EXECUTIVE INSIGHTS

With Tariffs, Everything Has Changed — But Everything Is the Same

While tariffs have long been a tool used by U.S. administrations, the tariffs announced by the Trump administration have been breathtaking in both their size and scope. As a result, everything has changed. These tariffs continue to threaten to materially disrupt supply chains and sourcing arrangements for countless U.S. companies. They demand action, even if no one knows how they will ultimately shake out. Even with the recent promises of reaching deals with China and others, there are pending deal contingencies and tariff rates that will drive the total costs higher.

On the other hand, everything is the same. One of the best ways to mitigate the impact of tariffs is to have a very strong, cost-efficient, end-to-end supply chain. But that's always been true. Only now it's not just a good idea; it's absolutely necessary. U.S. companies need to optimize for each component across the value chain, ensuring they have transparency all the way through their Tier 1, Tier 2 and Tier 3 suppliers. And if they haven't already, they need to do so immediately.

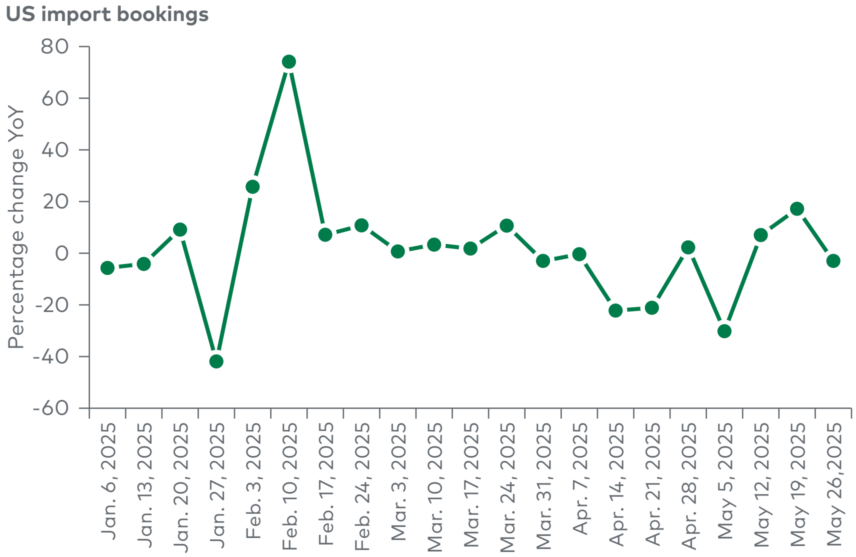
Those that don't shore up their supply chain from end to end may survive these tariffs, or they may not. But those that do survive may even thrive.

Swift, steep action and reaction

After being initially unveiled at the beginning of April, U.S. tariffs had an immediate impact on U.S. bookings, causing them to fall anywhere from 30% (overall U.S. exports) to 64% (both overall U.S. imports and U.S. imports from China) (see Figure 1).

Figure 1

Recent tariff impact: U.S. import bookings see major contraction



Recent import/export booking trends

Percentage change YoY,
March 2025-May 2025

Type of booking	March 2025	May 2025	Change
Global TEUs booked	+1.2%	-3.8%	**-5.0 pts**
Overall U.S. imports	+2.6%	-2.5%	**-5.1 pts**
U.S. imports from China	-0.2%	-4.6%	**-4.4 pts**

Booking activity fell sharply from March to May across global, U.S. and China lanes, reflecting both the impact of tariff implementation and a pullback from pre-policy front-loading

Note: YoY=year over year; TEUs=twenty-foot equivalent units
Source: L.E.K. research and analysis; Vizion API for booking data

Such swift and volatile change demands equally swift and significant action on the part of U.S. companies, which can be broken down into three steps:

1. **Assess business impact and risk:** Start by assessing the impact of current and potential tariffs on the supply base, the country-level diversification of suppliers and the ongoing risk of having to compete with "surge orders."
2. **Optimize sourcing and product strategy:** Reinforce the continuity of supply through strategic supplier diversification while simplifying product design in order to reduce sourcing complexity and cost exposure.
3. **Build end-to-end supply chain agility:** Create an integrated strategy spanning suppliers, logistics and inventory to reduce volatility and ensure continuity across all tiers.

