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Geopolitics Practice

Navigating tariffs with a geopolitical nerve center

A nerve center can help companies chart a course through expanding tariffs and trade controls by orchestrating nine rapid actions, from tariff operations to supplier diversification.

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Tariffs and trade controls are expanding rapidly around the world. Macroeconomic uncertainty is growing. Second-order effects of government actions are multiplying.

The first global economic shock since the COVID-19 pandemic has arrived.

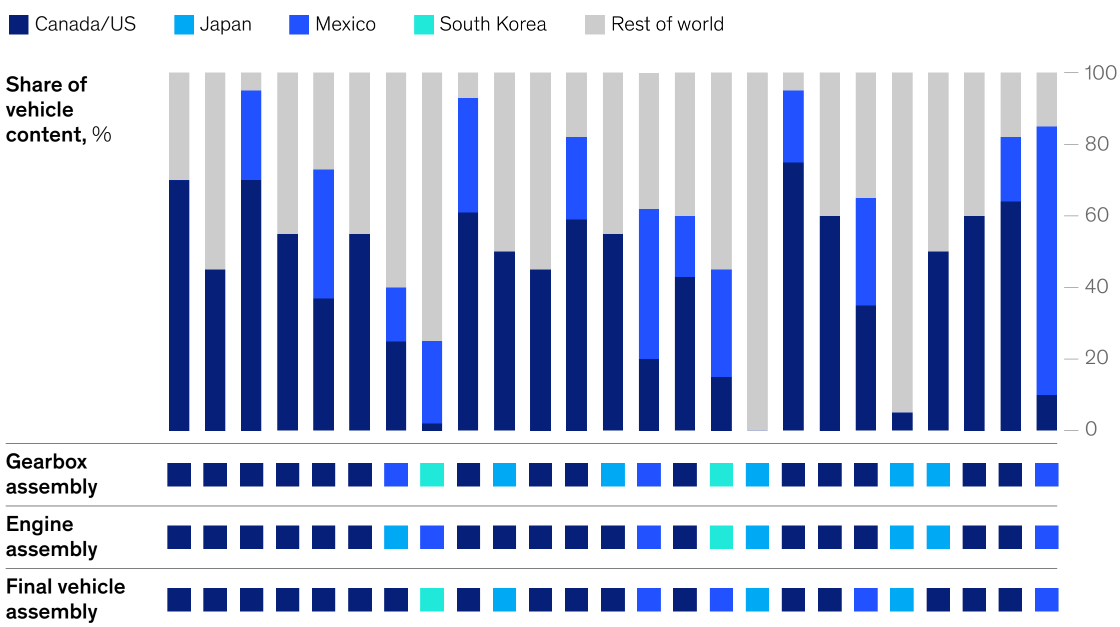
While geopolitical tensions have been rising for several years, the recent wave of trade controls and reciprocal tariffs has come on quickly and intensely. Not since the 1930s has the world seen this level of tariff activity.

The impact on businesses is high, unevenly distributed, and likely to remain that way. In the automotive industry, for example, the amount of content that comes from different countries ranges widely by car model, making the impact of tariffs highly variable and creating cascading effects through automakers' supply chains (exhibit). Take the example of one 2025 hybrid electric vehicle: Its gearbox is made in Japan, roughly 30 percent of its parts originate in the United States or Canada, and another quarter are sourced from Mexico; the engine is assembled in the United States and the final vehicle in Mexico. Other car models comprise almost entirely imported parts; a few are largely sourced and assembled in a single country. This complexity is not limited to the automotive industry—many sectors and regions face similar challenges.

Exhibit

The impact of tariffs varies significantly across models, given differences in content strategy and production location.

Content by country of origin, top 2025 model passenger vehicles,[1]
each column represents one vehicle model



[1]Top 25 models based on 2024 global sales.
Source: American Automobile Labeling Act reports, 2024 and 2025 model years; S&P Global data

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While business leaders confess to feeling overwhelmed at times, they are addressing day-to-day issues as best they can. Many companies have calculated initial estimates of their exposure to new tariffs and are taking steps to reduce it. Some North American organizations are applying for certifications under the United States–Mexico–Canada Agreement (which has a high burden of proof) rather than relying on most-favored-nation (MFN) status, as they had in the past. Teams are focused on filing for duty drawbacks, obtaining Temporary Importation under Bond (TIB) certifications, and expanding access to free trade zones and bonded warehouses to preserve cash and avoid tariffs where possible.

Even as they grapple with immediate challenges, company leaders are unsure about what comes next. With the pandemic crisis still fresh in their minds, they find themselves again facing a highly uncertain environment with few parallels to guide them and no clear sense of when normalcy might return. They hesitate to make strategic moves because they are unsure how long the tariffs may last. They realize that a range of tariff consequences—from a sharp macroeconomic impact to trading-partner responses to national-security reassessments—could cause sudden changes in trade regimes.

