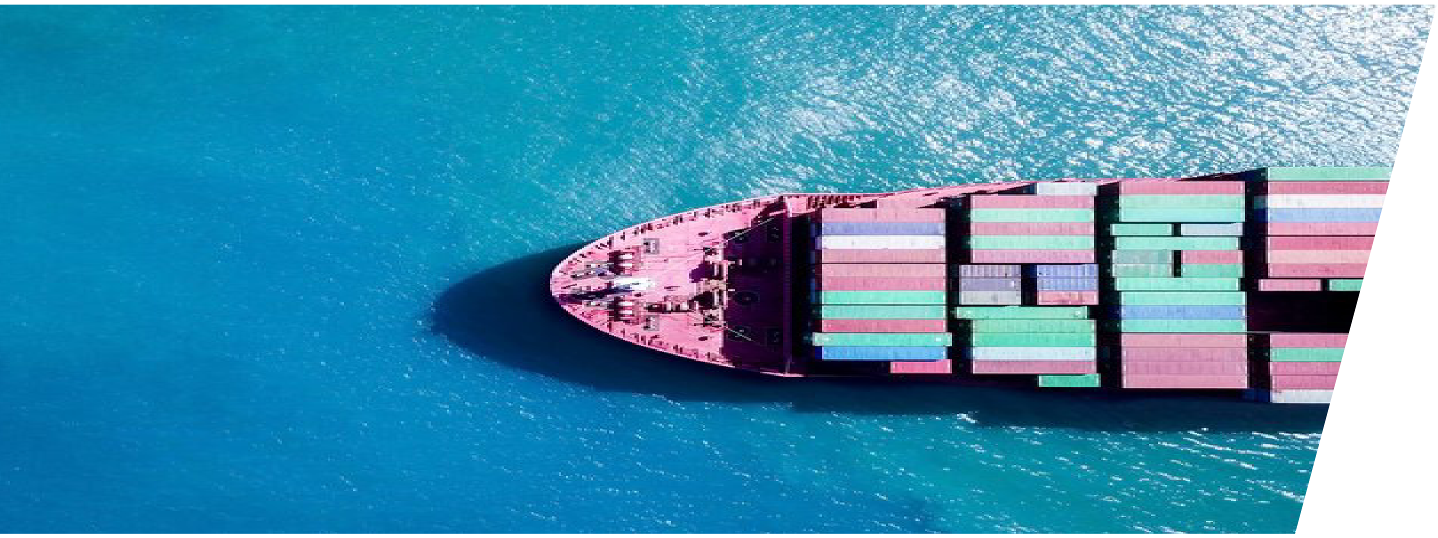

White Paper

Navigating the Uncertainty of U.S. Tariffs

Building Strategic Resilience beyond the Supply Chain

Dirk Heimburger
Carla Martínez
Nikolas Spatz

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In 2025, trade tensions have escalated once again as new waves of U.S. tariffs renew uncertainty for global businesses. At the same time, retaliatory measures from major economies such as China and the European Union are further disrupting cross-border flows. Tariffs have become more than a policy tool; they are a lever of industrial strategy, signaling a structural shift in the global trade landscape.

For executives, the implications extend beyond the supply chain. Tariff exposure now affects the core of the business model, from corporate control and transfer pricing structures to commercial pricing strategy, tax planning, and functional setup. These dynamics require coordinated, cross-functional responses and leadership alignment.

This paper reviews recent and historical tariff regimes to extract actionable insights and highlight key patterns. It also outlines the areas of the organization that are most exposed to risk and proposes strategic levers executives can activate to build resilience.

Moreover, rather than treating tariffs as isolated events, companies must view them as indicators of broader policy shifts and strategic inflection points. They are not simply warning signs, but rather they are calls to realign operating models for a world where volatility is already the norm. This paper aims to provide executives with a cross-functional lens to assess exposure and respond with greater resilience across business functions.

Lessons from past tariff regimes

Governments have consistently used tariffs as instruments of industrial policy and geopolitical influence, regardless of the actors or justifications involved.