Assess business impact and risk

In order to develop strategies for navigating tariff risk, evaluating any impacts from shifting market/tariff dynamics across revenue, costs and branding is essential.

Start by conducting a detailed risk exposure analysis. Assess any revenue impacts of unexpected swings in demand and other risks to the company's top lines, particularly those related to tariff pressures, and build risk mitigation practices into the supplier/manufacturing network. Then break down the cost of goods sold and evaluate the supply base's country of origin and tariff impact at the category level. Doing so will enable an accurate assessment of the risk involved and pave the way for building resilience into the entire supply base by right-sizing supplier lists, simplifying supply chains and improving planning.

Next, determine the magnitude of tariffs' impact on the company. Assess the risk of any supply chain volatility, including the risk of having no supply once tariffs are in place, as well as the risk of any shortages of materials or production delays. And develop an understanding of any impact to the business's cost structure and overall cost base that will take place once tariffs are activated.

Finally, assess any alternatives for the company's supply chain. Conduct analyses to understand how to minimize the impact of tariffs and optimize the outcome (including minimizing supply risk and cost impact). Be sure to consider both short- and long-term supplier options and develop a dynamic strategy for reacting to any policy changes.

Optimize sourcing and product strategy

Optimizing and simplifying products, processes, capabilities and contracts can help the business get ahead of tariff-related market disruptions before they occur.

When it comes to product design, align the product portfolio with evolving needs and supplier capabilities. Enhance supply chain agility, reduce complexity and mitigate tariff-related cost impacts by strategically shifting the product portfolio to align with an evolving supplier base. And get supplier feedback that will enable the business to identify cost-effective alternatives, make intelligent decisions and ensure the most effective degree of portfolio alignment possible.

To optimize sourcing, practice excellence. Build sourcing capabilities, technologies and capacity in ways that will reduce lead times, costs and risks, and incorporate advanced planning and analysis capabilities and tools that will enable the business to stay one step ahead of changing market conditions.

Be sure to optimize contracts in ways that will help the business navigate a rapidly changing environment. That includes negotiating and managing them in ways that will mitigate any disputes, costs and delays, all while keeping tariff-related market volatility top of mind. And in order to build resilience into supplier relationships right from the start, be sure to also introduce price controls, strengthen any performance clauses and make the contracts as flexible as necessary.

Build end-to-end supply chain agility

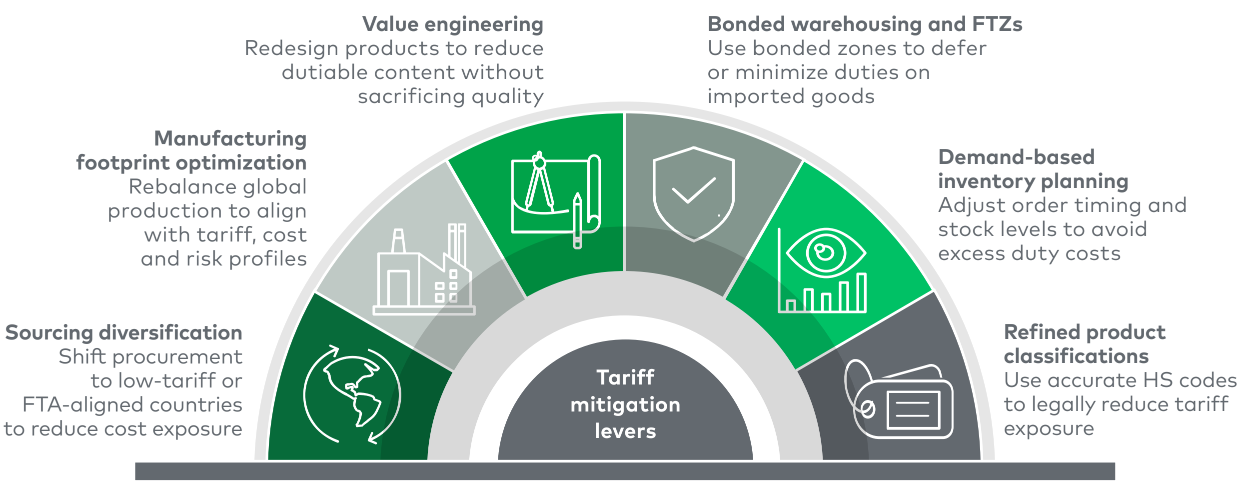
To ensure the product flow necessary for the business, build an alternative supplier plan. Identify potential new suppliers, monitor market trends and be sure to understand all the related supply-and-demand dynamics. Regularly evaluate and qualify alternative suppliers and distributors to proactively provide backup options, including maintaining one to two active suppliers as well as one backup supplier that qualifies for major categories. And to increase supply chain flexibility and resilience, reduce the business's reliance on a limited number of suppliers or a particular geography while looking for additional suppliers in geographies not likely to be impacted by tariffs.