Given the web of interdependencies that govern global trade, business leaders realize that they can't define and prepare for the path forward using traditional forecasting and planning methods. What they need is a geopolitical nerve center—a central hub that tracks new developments in global trade, plans across several horizons, and guides decision-makers on ways to mitigate the impact of the expanding tariffs and trade controls.

Setting up a geopolitical nerve center

To effectively address today's radical uncertainty, business leaders can lean on a mechanism that many found essential for navigating the COVID-19 crisis. A nerve center can help companies move from a focus on immediate tactical responses to more comprehensive plans balanced across time frames. However, since the situation today is dramatically different from the pandemic, a geopolitical nerve center requires a unique structure.

A nerve center needs to accomplish three tasks. First, it should comprise cross-functional initiative teams that tackle the full range of potential tariff impacts on different parts of the company. Second, the teams need to cover multiple time horizons to ensure that the organization can address both urgent issues and longer-term challenges. Finally, a planning team, informed by distinctive analytics, should coordinate the initiative teams and enable fast decision-making.

Stand up cross-functional initiative teams

Companies should establish teams focused on tracking the impact of tariffs across their operations. We recommend nine targeted initiatives, although the number and nature of the initiatives may vary based on company context.

Tariff operations. This initiative's goal is to minimize delays at border crossings, reduce exposure to avoidable tariffs, and prevent cash flow from being locked in tariff prepayments (by expanding access to bonded warehouses, for example). It should also focus on ensuring accurate, timely shipments that don't exceed trade control quotas.

Inventory and supplier operations. Given the significant increase in and complexity of criteria that shipments must satisfy at border crossings, ensuring the accuracy of supplier paperwork is imperative. This initiative focuses on strengthening oversight of border crossing filings, ensuring sufficient orders of critical stock with minimal tariff exposure, and establishing a system for sharing data with suppliers.

Stakeholder engagement. This initiative aims to inform government agencies and other stakeholders—where appropriate and with the guidance of counsel—about the operating environment and the impacts that tariffs are having on industries and individual companies.

Product engineering and classification management. A small difference in the US Harmonized Tariff Schedule (HTS) codes can significantly affect tariffs owed. This initiative helps companies optimize product specifications to qualify for lower-rate tariff categories and ensure that parts and SKUs are correctly classified.

Commercial optimization. The focus of this initiative is to manage pricing updates and pass-throughs, optimize the product portfolio (including eliminating some product categories that are likely to have negative margins), boost after-sales as consumer demand for big-ticket items may drop, and optimize commercial levers.

Cost reduction and cash preservation. Many companies realize the need for greater efficiency in the near to medium term in light of potential lower demand due to price increases, the prospect of a macroeconomic downturn, and cost increases on their purchases due to supplier pass-throughs of tariffs. This initiative's focus is to preserve cash and reduce costs so the organization is prepared for multiple scenarios.

Manufacturing and remanufacturing. This initiative's primary focus is defining a plan to ramp up manufacturing and product circularity or remanufacturing in core end markets. It is likely to be a longer-term initiative for many organizations.

Supplier network and supply chain optimization. Another longer-term initiative is examining future supplier networks and supply chain footprints. Part of this team's agenda is establishing criteria under which it may make sense to shift suppliers or supplier footprints to source more from lower-tariff countries.

Business portfolio shifts. This initiative is aimed at shifting the company's portfolio toward core, high-margin businesses through divestments, capital reallocation, and M&A.

Split team focus among immediate, medium-term, and long-term horizons

Companies' current responses to evolving tariffs cover multiple planning horizons and timelines. A discussion about accelerating the shipment of specific parts can suddenly shift to a debate about the right time to diversify suppliers. To ensure that nerve center teams stay focused on the right actions, it is important to align on the time horizon that each team should target for impact and the level of rigor required in its analysis (table).

Table

Action teams tracking tariff impact should cover three horizons.

Horizon one (this week to this month)

Tariff operations	Inventory and supplier operations
Optimize logistics, warehousing, and transport operations	Work with suppliers to ensure timely shipments
• Ensure accurate and timely filing of duty drawbacks and Temporary Importation under Bond (TIB) certifications, from filing to refund • Ensure complete paperwork to minimize port clearance delays • Optimize customs-bonded warehousing and use of free trade zones • Optimize shipment timing to manage tariff rate quotas • Apply for de minimis exemptions	• Update safety stock calculations and inventory plans for critical parts • Ensure timely ordering and use of components • Conduct preshipment quality checks and contract enforcement to minimize delays and postdelivery quality issues • Set up supplier data sharing for real-time transparency

Horizon two (this quarter to this year)