For companies, the consequences often extend well beyond the immediate target, creating operational and financial volatility across supply chains, pricing, and customer relationships.

The following paragraphs highlight selected examples that illustrate how different tariff regimes have triggered disruption, retaliation, and strategic shifts across industries and geographies:

- In 2018–2019, the U.S.–China trade war imposed tariffs on nearly $360 billion USD in goods, triggering retaliatory measures. This led to increased input costs, rerouted supply chains, and intensified price pressures
- Also in 2018, the United States' Section 232 tariffs on steel and aluminum imports, imposed on national security grounds, caused significant disruption across manufacturing and construction due to sharp raw material cost increases. Even close allies such as the European Union and Canada were affected, showing that limited tariffs can have cascading global effects
- In 2019, India responded to its removal from the U.S. Generalized System of Preferences by raising tariffs on U.S. agricultural and industrial goods. This move underscored the growing willingness of emerging economies to reshape trade relationships when provoked
- The EU's 2021 retaliation over the Boeing-Airbus dispute imposed targeted duties to U.S. goods such as bourbon and motorcycles. This caused revenue losses, bottlenecks, and delayed recovery in key consumer sectors. The strategic selection of goods highlights how retaliatory tariffs are often designed to exert maximum pressure

Collectively, these examples reveal common themes:

Tariffs often trigger retaliation, inflate downstream costs, strain customer relationships, and expose companies to systemic risk; particularly when sudden policy shifts catch them unprepared. Companies that proactively simulate exposure and adapt quickly are better positioned to mitigate these effects.

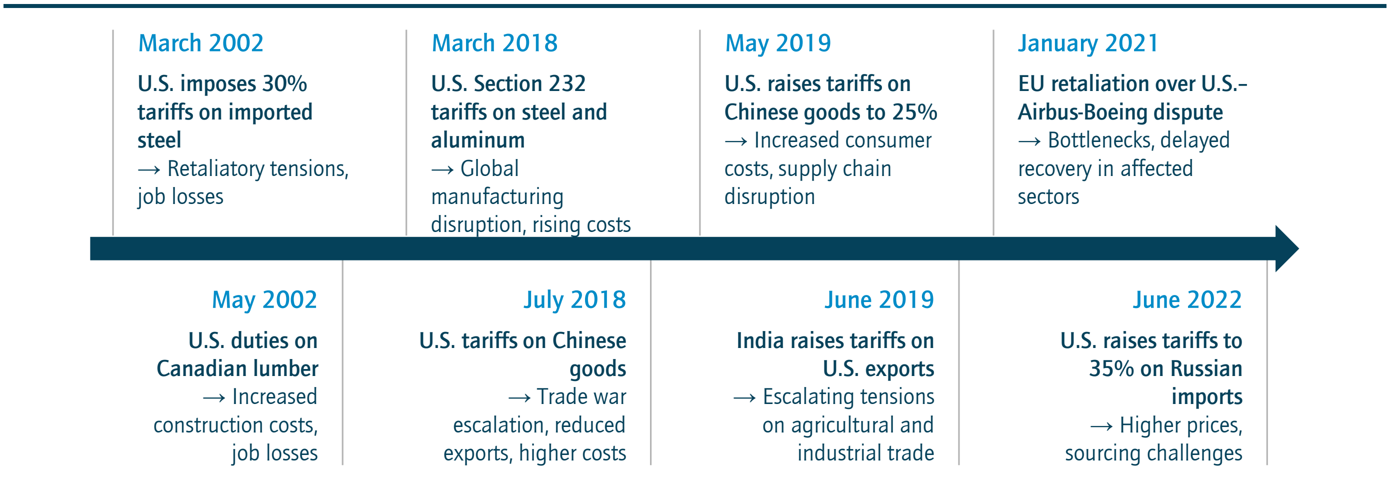

Fig. 1: Major global tariff events (2002–2022)

Tariffs' impact across the operating model

Tariffs are more than trade instruments; they alter the fundamentals of how global businesses operate. Their effects are not confined to procurement or logistics but cut across corporate structure, pricing logic, tax compliance, and sourcing strategy. The following six dimensions outline how tariff exposure challenges traditional operating models and decision-making frameworks.