Meanwhile, minimize any impact of tariffs on the business's existing supply base. Manage price volatility by negotiating with suppliers to share the burden of tariff costs, including renegotiating contracts terms (e.g., adjusting pricing or payment terms). Strategically shift volume to current suppliers located in geographies that are not (or are just minimally) impacted by tariffs. And incorporate hedging techniques to increase flexibility against tariff pressures, including forward or futures contracts with suppliers, scalable purchasing agreements, dual sourcing and flexible logistics networks.

Don't wait — move

There are numerous specific supply chain strategies companies can implement to mitigate the impact of tariffs, such as shifting procurement to low-tariff or Free Trade Agreement-aligned countries to reduce cost exposure; rebalancing their global production to align with tariff, cost and risk profiles; and redesigning their products to reduce dutiable content without sacrificing quality. Other strategies include using bonded zones to defer or minimize duties on imported goods, adjusting order timing and stock levels to avoid excess duty costs, and using accurate Harmonized System codes to legally reduce tariff exposure (see Figure 2).

Figure 2
Mitigating tariff impact through supply chain strategies



Note: FTA=free trade agreement; FTZs=Foreign Trade Zones; HS=Harmonized System
Source: L.E.K. research and analysis

No one can say for sure how the tariffs will play out in the coming months and years, or exactly how they will impact particular industries much less individual companies. But every U.S. company, regardless of which industry they are in or where else in the world they get their components, will only be able to weather the tariffs if they have a robust and cost-efficient supply chain underpinned by a deep understanding of their exposure to tariffs at every tier.

For more information, please contact us.

About the Authors

Simon Horan
Simon Horan is a Managing Director in L.E.K. Consulting's Chicago office and a part of the leadership team for L.E.K.'s Organization & Performance practice. Simon has worked across a variety of strategy, organization and performance improvement engagements throughout Asia-Pacific and America.

Matt Stanfield
Matt Stanfield is a Managing Director in L.E.K. Consulting's Atlanta office and a part of L.E.K.'s Organization & Performance practice. Matt focuses on delivering end-to-end supply chain solutions for his clients that drive strategy, organizational capability, cost improvements, performance improvement and enhanced customer experience.

Jake Kaple
Jake Kaple is a Consultant in L.E.K. Consulting's Houston office, specializing in operations and supply chain transformation within the Organization & Performance practice. Jake advises clients on S&OP, procurement, logistics, network optimization and operational efficiency. He has worked across industries including healthcare products, pharmaceuticals, food & beverage, building materials, financial services and industrial manufacturing, and he supports clients across multiple sectors at L.E.K.

About L.E.K. Consulting
We're L.E.K. Consulting, a global strategy consultancy working with business leaders to seize competitive advantage and amplify growth. Our insights are catalysts that reshape the trajectory of our clients' businesses, uncovering opportunities and empowering them to master their moments of truth. Since 1983, our worldwide practice — spanning the Americas, Asia-Pacific and Europe — has guided leaders across all industries from global corporations to emerging entrepreneurial businesses and private equity investors. Looking for more? Visit **www.lek.com**.