Key Considerations for Middle Market Businesses Navigating New Tariffs

CONTRIBUTORS
Karl Roberts, Managing Director
David Wolkoff, Senior Vice President

Over the first weekend in February, President Donald Trump acted on his pre-office promise of imposing a wide range of tariffs on Mexico, Canada and China, collectively the largest imposition of tariffs by the US in more than 50 years. According to news on February 3, 2025, both the Mexico and Canada tariffs will be deferred by a month, but the situation clearly requires that middle market companies act with urgency. US-based management teams need to plan for both short-term operational challenges arising from tariff implementation as well as longer-term risk mitigation, particularly for their supply chains and export markets.

Prior to taking office, the Administration alluded to proposals for both country-specific and sector-specific tariffs. The new country-specific tariffs announced last weekend were aimed at three countries in particular – Canada, Mexico and China – which together account for more than half of all US merchandise imports, however, the potential for additional wide-ranging sector-specific tariffs still looms, with the Administration discussing blanket tariffs on all imports of steel, aluminum, automotive goods, consumer goods, processed foods and produce, selected energy products and electronics, including semiconductors – regardless of where they are produced outside of the US.

IMPLICATIONS AND SUGGESTED ACTIONS FOR MIDDLE MARKET BUSINESSES

In today's complex global trade environment, middle market businesses face several challenges related to tariff policies. As trade dynamics continue to evolve, these businesses would be well-advised to develop robust strategies to manage three key tariff impact areas in particular while maintaining competitive advantages.

- **Supply Chain Impacts** – Industries such as automotive, energy and consumer goods are particularly vulnerable to tariff impacts due to reliance on international suppliers. Companies can mitigate these risks by gaining more visibility into their supply chains and developing scenario plans designed to mitigate the potential tariff-related risks. These exercises can also help companies identify if they should pursue alternative sourcing, including options to nearshore or reshore some critical suppliers most exposed to potential tariffs
- **Economic Impacts** – Tariffs are projected to increase consumer prices, with varying inflationary impacts across industries. Though tariffs may help reduce US fiscal deficits, they could also have a negative impact on GDP and dampen M&A in trade-dependent sectors. As a result, businesses must make strategic adjustments to pricing or operations to mitigate margin reduction from rising import costs
- **Geopolitical Risks** – The Trump administration has alluded to leveraging tariffs as a means to address national security concerns and further domestic economic growth. Businesses must be prepared for potential sudden trade disruptions, especially those heavily reliant on global supply chains. Close trade law monitoring will be necessary to ensure regulatory compliance. Retaliatory tariffs may also emerge from other nations, exacerbating costs and reducing consumers' purchasing power

With trade policies in flux, there are clear steps middle market sponsors and executives can take to manage supply chain vulnerabilities, cost pressures and pricing strategies. This process begins with an assessment, understanding the business' exposure to tariffs by reviewing supplier contracts and engaging in scenario planning to uncover vulnerabilities in business operations

Assessment Steps	Actions
Assess supply base risk	Audit origin country for all supply sources and calculate impacts of new and potential future tariffs on acquisition costs.
Assess internal production and supply chain platform risk	Assess internal production costs bases and key supply chain partners and estimate potential landed cost tariff impacts.
Assess pricing needed to sustain current margins	After assessing cost impacts, determine pricing impacts needed to sustain current margin levels. Then, assess capability to pass along cost increases to customers and other related potential market impacts.
Assess export demand risk	Assess destination country for all export volumes and estimate potential retaliatory tariff impacts, looking at tariffs at least equivalent to the tariffs the US placed on goods from those countries.

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Once this initial assessment is complete, management teams will be in a better-informed position to take decisive action – to both mitigate risk and capture an edge over the competition – based on the areas of their business most affected. Key examples are below.

Challenge	Actions
The business must pass increased costs due to tariffs along to consumers and as a result sees weakening demand	▪ Leverage data and analytics to pinpoint regions and products that can sustain price increases without significant impact on demand ▪ Invest in branding to justify higher prices and maintain customer loyalty ▪ Proactively communicate with customers to explain price changes
Rising import costs fuel inflation, putting upward pressure on wages and increasing operating expenses	▪ Invest in productivity improvement and automation technologies to offset rising costs ▪ Put a strong focus on talent management, balancing wage growth with productivity improvements
Tariffs disrupt the business' global supply chain	▪ Take action to diversify supply chains and reduce dependency on high-risk regions ▪ Renegotiate current supplier contracts to accommodate tariff-related risks and capture increased flexibility ▪ Invest in digital supply chain tools to enhance agility during moments of disruption

SPEED AND PRECISION IN RESPONSE

The magnitude of these tariffs – in combination with proposed sector-specific tariffs – demands swift, decisive action. Portage Point Partners is uniquely positioned to guide middle market businesses through this period of uncertainty with tailored strategies that balance risk mitigation and value creation.

By integrating rapid assessment tools, scenario modeling and supply chain optimization, we offer actionable expertise to guide middle market leaders. For more information on how Portage Point Partners can help your business navigate tariff-related challenges, contact us.