Corporate control: Tariffs create significant distortion in local profitability, often decoupling it from group-level performance. When businesses manage by local margins without a holistic view, they risk drawing incorrect conclusions about product, customer, or country profitability. A group margin lens is essential to maintain control over financial steering and ensure alignment between tax compliance and commercial decision-making.

Tax compliance: Tariffs can erode the reliability of existing transfer pricing benchmarks, especially when external comparables fail to account for sudden cost shocks. Inconsistent pricing across entities may raise red flags with tax authorities and lead to disputes. Businesses must revisit their comparability analysis, economic assumptions, and documentation to ensure arm's length compliance under new trade realities.

Transfer pricing model: Legacy models may no longer be optimal in high-tariff environments. Companies should evaluate alternative intercompany models that allow for risk sharing, better flexibility, or profit reallocation in response to tariff-triggered volatility. Adjustments in model logic can also support tax alignment and commercial responsiveness.

Commercial pricing strategy: Relying on static cost-plus logic leaves companies exposed to input cost volatility. Firms should strengthen their pricing strategy by embedding market-based adjustments, customer segmentation, and scenario playbooks for pass-through mechanisms. Beyond mechanical uplift, pricing transparency and communication with key accounts become essential in defending margin and trust.

Local-for-Local production shifts: Tariffs increase the incentive to move production closer to end markets. By localizing manufacturing, firms can reduce landed cost volatility and minimize exposure to policy shifts. However, local-for-local moves must be evaluated beyond cost efficiency, including capacity, quality, and speed to customers.

Tariff bypass and network diversification: In cases where localization is not feasible, shifting production to countries with favorable trade agreements may provide a strategic bypass. This requires careful assessment of supplier reliability, value chain complexity, and long-term geopolitical stability. Dual sourcing or nearshoring can also increase resilience without overhauling the full footprint.

These six dimensions demonstrate that tariffs are not isolated shocks but catalysts that challenge the foundational assumptions of global operating models. Managing tariff exposure requires more than tactical responses, it calls for structural readiness, cross-functional coordination, and a shift in how businesses interpret performance, manage risk, and steer decisions across markets.

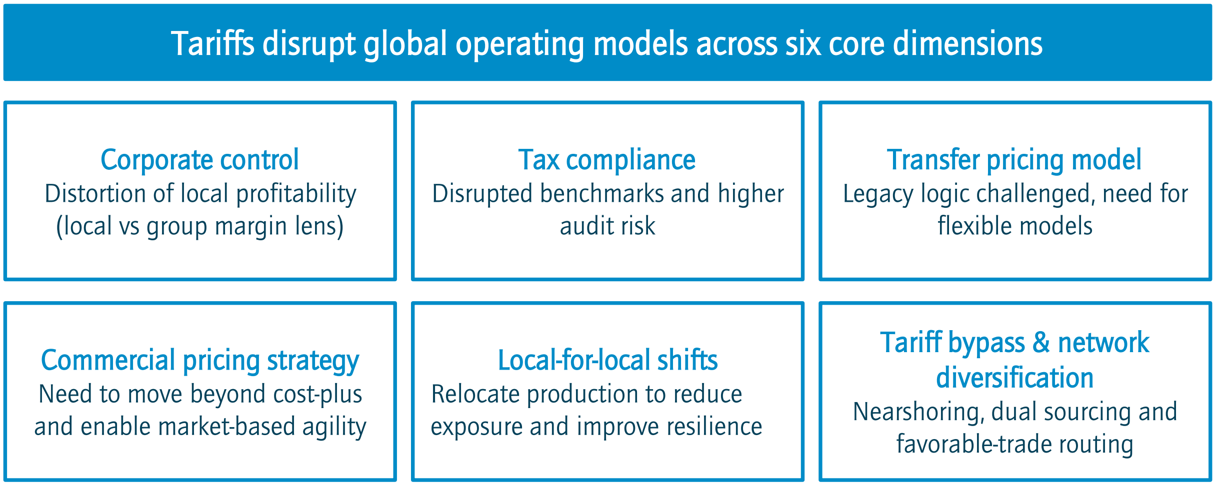

Fig. 2: Operating model dimensions

Strategic moves: Turning reaction into resilience

The previous section outlined six dimensions where tariffs exert pressure across the operating model, from distorted local profitability to unstable sourcing networks. But exposure alone doesn't build resilience. Leading companies are responding with strategic shifts in how they manage pricing, structure intercompany relationships, and embed governance into daily operations.