Stakeholder engagement	Product engineering and classification management	Commercial optimization	Cost reduction and cash preservation
Inform governments and other stakeholders about tariffs' impact	Optimize product specifications to qualify for lower-rate tariff categories	Optimize product portfolio	Maintain optionality across multiple scenarios
• Research alternate supplies, extent of impact, and possible pathways to achieve economic goals • Align with industry groups or associations • Engage relevant stakeholders • Prepare applications for exclusions where appropriate and applicable	• Redesign product specifications for lower-rate Harmonized Tariff Schedule (HTS) codes • Ensure accurate classification of HTS codes for each part • Shift manufacturing processing locations to optimize substantial transformation thresholds[1] • Standardize core models and components across platforms	• Increase cash and financing offers • Fine-tune dealer or franchisee performance incentives • Optimize loyalty and sales incentives • Optimize prices and update value propositions, including passing through costs where possible • Disclose tariff surcharges • Reduce SKU variation, including exiting loss-making SKUs • Bundle upgrades	• Optimize working capital • Reduce operating expenses, including procurement costs • Implement zero-based budgeting • Implement spending transparency and controls • Pause low-ROI, noncritical investments • Monetize noncore assets • Reduce or halt shareholder distributions

Horizon three (the next normal)

Manufacturing and remanufacturing	Supplier network and supply chain optimization	Business portfolio shifts
Ramp up manufacturing and product circularity in core end markets	Shift suppliers or supplier footprint	Shift portfolio toward core, high-margin businesses
• Reduce bottlenecks in manufacturing capacity • Reshore manufacturing capacity • Increase remanufacturing and circularity	• Investigate nearshoring and regionalization of operations • Implement a multisourcing strategy • Segment suppliers by tariff exposure	• Identify highest-growth and highest-margin businesses in future scenarios • Divest low-growth or underperforming businesses • Prepare M&A checklist

[1] In trade law, substantial transformation threshold determines if a product processed in a country other than its origin is considered to have originated from that processing country, often for preferential tariff treatment.

Horizon one (this week to this month). This horizon covers immediate priorities and will usually encompass the tariff operations and supplier operations initiatives. It focuses on identifying and resolving the areas of biggest tariff exposure that the organization faces.

Horizon two (this quarter to this year). Tasks within this horizon typically require rapid analysis and decision prioritization, informed by geopolitical experts, followed by execution within 12 months. This horizon usually covers initiatives on cash preservation and cost control, tariff engineering and classification management, commercial actions, and stakeholder engagement.

Horizon three (the next normal). The focus of the furthest-reaching horizon is to figure out the organization's "next normal." The nerve center may need to reimagine the company's manufacturing operations and consider a dramatically reshaped supply chain footprint. It also should consider what assumptions would have to change to make those modifications necessary. It may even reimagine the shape of its entire industry, which may prompt consideration of business divestments or acquisitions needed to thrive in that future scenario.

Create a central planning team to enable and coordinate initiative teams
The initiative teams need the support of a planning team that organizes daily coordination meetings and creates situation reports to ensure aligned assumptions. Given the fast-evolving environment, companies should invest in analytics and accurate data to capture signals relevant to their operations in new tariff-related announcements and to assess their positions relative to competitors. Below are six analyses that organizations should consider conducting.

Tariff scenario modeling. Nuances within tariff announcements can have meaningful implications for a company's operations and financials. A trade control team can help business leaders interpret new developments and create tariff scenarios that decision-makers can use as a basis for planning.

Tariff cost modeling. This analysis involves studying the major flows of the company's products, from the customer and back to several supplier tiers, mapping them to their respective HTS codes (or equivalents outside the United States), and using the volumes based on these models to estimate the tariff costs under the likeliest scenarios. The models should be dynamic and capable of accommodating multiple scenarios to keep up with rapid changes. The resulting analysis can help decision-makers set targets for the organization and estimate the full potential impact of tariffs across operations.

Tariff competitive advantage modeling. This analysis models the opportunities and risks relative to competitors by mapping tariff and trade control exposure for the company's peer group. It is central to understanding the actions across commercial levers, product rationalization, and business portfolio rationalization that will produce optimal results.

Trade flow analytics. Understanding how trade corridors may shift, and the flow of specific goods across them, is critical for making medium- to long-term decisions that align the company's commercial focus and operations. This analysis should cover not only tariffs but also free trade agreements, export and investment controls, and industrial policy measures.

Demand modeling and pricing implications. This involves assessing tariffs' impact on demand based on a combination of sector-specific elasticities, macroeconomic impacts across various scenarios, and government incentives and business spending shifts. The analysis can help decision-makers define targets for cost reduction and cash preservation initiatives, as well as provide an early warning on the extent of demand challenges, which in turn can help inform pricing implications and commercial optimization actions.

Risk identification across supplier tiers. A company's suppliers may need to take rapid actions to protect their finances, including shifting allocations, reducing SKUs, and even changing manufacturing locations. Understanding the risks across multiple tiers of the supply chain is essential to defining mitigation actions and reducing exposure to disruptions.

Tariffs have emerged as the most urgent topic for many businesses and the world economy and will likely remain so for most of 2025. Setting up a geopolitical nerve center can help business leaders navigate the uncertainty and identify opportunities to gain a competitive edge.

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