This section focuses on three specific levers that correspond to the most pressing challenges identified in Section 3:

- Reinforcing pricing architecture to address cost pass-through and customer trust
- Operationalizing tariff logic with playbooks to improve cross-functional reaction speed
- Repositioning transfer pricing as a strategic tool to absorb volatility across borders

Rather than restating structural issues, these responses reflect how companies are actively embedding tariff logic into their commercial and financial design. Together, they mark a transition from reactive cost management to forward-looking operational resilience.

Reinforcing pricing architecture: Static cost-plus pricing is increasingly unsustainable. Companies are turning to indexed or value-based pricing models that automatically adjust to input volatility. Contract clauses tied to steel, aluminum, or other material indices allow for more transparent and scalable margin protection.

Firms are also enhancing pricing transparency, especially with strategic accounts. Proactive communication and pre-agreed uplift logic strengthen trust during periods of inflation and trade instability.

Operationalizing tariff logic with playbooks: Scenario-based pricing playbooks are evolving to incorporate tariff triggers. These playbooks define escalation thresholds, pass-through mechanisms, and margin floor protections; transforming tariffs from ad hoc disruptions into managed risk events.

To execute this effectively, pricing governance must be clarified. Cross-functional pricing committees with finance, legal, tax, and commercial involvement ensure fast, consistent reactions.

Transfer pricing as a strategic tool: What was once a compliance function is becoming a key component of resilience. Multinationals are shifting toward intercompany pricing models that absorb geopolitical shocks and allow for profit reallocation when tariffs distort value flows. Transfer pricing models are being reevaluated in light of trade exposure, with flexibility and audit defensibility as core design principles.

While these strategic levers offer broad applicability, their real-world execution often varies by industry. Automotive and MRO provide two distinct but instructive examples, each facing tariff exposure with different constraints and strategies.

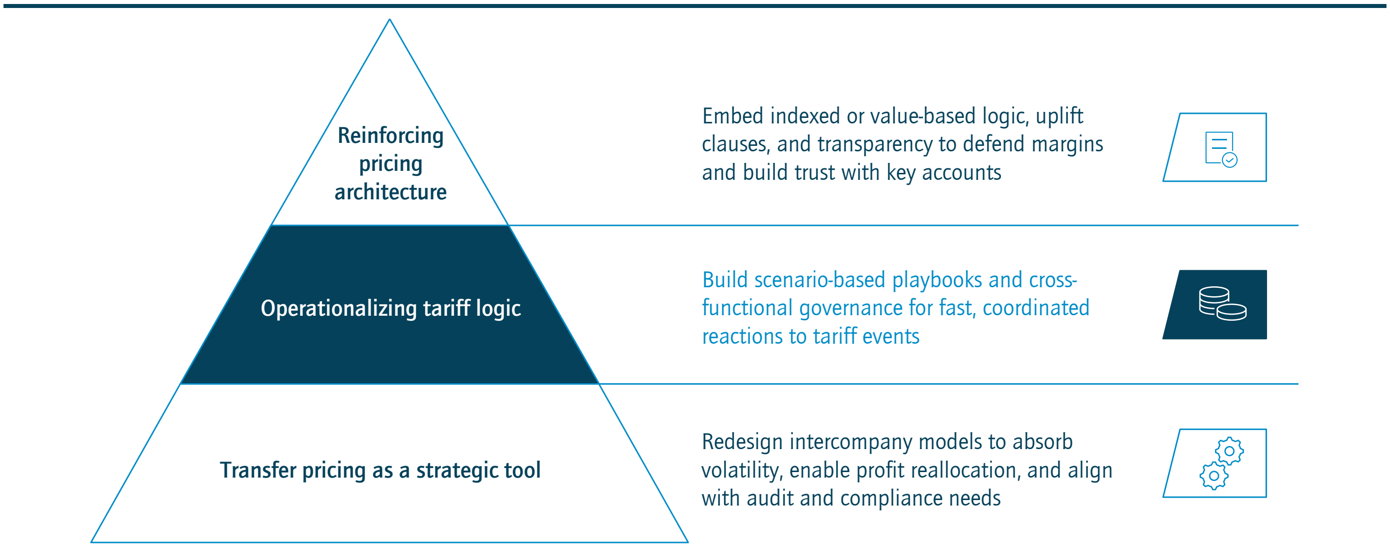

Fig. 3: Strategic levers to build tariff resilience

Both sectors operate complex global supply chains with high sensitivity to cost shocks, yet differ significantly in scale, margin structure, and strategic flexibility. The following cases show how leading players are adapting through sourcing, pricing, and structural responses to tariff volatility.

Industry-specific responses: Automotive and MRO

Automakers are recalibrating sourcing and pricing strategies to remain competitive despite tariff uncertainty. German OEMs and Tier 1 suppliers, for instance, are reevaluating their China dependencies and reassessing value flows under USMCA and other trade frameworks. Indexed pricing models and dual sourcing are becoming more common to mitigate input volatility and regulatory shifts.

Many are also implementing local-for-local strategies in key regions to reduce landed costs and safeguard product availability. These shifts reflect a broader move from cost optimization to strategic supply chain positioning.

Industrial players in the MRO space are adopting more flexible contracting and procurement models to deal with rising tariff complexity. With lean footprints and limited ability to absorb external shocks, mid-sized manufacturers in the DACH region are implementing scenario-based pricing and expanding near-shoring efforts.

The focus is on reducing landed cost volatility, improving responsiveness, and preserving margin stability, even in low-complexity, high-frequency purchasing environments.

Toward structural resilience

These responses go beyond tactical adjustments; they reflect a deeper shift toward operational maturity under uncertainty. By embedding tariff logic into pricing structures, supplier decisions, and intercompany models, companies are moving from reaction to readiness. This strategic posture enables businesses to protect margins, preserve trust, and maintain agility in an increasingly unstable trade environment.

Outlook and considerations for executives

The structural challenges outlined in this paper point to a lasting shift in how global businesses must respond to trade volatility. Tariffs are no longer isolated events, but persistent variables that intersect with how companies steer margin, manage value flows, and organize global operations.

Executives should take the following deliberate steps to operationalize tariff response mechanisms across functions:

- Establishing governance frameworks that clarify ownership of pricing and sourcing decisions
- Embedding tariff logic into transfer pricing policies and intercompany agreements
- Designing commercial strategies that account for margin protection, customer transparency, and pass-through flexibility
- Rethinking footprint decisions through local-for-local and network diversification strategies

While adaptation has begun, many companies are still addressing symptoms rather than redesigning systems. What is needed now is not just tactical adjustment, but a full paradigm shift.

Tariffs should no longer be treated as external shocks, but they are now a baseline condition that must be embedded into how companies govern pricing, design operating models, assign financial ownership, and define performance metrics.

Imprint/ Contact

Editor
Horvath & Partners Management Consulting Corporation
271 17th Street NW | Suite #1750
Atlanta, GA 30363, United States

Phone: +1 404 769 3355
atlanta@horvath-partners.com

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René Linsner
Partner & CEO
Horváth USA

RLinsner@horvath-partners.com

Dirk Heimburger
Global Head of Transfer Pricing Advisory
Horváth Germany

DHeimburger@horvath-partners.com

Carla Martínez
Performance Management
Horváth USA

CMartinez@horvath-partners.com

Nikolas Spatz
Pricing and Profitability
Horváth USA

NSpatz@horvath-partners.com